KINGWORLD MEDICINES GROUP LIMITED
金活醫藥集團有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 01110

ANNUAL REPORT 2018

金活 健康之家


Healthy Life with
KINGWORLD

CONTENTS

Corporate Information

DIRECTORS

Executive Directors

Mr. Zhao Li Sheng *(Chairman)*
Ms. Chan Lok San
Mr. Zhou Xuhua

Independent Non-executive Directors

Mr. Duan Jidong
Mr. Wong Cheuk Lam
Mr. Zhang Jianbin

AUDIT COMMITTEE

Mr. Wong Cheuk Lam *(Chairman)*
Mr. Duan Jidong
Mr. Zhang Jianbin

REMUNERATION COMMITTEE

Mr. Zhang Jianbin *(Chairman)*
Mr. Duan Jidong
Mr. Wong Cheuk Lam

NOMINATION COMMITTEE

Mr. Duan Jidong *(Chairman)*
Mr. Wong Cheuk Lam
Mr. Zhang Jianbin

COMPANY SECRETARY

Mr. Chan Hon Wan

AUTHORISED REPRESENTATIVES

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Mr. Chan Hon Wan

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STOCK CODE

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Financial Highlights

	For the year ended 31 December		Changes
	2018	2017	Increase/
	RMB'000	RMB'000	(Decrease)
Financial Highlights			
Revenue	**1,078,843**	1,031,488	4.6%
Cost of sales	**(767,346)**	(708,317)	8.3%
Gross profit	**311,497**	323,171	(3.6)%
Profit before taxation	**70,380**	83,327	(15.5)%
Profit for the year	**51,759**	66,532	(22.2)%
Profit attributable to owners of the Company	**41,005**	51,060	(19.7)%
Basic earnings per share (RMB cents)	**6.60**	8.20	(19.5)%
Proposed final dividends per share (HK cents)	**2.25**	3.43	(34.4)%

	As at 31 December		Changes Increase/
	2018	2017	(Decrease)
Liquidity and Asset-liability Ratio			
Current ratio [(1)]	**1.23**	1.26	(2.4)%
Quick ratio [(2)]	**0.94**	1.03	(8.7)%
Asset-liability ratio [(3)]	**26.0%**	31.0%	(5.0)% pts

Notes:

(1) Current ratio is calculated as current assets divided by current liabilities.

(2) Quick ratio is calculated as current assets less inventories divided by current liabilities.

(3) Asset-liability ratio is calculated as total bank borrowings divided by total assets and multiplied by 100%.

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Kingworld Medicines Group Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2018 (the "Year Under Review") to the shareholders (the "Shareholders") for review.

YEAR UNDER REVIEW

The Year Under Review was a very challenging year for the Group. Nevertheless, the continuing endeavors and concerted efforts of our entire staff to strive their utmost have created a powerful driving force to foster the development of our various lines of businesses so as to attain new heights.

Chairman's Statement

Market Overview

The Year Under Review was full of excitement and pride for us as Chinese people, but it was also a challenging year. We celebrated the 40th anniversary of China's reform and opening-up. The progress of the past four decades bears strong testimony to China's rapid development in the realms of military power, economic vitality, scientific research and infrastructure. At present, China is the world's second largest economy and one of the most influential countries.

On the other hand, in 2018, the rising trade frictions between China and the United States and the shifts in their trade relations caused severe challenges to the Chinese economy. During 2018, the Renminbi ("RMB") depreciated against the United States dollar ("US$"), the People's Bank of China lowered the deposit reserve ratio four times and a series of policies had been enacted by the Chinese government to lower fees and reduce taxes. These policies, however, had facilitated the development of enterprises and strengthened the national consumption power significantly.

Looking back, there were both gains and losses for the pharmaceutical industry in 2018. In the first half of 2018, benefitting from the rapid revitalization of the pharmaceutical industry as a result of the tremendous drive from the new medical reform associated with the enactment of a range of favorable policies, most pharmaceutical companies achieved satisfactory results. In the second half of 2018, increasing uncertainties emerged in the macro-economy. The faulty vaccine incident in China caused market panics about the quality of pharmaceutical products. Moreover, the implementation of a new quantity procurement policy at the end of 2018 has brought additional pressure on the pharmaceutical industry. Nevertheless, as the Chinese government tightened the control on the standardization and innovative development of Chinese pharmaceutical products, quality control on Chinese pharmaceutical products has become more stringent, which helped to enhance the acceptance of Chinese pharmaceutical products in overseas markets. With over 20 years of experience in the pharmaceutical distribution and agency businesses, the Group will take full advantages of all these aforesaid events to further expand its business. On top of that, the implementation of the "Healthy China 2030" plan and the increasingly ageing population in China means that concern on healthcare national consumption upgrade, the Chinese government's plan to develop the Guangdong-Hong Kong-Macao Greater Bay Area (the Greater Bay Area), together have fostered closer cooperation between pharmaceutical industry sectors in China and Hong Kong and boosted Chinese consumers' trust on the quality of Chinese medicine in Kong Kong. More than 20 years ago, the Group took the lead to introduce Hong Kong's popular Chinese medicine brands into the Mainland to facilitate easy purchase of these products by Mainland citizens. As early as the early 1990s, the Group started to introduce Hong Kong's renowned brand, Nin Jiom Chuan Bei Pei Pa Koa (京都念慈菴蜜煉川貝枇杷膏), into the Chinese domestic market so that local consumers could purchase products of trustworthy quality at low prices. At present, the products provided by the Group have been around for decades or even centuries, and we have been distributing a wide range of products known for its reliable quality and effectiveness at affordable prices.

Development Achievements

The Year Under Review was a year full of opportunities and challenges for the Group, but fortunately, these risks were well managed. In February 2018, Nin Jiom Chuan Bei Pei Pa Koa, for which the Group acted as an agent and distributor, became popular overnight in the United States market. This success was widely reported in China, Hong Kong, Macao, Taiwan and other regions populated by Chinese people around the world, and subsequently bolstered the sales of the Group's products in China's domestic market. During the Year Under Review, Yuen Tai Pharmaceuticals Limited (遠大製藥廠有限公司) from Hong Kong, a connected person of the Company, obtained the Certificate for Manufacturer (Good Manufacturing Practice in respect of Proprietary Chinese Medicines), which confirmed that its production complies with the Good Manufacturing Practices ("GMP") in manufacturing and quality control of Chinese patent medicines. As at 27 March 2019, only 18 pharmaceutical companies in Hong Kong were certified as licensed manufacturer of Chinese patent medicines, and the Group is an agent of pharmaceutical products manufactured by four of them, including "Nin Jiom Chuan Bei Pei Pa Koa" and "Nin Jiom Herbal Candies", "Flying Eagle Wood Lok Medicated Oil"(飛鷹活絡油), "Hoe Hin White Flower Embrocation" (和興白花油), "Fengbao Jianfu Capsules (鳳寶牌健婦膠囊)" and "Pu Ji Kang Gan Granules (普濟抗感顆粒)". After years of dedicated promotional efforts by the Group, these products have become popular household healthcare products renowned for their high quality, and this success, in turn has illustrated the clear vision of the Group in selecting quality products for improving health and well-being.

Besides, the faulty vaccine incident in China and the once popular movie "I Am Not a Divine Drug"(我不是藥神) had aroused public alertness and concern about the safety of pharmaceutical products as well as food items. Committed to adhering to its corporate mission to "offer help to people, benefit the world", the Group has been keen to source and select quality and prestigious pharmaceutical and healthcare products from overseas countries, backed by stringent tests, so that local consumers can consume these products safely and confidently.

In 2018, despite various uncertainties prevailed in the external environment and the enactment of various pharmaceutical policies within the industry, the Group continued to steadily develop its pharmaceutical and healthcare businesses. In the Year Under Review, revenue from the sales of Nin Jiom Chuan Bei Pei Pa Koa which the Group has been selling for over two decades had significantly increased by 25.6% as compared to the same period last year. Moreover, the Culturelle (康萃樂) probiotics product series from the United States became the best-selling probiotics product brand in Hong Kong in 2018. In order to motivate our employees, we granted a total of 22,408,000 share options under our share option scheme adopted on 5 November 2010, of which nearly 90% of the share options were granted to our frontline sales staff and elite employees. During the Year Under Review, the Group continued to consolidate its business in the realm of greater health services and succeeded in introducing CARMEX healing lip balm series to the local market.

FUTURE OUTLOOK

In 2018, despite the intricate international and domestic environment, the overall economic development in China remained relatively stable. Looking ahead to 2019, it is expected that China's economic development will be interwoven in a dual state of "changes within stabilities and uncertainties within changes". The most significant change will be the shift in the external environment, including the volatility of the global financial market, escalating global trade protectionism and prevalence of unilateralism. At the same time, China's domestic environment will also be changing. Its economy is undergoing transformation and upgrading while the instability of external factors may also have considerable impact on its economic growth. Under such a complicated environment, the Group will adopt a "Trio enhancement" development approach, where it will be (i) enhancing its product structure, introducing new products, and actively promoting in-depth strategic cooperation with centuries-old Chinese medicine brands while continuing to introduce quality renowned foreign pharmaceutical and healthcare products, and introducing daily cosmetics and personal care products; (ii) enhancing its sales strategy and terminal coverage to increase sales volume by using big data analysis, searching for overlooked areas in the niche market of each product, rationally deploying the business layout and personnel, integrating business and company resources, and thoroughly exploring each market. In addition, the Group will focus on extending the penetration of the "Kingworld Health Family" brand to all different channels to enable online ordering and offline marketing, achieving integration of online merge offline ("OMO"), and promoting the brand nationwide; and (iii) enhancing its financial risk management, identifying, assessing, closely monitoring, mitigating and managing the various risks in a timely manner.

Chairman's Statement

2019 is the 25th anniversary of the founding of my personal business and Kingworld Medicines. Thanks to the unrelenting efforts and diligence of our employees and partners over the past years, the Group is now the agent and distributor of more than 60 types of pharmaceutical and healthcare products in over 34 provinces and cities in China and has nearly 1,000 staff. The Group has built a distribution network covering more than 200,000 over the counter ("OTC") retail pharmacies nationwide, and was ranked 323rd among the Top 500 Shenzhen Enterprises in 2018. As Mr. Xi Jinping, President of our country, said, "The present is the right moment in terms of time, place and people for the revitalization and development of Chinese medicine industry. I hope that the Chinese medicine practitioners will actively explore the essence of Chinese medicine from our centuries-old Chinese medicine treasury, fully utilize the unique advantage of traditional Chinese medicine to foster the modernization of Chinese medicine and promote Chinese medicine to the world." The Group is dedicated to continuously providing customers with quality healthcare products and taking care of the health of the Chinese people. The Group is committed to adhering to integrity, bold to take up new responsibility, and keen on giving back to society, pledging itself to act as a responsible enterprise.

In 2019, we will be facing both opportunities and risks. Nevertheless, despite the potential turbulence in the macro-economic environment, the Group considers the current situation as a good opportunity to further its business development. The prime tasks of the Group in 2019 will be focusing on strengthening its product categories, sales capabilities and brand power in order to reinforce the core competitiveness of the Group. Looking ahead, the Group will continue to build up the new retail ecosystem to integrate online and offline operations and develop complete omni-channel supply chain operation services. At the same time, the Group will proactively introduce quality health products from China and overseas, foster the development of the Chinese pharmaceutical industry in Shenzhen and Hong Kong and strengthen the development of Chinese pharmaceutical industry in the Guangdong-Hong Kong-Macao Greater Bay Area.

ACKNOWLEDGEMENT

I hereby express my sincere gratitude to my fellow Directors, the management and all staff of the Group for their valuable contribution. At the same time, on behalf of the Board, I would like to express my appreciation to all Shareholders, investors, business partners and other stakeholders for their continuous trust and support to the Group. We believe that the Group will be facing both opportunities and challenges in 2019, we will continue to put our best effort, and create greater value for Shareholders and investors.

Mr. Zhao Li Sheng
Chairman of the Board

Hong Kong, 27 March 2019

MARKET AND INDUSTRY REVIEW

1. *Complicated and changing domestic and global environment and continuous release of consumption potential of Chinese people*

2018 was the inaugural year for the all-round implementation of the spirit of the 19th National Congress of the Communist Party of China and also marked the 40th anniversary of China's reform and opening up. It was thus a crucial year for China. It had successfully built a prosperous society in full swing and continued with the "13th Five-Year Plan" to lead the country forward. Reform and opening up has become the most remarkable features of China's spectacular development. The year also marked an important milestone for the Chinese people to take decisive steps along their journey to improve their well-being and create wealth. At the same time, 2018 was also a critical year for China to test its ability to manage and overcome economic challenges. Despite the trade frictions between China and the United States which began in March 2018, the Chinese government was able to implement an array of measures to cope with the complicated and ever-changing domestic and global situation. As a result, the Chinese economy achieved satisfactory growth in 2018. In 2018, China's gross domestic product exceeded RMB90 trillion for the first time, representing an increase of 6.6% as compared to 2017. While the Chinese economy continues to develop steadily, China will continue to pursue critical restructuring and transformation upgrade as well as enhancing the quality of its development.

In 2018, the median per capita disposable income of all nationals in China was approximately RMB24,336, representing an increase of 8.6% as compared to 2017. The median disposable income per capita of urban residents in China was approximately RMB36,413, representing an increase of 7.6% as compared to 2017, and the median disposable income per capita of rural residents in China was approximately RMB13,066, representing an increase of 9.2% as compared to 2017. The consumption expenditure per capita of urban residents in China in 2018 was approximately RMB26,112, representing an increase of 4.6% as compared to 2017, while the consumption expenditure per capita of rural residents in China in 2018 was approximately RMB12,124, representing an increase of 8.4% as compared to 2017. The income and consumption of residents had increased steadily, while the income and expenditure of rural residents had increased even more rapidly than that of urban residents. The consumption structure and pattern is expected to continue to increase. During the Year Under Review, the Group's star products, the Nin Jiom product series, entered into untapped county and rural markets as the Group actively expanded its distribution channels in these areas.

2. *The medical reform policy spurred the "Medical Treatment + Medical Insurance + Pharmacy" trend that fostered rapid expansion of pharmacy chains*

In 2018, China continued to broaden the reform of the medical and health system. It has been actively strengthening the "Healthy China" strategy and supporting the continuous development of the traditional Chinese medicine industry. By focusing on improving national health, China has resolved to realize the concept of greater health and greater healthcare, and is committed to improving the basic health level, strengthening the health of the grassroots population, setting up a mechanism, as well as continuing to consolidate the linkage between medical treatment, medical insurance and pharmaceutical areas. To facilitate these efforts, the Chinese government had released a guidance document in relation to the classification and management of retail pharmacies, which supports the development of retail pharmacy chain stores and allow outpatients to buy medicines either in medical institutions or retail pharmacies. The Group is optimistic that it may leverage its competitive advantages in terms of profit ability, branding, standardization and patient management of large retail chain pharmacies. During the Year Under Review, the Group's distribution channels covered more than 200,000 over-the-counter ("OTC") retail pharmacies, the Group also engaged in strategic cooperation with more than 3,500 retail chain pharmacies and further promoted certain star products such as the Nin Jiom product series, Taiko Seirogan products and a number of topical medicated oils for external use to various large retail chain pharmacies.

3. *Growth of healthcare product market benefitted the growth of the Group's healthcare products*

Following the implementation of the "Healthy China 2030" strategic initiative, and with the rapidly ageing population and the change in the national consumption structure, the healthcare issue has aroused sufficient public concern and has become one of the hottest topics of discussion among Chinese. According to the statistics of Euromonitor International, the sales revenue of China's healthcare industry amounted to approximately RMB237.6 billion in 2017, representing an increase of 8.4% against 2016. The growth of China's healthcare product market was relatively fast, with the compound annual growth rate (CAGR) of 11.9% in sales revenue from 2002 to 2017. It is expected that the market scale of the healthcare product industry will reach approximately RMB350 billion in 2020. The Group was quick to seize the opportunity from the rapidly expanding healthcare product industry and has introduced a number of renowned and high-quality healthcare products from overseas, including the Culturelle probiotics product series from the United States and the Lifeline Care maternal and infant fish oil nutrient product series from Norway.

4. *Increase in infertility spurred good prospects for Fengbao Jianfu Capsules*

According to the National Bureau of Statistics, the number of newborns in China in 2018 was about 15.23 million, representing a decrease of 2 million against approximately 17.23 million in 2017. The birthrate in 2018 was at a historic low since 1949. According to the survey conducted by the Population Association of China, there were over 400 million infertile people in China in 2017, and the infertility rate of child-bearing age couples in China has soared to 15% in recent years from 3% 20 years ago. The reasons for the increase in infertility include, among others, the deteriorating environmental conditions caused by pollution, increasing stress at work and unhealthy lifestyles. The Group's Good Manufactuning Practice ("GMP") certified "Fengbao Jianfu Capsules" is helpful in treating infertility and nourishing blood, and is designed for treatment of (i) infertility (due to ovulatory disorder, corpus luteum insufficiency, immune infertility and assisted reproductive technology pretreatment); (ii) irregular menstruation (due to endocrine disorders such as functional uterine bleeding); and (iii) perimenopausal syndrome. The product contains multi-target HPO that can regulate and assist ovulation and increase the probability of pregnancy in a natural and safe manner. The experiment conducted by the Hong Kong University of Science and Technology proved that the product can effectively enhance the progesterone level of females to increase the pregnancy rate and also nourish the blood. The product was distributed through various hospitals in Shanghai and Wuhan and was popular in maternity hospitals. Looking forward, with the continuous expansion of market for infertility products and enhancement of the brand power of "Fengbao Jianfu Capsules", the Group expects that its sales will increase in the future.

5. ***Flourishing development of medical devices boosted the Group's medical device business***

According to the report released by the Prospective Industry Institute, the "Forecast on Demand of the China Medical Device Industry Market and Investment Strategy Planning Analysis Report", the medical devices market was valued at about RMB221.9 billion in China in 2012, accounting for around 9.5% of the global medical device industry. In 2017, this market increased by more than two times, accounting for around 19% of the global medical device industry. It is expected that this medical devices market in China will continue to increase. According to the report, the growth rate of the medical device market in China in the past five years exceeded the global growth rate. In view of the rapid development of China's innovative technology, the application standard of medical devices is expected to continue to improve and it is expected that China's medical device will continue to increase its share in the global medical device industry. All of the above factors will benefit the further business development of the Group's medical devices segment.

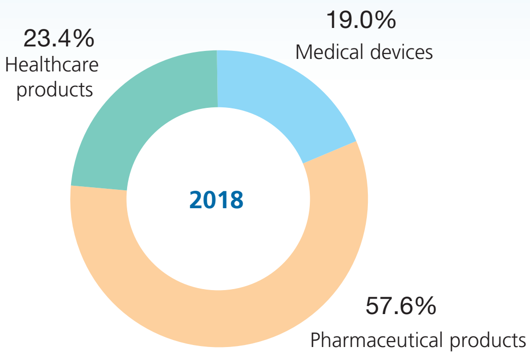
BUSINESS REVIEW

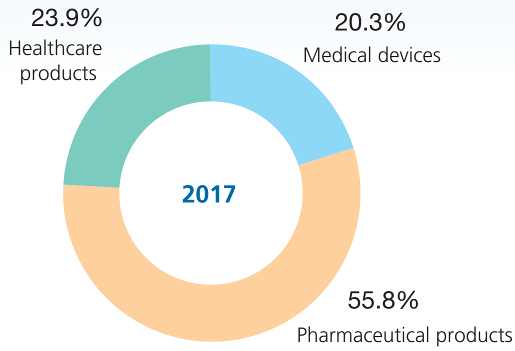
For over two decades, the Group has been committed to developing a comprehensive and greater health service supply chain system that integrates all upstream and downstream operations. The Group's business footprint covers more than 34 provinces and cities in China. It was among the Top 100 Import Enterprises of Pharmaceutical and Healthcare Products for six consecutive years from 2009 to 2014 and was named as one of the Top 5 Sales Enterprises of Chinese Patent Medicines in 2013. It was also ranked among Shenzhen Top 500 Enterprises in 2018.

The Group is a leading and well-known omni-channel enterprise with a complete supply chain in the greater health products and services industry. It provides high-end logistics management services, business-to-customer (B2C) trading services and data services to major leading pharmaceutical and healthcare product suppliers, manufacturers and distributors, and is a pharmaceutical and healthcare product supply chain management service enterprise integrated with logistics, product and information.

The three major business segments of the Group in the greater health services industry are: (i) pharmaceutical products segment – acting as an agent and distributor of high-quality and well-known pharmaceutical products from overseas, including the Nin Jiom (京都念慈菴) product series, Taiko Seirogan (喇叭牌正露丸); (ii) healthcare products segment – distributing high-quality and well-known healthcare products from overseas, including the Culturelle (康萃樂) probiotics product series, the Lifeline Care maternal and infant fish oil nutrient product series, "Global Slimming" product series and medicated oils for external use; and (iii) medical devices segment – undertaking research and development ("R&D"), manufacturing and production of medical devices.

For the Year Under Review, revenue from the pharmaceutical products segment amounted to approximately RMB621,322,000, representing an increase of 8.0% against the same period last year and accounting for 57.6% of the Group's total revenue. Revenue from the healthcare products segment was approximately RMB252,600,000, representing an increase of 2.3% against the same period last year and accounting for 23.4% of the Group's total revenue. Revenue from the medical devices segment amounted to approximately RMB204,921,000, representing a decrease of 2.1% against the same period last year and accounting for 19.0% of the Group's total revenue.





Highlights of Pharmaceutical Products Segment

Nin Jiom product series

The Group's star product, the Nin Jiom product series, has been one of the major sources of revenue in its pharmaceutical products portfolio. In 2017, the Group collaborated with its close strategic partner of two decades, Nin Jiom, and implemented an "optimization of channels" strategy. The coordinated efforts of the Group and Nin Jiom managed to standardize channel management, fostering orderly marketing strategies across different downstream distributions and in turn safeguarded the interest of collaboration partners. During the reform period in 2017, although revenue from Nin Jiom products decreased for a short period of time, the Group's efforts to optimize and restructure channel management resulted in a steady increase in sales in Nin Jiom product series in 2018. For the Year Under Review, revenue from the sales of Nin Jiom Chuan Bei Pei Pa Koa grew significantly by 25.6% to approximately RMB555,066,000 as compared to the same period last year while the revenue from the sales of Nin Jiom Herbal Candies increased by 21.7% to approximately RMB36,257,000.

According to the China Pharmaceutical Enterprises Cooperation and Development Organization Summit 2018, "Nin Jiom" ranked first in the category of cough relief products under the "Healthy China Brand Ranking" and ranked 18th in terms of brand value. The success of the Nin Jiom brand was mainly due to the implementation of three active strategic approaches, which include strict control of production quality, precise brand positioning and strategy, and innovative marketing strategies. The Group's team had actively joined its upstream manufacturers to launch marketing and promotional activities for many years. During the Year Under Review, the Group and Nin Jiom jointly launched a promotional carnival tour under the theme of "Let's Work Out and Protect Our Lungs" across a number of cities in China, where a number of major regional pharmacy chains were invited to promote the Nin Jiom products and interact with consumers, as well as having fun-filled physical exercises with participants.

Fourth Nin Jiom Carnival themed "Let's Work Out and Protect Our Lungs"

Product Display at the Nin Jiom Carnival

Taiko Seirogan

Taiko Seirogan from Japan is another core product of the Group's pharmaceutical segment. During the Year Under Review, the Group implemented "channel optimization and orderly marketing" strategy to facilitate orderly sales, and optimize and improve channel management. Although the business slowed down in the first half of the year, the business performance has significantly improved in the second half of the year as a result of the increase in the number of distribution channels, the increase in channel prices and retail prices, together with the greater support and increase in involvement of downstream distributors. The Group is confident that the sales will continue to improve significantly in 2019. During the Year Under Review, the Group launched a number of gifts bundled with purchase marketing promotions for Taiko Seirogan products in offline terminal stores and placed large billboard advertisements on the streets of large cities. Moreover, we made use of social media platforms such as WeChat and Baidu to strengthen communications with staff of terminal stores, organized training for in-shop sales personnel to enrich their product knowledge, sales techniques and organized consumers education activities. For the Year Under Review, the revenue from the sales of Taiko Seirogan products amounted to approximately RMB66,256,000, representing a slight decrease of 3.0% as compared to 2017.

Taiko Seirogan display advertisement in a pharmacy chain outlet

Large billboard advertisement of Taiko Seirogan

Management Discussion and Analysis

Highlights of Healthcare Products Segment

Culturelle probiotics product series

The Culturelle (康萃樂) probiotics product series from the United States, another major product series of the Group, is a leading brand in the probiotics product market in the United States and the probiotics product brand for children most recommended by pediatricians in the United States. During the Year Under Review, the distribution channels of Culturelle's sales terminal sites in Hong Kong and Macao increased rapidly to about 1,600 retail outlets, covering Mannings, Watsons, SaSa, Colourmix, CR Care, HealthPlus, Eugene Baby, Yue Wah Chinese Products, AEON Stores, HKTV Mall and a number of pharmacies. According to ACNielsen's report, the sales volume of Culturelle probiotics product series ranked as the No.1 probiotics brand in Hong Kong in 2018. During the Year Under Review, the sales of Culturelle probiotics product series from Hong Kong and Macao markets increased by 41.9% as compared to the same period last year. However, affected indirectly by the shortage in supply in China's domestic market, the overall revenue from the Culturelle probiotics product series decreased by 41.3% to approximately RMB107,353,000 as compared to the same period last year.

Culturelle probiotics participated in a major baby products exhibition in Hong Kong in August 2018

Culturelle probiotics organized talks which attracted thousands of participants across cities in China

Lifeline Care maternal and infant fish oil nutrient product series

According to CTR statistics, in 2017, 94.2% of the pregnant women in China consumed pregnancy healthcare food and 66% of these women consumed over RMB1,000 in pregnancy healthcare products. Another star product of the Group, the Lifeline Care maternal and infant fish oil nutrient product series, is a nutritional supplement for pregnant women and infants, respectively. During the Year Under Review, sales of the Lifeline Care maternal and infant fish oil product series increased by 8.1%. It is expected that its sales will continue to increase in the future. During the Year Under Review, the Group utilized a mixture of integrated online and offline marketing channels to promote this product series by launching various marketing activities on Kaola.com, Tmall Global, JD.com and VIP.com. In addition, the Group also used KOLs, Baidu SEO, mother-infant vertical media platform Questions and Answers and placed advertorials about maternal and infant topics on various major social media platforms, which successfully reached millions of fans. Moreover, the Group cooperated with pediatrician Dr. Cui Yutao (崔玉濤) again to hold a live broadcast of the parenting program, which attracted over 1.5 million views. Talks were organized across cities in China and had attracted thousands of participants. In addition, advertisements were also placed at eight major Hong Kong–Shenzhen immigration control points.

Lifeline Care fish oil product display in a maternal and infant chain store

Lifeline Care fish oil LED billboard at Shenzhen Airport

"Global Slimming" product series

Having a healthy body can help people stay away from diseases and maintain self-confidence. According to the statistics from ACNielsen, 39% and 35% of the consumers within the age group of the post-80s and post-90s were more concerned about weight control than other age groups. According to the forecast of Roland Berger, the scale of the weight management industry would enjoy a CAGR of 15% from 2017 to 2020. The Group is the agent and distributor for various renowned quality overseas top slimming products, including the Tilman Plant Diet Tea series from Belgium and Zuccari Slimming Series, a concentrated slimming 100% pineapple juice from Italy. During the Year Under Review, the marketing campaigns of "Global Slimming" product series were mainly launched through offline exhibition activities and KOLs slimming experience sharing on TV programs where KOLs recommended the products to their fans through product placement. At the same time, a number of social media platforms including Xiaohongshu, Kaola.com, Weibo.com and Xiaohongchun were used as a platfrom to promote product function education and word-of-mouth sharing for consumers to foster sales conversion. As a result of these efforts, sales increased significantly by 51% compared to the same period last year.

Weight control KOL introducing Tilman Plant Diet Tea on Hunan Television show "I am a Beauty Queen"

Product display of Zuccari pineapple juice at SaSa in Hong Kong

Product series of external use medicated oils

The Group is an agent and distributor of various medicated oil products for external use, including the Mentholatum (曼秀雷敦) series, Flying Eagle Wood Lok Medicated Oil (飛鷹活絡油), Hoe Hin White Flower Embrocation (和興白花油) as well as its own brand, Kingworld Imada Red Flower Oil (金活依馬打正紅花油). During the Year Under Review, the Group's sales team launched customized marketing campaigns through integrated online and offline promotion channels to further strengthen terminal sales and boost brand influence. As a result, the sales increased by 14.4% against the same period last year.

During the Year Under Review, the Group strengthened its cooperation with the online Mentholatum series merchants. Promotional activities which coincided with online shopping festivals on e-commerce platforms were launched and key opinion leader ("KOL") advertorials were placed to encourage consumers to shop on those platforms. The promotions resulted in the increase in sales. Kingworld Imada Red Flower Oil and Hoe Hin White Flower Embrocation were also promoted in online shopping festivals on e-commerce platforms and achieved satisfactory sales growth.

In addition, the Mentholatum series, Flying Eagle Wood Lok Medicated Oil, Kingworld Imada Red Flower Oil and Hoe Hin White Flower Embrocation had launched their respective end customer purchase gift promotion campaigns through partnering with various large-scale pharmacy chains, which resulted in the increase in net sales of these products. A bus and broadcast advertising campaign was launched for Hoe Hin White Flower Embrocation. At the same time, the Group continued to support a variety of sports events, including the 40th Guangdong-Hong Kong Cup, Shenzhen's popular hiking event Mofang 100km Hike, Shenzhen International Marathon, ZhongShan International Marathon, and the Hainan Province Tamchiu International Marathon.

Mentholatum banner advertisement in Public Pharmacy in Wuxi

2018 Shenzhen Marathon was sponsored by various medicated oil products for external use

Promotional activities at JD.com online marketing purchase festival

Hoe Hin White Flower Embrocation product display in pharmacy chain store

Highlights of Medical Device Segment

According to the National Bureau of Statistics, there were approximately 1,449 large-scale enterprises in medical device manufacturing industry in China in 2016. In 2017, the number of such enterprises increased to approximately 1,530. China's medical device market has been growing rapidly and China has become the third largest medical device market in the world after the United States and Japan. The Group's medical device segment, Shenzhen Dong Di Xin Technology Company Limited ("Dong Di Xin"), is one of the innovative pioneers and drivers of global electrotherapeutics treatment and rehabilitation equipment. It is a national high-tech enterprise, with R&D, design, manufacture and production integrated within one entity. Dong Di Xin was honored with the title of Guangdong Province Quality and Credit AAA Grade Enterprise for three consecutive years. During the Year Under Review, the profit of Dong Di Xin decreased, mainly due to the exchange rate fluctuation and decrease in sales in some of its export products caused by the increase in the US tariffs in the second half of the year. For the Year Under Review, revenue from Dong Di Xin amounted to approximately RMB204,921,000, representing a decrease of 2.1% against the same period last year.

MANAGEMENT REVIEW

1. Implementation of Channel Optimization

In the second half of 2017, the Group started to conduct channel optimization for the pharmaceutical products segment. The Group first implemented channel optimization for the Nin Jiom product series. In 2018, the Group implemented channel optimization for Taiko Seirogan. As a result of these reform efforts, the Group managed to lead and standardize channel management, where marketing strategies across different downstream distributions were standardized, distributors were encouraged to take initiative and all cooperating partners were able to earn reasonable profits. After more than a year of hard work, we succeeded in simplifying and combining sales channels, reducing the number of downstream distributors as well as screening and strengthening cooperation with high-quality distributors. During the Year Under Review, the distribution network of the Group covered over 200,000 OTC retail pharmacies and the Group had more than 4,000 "Kingworld Health Family" product counters, and over 3,500 pharmacy chains as strategic partners.

2. Integration of Online and Offline Channels

The Group strived to develop a new retail ecosystem. The e-commerce center was established in 2017 and the information center was constructed at the same time, which achieved the integration of online and offline marketing and logistic. Utilizing Big Data, the Group was able to develop target-oriented marketing strategy and organize interactive activities for consumers based on the actual demands of health preservation of the targeted customers. During the Year Under Review, the Group's information center has undergone reform and optimized its internal information and Big Data system, which has enhanced the safety level of core applications and optimized the business and management of the Company's application systems, such as the SAP enterprise resources planning (ERP) system. During the Year Under Review, the Group's e-commerce center focused on promoting the "Kingworld Health Family" brand to further penetrate to different channels, to enable online ordering and offline marketing, achieve online merge offline ("OMO") resources integration, and promote the brand nationwide. At the same time, efforts were made to implement the "Promoters Campaign" to cultivate "Kingworld KOLs", for tapping their influence on their fans to encourage group purchase of products.

During the Year Under Review, the Group had a presence in major integrated e-commerce platforms including Tmall Global, JD.com and Taobao, specialized e-commerce platforms including Amazon HK, Kaola.com and Dingdang Medicine Express and also its own platforms including Kingworld Health Family Qianhai e-commerce platform (www.kw1996.com), Kingworld Health Family Hong Kong e-commerce platform (www.kw1996.hk), Kingworld Health Family APP (Apple and Android systems) and Kingworld Health Family Mini Program.

3. *Optimizing Structure by Introducing New Products*

In 2018, the Group entered the business of daily cosmetics and personal care products market. During the Year Under Review, the Group and Carma Laboratories, Inc. ("Carma Lab") from the United States formed a strategic cooperation, whereby the Group became the exclusive distributor of the CARMEX healing lip balm series in the Greater China Region (excluding Taiwan). CARMEX, a brand with over 80 years of history in the United States, had over 15 million users in the United States. It also ranks among the Top 3 in terms of sales volume in European markets, including the United Kingdom and Norway, with over 145 jars sold every minute globally and cumulative sales exceeding 1 billion jars. It has been named the No.1 pharmacist-recommended lip balm brand for 18 consecutive years by Pharmacy Times, a professional pharmaceutical magazine in the United States. During the Year Under Review, the Group restocked CARMEX healing lip balms series in the third quarter. The Group and Carma Lab organized a large-scale press conference in Shanghai in October 2018. In just three months, CARMEX expanded its distribution coverage to various regional cities in China as well as large retail chain stores such as Watsons and Mannings and distribution channels in various cosmetic and convenience stores.

In October 2018, the Group and CARMEX organized a press conference in Shanghai. The left hand side is the President of CARMEX while the right hand side is the Deputy General Manager of the Group

KOLs interacting with fans in a live streaming room while trying CARMEX products and explaining its function to her fans

4. *Speed Up the Pace of Financial Investment*

In order to accelerate expansion, the Group actively seeks overseas investment opportunities that match with the Company's industrial structure. During the Year Under Review, Shenzhen Kingworld Medicine Company Limited, a wholly-owned subsidiary of the Company, invested in the "Shenzhen Zhiyuan Healthcare Technology Innovation Center" (深圳至元健康科技創新中心有限公司), a greater health services project in the Lok Ma Chau Loop, on the Hong Kong border. The aim of the project is to establish a greater health service platform in the Lok Ma Chau Loop to better serve the consumers from the Mainland using the pharmaceutical and healthcare resources in Hong Kong. During the Year Under Review, the Group invested in "MING VITAMED ENTERPRISE III LIMITED". This project company will invest in a company in Belgium which develops world-leading revolutionary and innovative medical devices for curing serious myocardial infarction and heart failure.

During the Year Under Review, the investment projects of the Group continued to receive considerable dividend income. They include the stake indirectly held in Miquel Alimentació (西班牙米蓋爾公司) (a Spanish company which engages in food distribution and wholesale and supply chain management) and Manassen Foods Australia (a major food company), the 15% equity interest in Dong Hua Tong Investments Limited (東華通投資有限公司), as well as the 2,302,000 shares in Chuangmei Pharmaceutical Co., Ltd. (02289.HK) the Group subscribed in 2015.

5. *Caring for Society and Giving back to the Community*

"To serve the community and to heal the soul" is the business philosophy of the Group. Adhering to that philosophy, the Group has strived to select high quality pharmaceutical and healthcare products for its consumers over the years, so that they can consume the products in full confidence without worries. At the same time, it has remained true to its original aspirations, and has been actively participating in social construction and giving back to the community. During the Year Under Review, the Group and "Kingworld Care for Health Foundation" donated a total of approximately RMB6,269,000 to charities. The targets for the donation of money and goods include patients, families in difficulty, charities involved in environmental protection and animal protection, major temples and donation for disaster relief. During the Year Under Review, the Group organized charitable activities including visiting the elderly in the Methodist Centre in Hong Kong during the dragon boat festival and giving out Culturelle probiotics products to the elderly living alone. "Kingworld Care for Health Foundation" also participated in "Guangdong Poverty Alleviation Day" and "Shenzhen Charity Day and Charity Month" in Shenzhen in 2018, donating RMB2,000,000 for poverty alleviation. It also assisted the China Children and Teenagers' Fund in organizing a large-scale charitable activity "Campaign for Sharing Knowledge on the Immune System of Children in China".

The Group supported the "Campaign for Sharing Knowledge on Immune System of Children in China" again

Kingworld Care for Health Foundation donated RMB2,000,000 to support Guangdong Poverty Alleviation Day

6. *Training and Upgrade of Staff's Skills*

The Group adheres to the "people-oriented" management concept by insisting on developing together with its staff, emphasizing cultural construction and creating a career path especially for post-80s and post-90s staff. Through focusing on the Group's core values, the strategy of the Group is consistently applied in operational management activity of the Company, and all of its staff uphold the concept of "credibility, solidarity, creativity and desire to grow". During the Year Under Review, the Group organized an annual and semi-annual sales and marketing training campaign, during which hundreds of Kingworld elites from various regions throughout the country gathered together to discuss and share business results and experiences. The human resources center actively organized healthy recreational activities, including badminton competition, Shenzhen Bay hike and staff reading month. On the other hand, the Group and the Lingnan Entrepreneurs Association of Sun Yat-sen University in Guangzhou jointly organized exchange and communication activities to study and exchange views on "Enterprises Innovation under New Circumstances" as well as "How to Develop a Super Brand".

Sales & marketing training campaign 2018, featuring a presentation by Mr. Zhao Li Sheng, the Chairman of the Group

The Group joined hands with Lingnan Entrepreneurs Association of Sun Yat-sen University to organize exchange and communication activities

HONOR

During the Year Under Review, the Group received the following honors and achievements:

- In January 2018, the "Proposal on Land Use Planning for Constructing Specialized Automobile Repair Service Market in Shenzhen" put forth by Mr. Zhao Li Sheng, the Chairman of the Board of the Company, was rated as one of the best proposals in 2017 by the Shenzhen Committee of the Chinese People's Political Consultative Conference

- In February 2018, the Economic, Trade and Information Commission of Shenzhen Municipality approved the Group's application for 2018 Industry Transformation and Upgrade Special Fund for Brand Rewards and Brand Support Special Fund and RMB1 million was subsequently granted to the Group

- In March 2018, the Culturelle probiotics product series from the United States, which is exclusively distributed by the Group in the Greater China Region (excluding Taiwan), was named as a "Best-Selling Product" by MIKIBOBO

- In April 2018, the Group was named as the "Leading Enterprise in the Health Industry of Shenzhen" and "Social Responsible Enterprise in the Healthy Industry of Shenzhen" at the 2017 Healthcare Industry Conference themed "Building a Healthy Shenzhen Through Development of the Healthcare Industry", which was hosted by the Shenzhen Health Association (深圳市保健協會) and Shenzhen Healthcare Industry Development Association (深圳市健康產業發展促進會)

- In May 2018, the Group garnered the "Certificate of Excellence" from the Hong Kong Investor Relations Association (HKIRA) at the 4th HKIRA Investor Relations Awards

- In May 2018, the Group was again awarded the Certificate of Vice-Chairman Member from the Shenzhen Health Association

- In June 2018, Yuen Tai Pharmaceuticals Limited, a connected person of the Group, obtained the Certificate for Manufacturer (Good Manufacturing Practice in respect of Proprietary Chinese Medicines)

- In June 2018, the Group was bestowed with honorable title of "Guangdong Province Enterprise of Observing Contract and Valuing Credit 2017" by the Guangdong Provincial Administration for Industry and Commerce

- In July 2018, the Group was awarded with the 7th "Outstanding Corporate Social Responsibility Award" from The Mirror in Hong Kong

- In August 2018, "Nin Jiom", which was distributed by the Group in the Mainland China, was included on the Cough and Phlegm Product List under the Healthy China Brand Rankings 2018 at the China Pharmaceutical Enterprises Cooperation and Development Organization Summit (CPEO Summit). "Nin Jiom" ranked 18th in the China Pharmaceutical Brand Value Ranking 2018 with a brand value of RMB3.578 billion

- In August 2018, the CARMEX healing lip balm series from the United States, which is exclusively distributed by the Group in the Greater China Region (excluding Taiwan), was again elected as the Favorite Lip Balm in Watsons HWB Awards

- In August 2018, the Culturelle probiotics product series from the United States, which is exclusively distributed by the Group in the Greater China Region (excluding Taiwan), was awarded "Mannings Extraordinary Children Product for Baby 2018"

- In September 2018, the Group garnered a Bronze Award from the 4th Shenzhen Charity Corporation

- In October 2018, Nin Jiom Chuan Bei Pei Pa Koa, which is distributed by the Group in the Mainland China, was named as the Most Recommended Brand by Salesperson in Pharmacies of China for 2017 and 2018

- In December 2018, the Group ranked first among all nominees in the "80th PharmChina Benchmarking Enterprises" election campaign

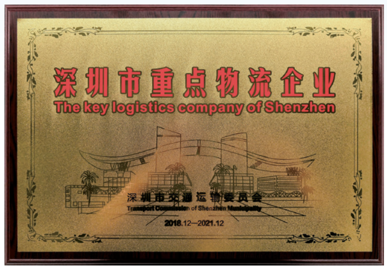
- In December 2018, Ms. Chan Lok San, the Executive Director of the Group, participated in the 2nd "Fengxiang Cup" Art Exhibition for Pharmaceutical Practitioners of PharmChina and won a second prize

- In December 2018, the Group was included in the "Top 500 Shenzhen Enterprises 2018" published by Shenzhen Economic Daily, ranking of No.323

- In December 2018, the Culturelle probiotics product series from the United States and Lifeline Care maternal and infant fish oil product series from Norway, which are exclusively distributed by the Group in the Greater China Region (excluding Taiwan), were named "2018 Parents-Preferred Brand of Infant Probiotics" and "2018 Parents-Preferred Brand of Infant Fish Oil" by Baby Kingdom in Hong Kong, respectively

- In December 2018, the Group garnered the "Certificate of the Key Logistics Company of Shenzhen" by the Transport Commission of Shenzhen Municipality

Management Discussion and Analysis



FINANCIAL REVIEW

1. *Revenue*

Revenue of the Group for the Year Under Review was approximately RMB1,078,843,000, representing an increase of approximately RMB47,355,000, or 4.6% from approximately RMB1,031,488,000 for the year ended 31 December 2017. The increase was mainly a result of the increased in revenue of the Nin Jiom products due to the positive impact from the distribution channel restructuring in mid 2018. However, such increase was partially off-set by the decrease in Culturelle products due to the shortage in supply in China's domestic market.

2. *Cost of sales*

For the Year Under Review, cost of sales for the Group amounted to approximately RMB767,346,000, representing an increase of approximately RMB59,029,000 or 8.3% from approximately RMB708,317,000 for the year ended 31 December 2017. The increase in cost of sales was due to the increase in revenue. Besides, as a result of the adoption of the new requirement of Hong Kong Financial Reporting Standard ("**HKFRS**") 15, transportation costs of approximately RMB11,808,000 was included in the cost of sales for the year ended 31 December 2018, while this cost was included in the selling and distribution costs for the year ended 31 December 2017. Gross profit margin decreased from 31.3% for the year ended 31 December 2017 to 28.9% for the Year Under Review.

3. *Other revenue, income and other net loss*

Other revenue, income and other net loss mainly included change in fair value of other financial assets and liabilities, exchange gain, promotional service income, rental income, government grant, interest income and dividend income. For the Year Under Review, other revenue, income and other net loss amounted to approximately RMB17,609,000, representing a decrease of approximately RMB20,702,000 or 54.0% from approximately RMB38,311,000 for the year ended 31 December 2017. The decrease was mainly due to the decrease in the gain from the change in fair value of other financial liabilities of approximately RMB13,255,000 and the exchange loss of approximately RMB7,705,000, which was partially off-set by the increase in promotional service income of approximately RMB7,099,000.

4. *Selling and distribution costs*

For the Year Under Review, selling and distribution costs amounted to approximately RMB155,073,000, representing a decrease of approximately RMB7,032,000 or 4.3% from approximately RMB162,105,000 for the year ended 31 December 2017. This decrease was primarily attributable to the decrease in transportation costs mainly due to the fact that the transportation cost was reclassified into the cost of sales for the Year Under Review in accordance with HKFRS15, while the accounting treatment for such costs was recorded in the "Selling and Distribution Costs" for the year ended 31 December 2017.

5. Administrative expenses

For the Year Under Review, administrative expenses amounted to approximately RMB96,356,000, representing an increase of approximately RMB7,043,000 or 7.9% from approximately RMB89,313,000 for the year ended 31 December 2017. For the Year Under Review, rental expenses was approximately RMB2,679,000, administrative staff costs was approximately RMB11,520,000, legal and professional fees was approximately RMB7,651,000, which comprised mainly of financial reporting costs of the Company and legal advisory and consultancy fees, and research and development expenses was approximately RMB13,872,000 (2017: rental expenses was approximately RMB3,144,000, administrative staff costs was approximately RMB17,865,000, legal and professional fees was approximately RMB3,893,000, and research and development expenses was approximately RMB12,828,000).

6. Profit from operations

For the Year Under Review, profit from operations for the Group amounted to approximately RMB68,846,000, representing a decrease of approximately RMB26,857,000 or 28.1% from approximately RMB95,703,000 for the year ended 31 December 2017. The decrease in profit from operations was mainly due to the decrease in gross profit, increase in operating cost and the decrease in other revenue, income and other net loss for the Year Under Review.

7. Finance costs

For the Year Under Review, finance costs amounted to approximately RMB17,003,000, representing a decrease of approximately RMB9,207,000 or 35.1% from approximately RMB26,210,000 for the year ended 31 December 2017. The decrease was mainly due to the decrease in interest charged on convertible bonds as a result of the expiration of convertible bonds with relatively higher interest rate in December 2017.

8. Profit before taxation

For the Year Under Review, profit before taxation for the Group amounted to approximately RMB70,380,000, representing a decrease of approximately RMB12,947,000 or 15.5% from approximately RMB83,327,000 for the year ended 31 December 2017. The decrease in profit before taxation was mainly due to the decrease in profit from operation which was partially offset by the increase in share of profit of a joint venture and decrease in finance costs.

9. Income tax

For the Year Under Review, income tax expenses for the Group amounted to approximately RMB18,621,000, representing an increase of approximately RMB1,826,000 or 10.9% from approximately RMB16,795,000 for the year ended 31 December 2017. This increase was mainly due to the decrease in the reversal of deferred tax of approximately RMB2,144,000. The effective tax rate for the Year Under Review was 26.5%, compared to 20.2% for the year ended 31 December 2017. The details is set out in Note 8(a) to the consolidated financial statements.

10. Profit for the year attributable to owners of the Company

For the Year Under Review, profit for the year attributable to owners of the Company amounted to approximately RMB41,005,000, representing a decrease of approximately RMB10,055,000 or 19.7% from approximately RMB51,060,000 for the year ended 31 December 2017. The decrease in profit for the year attributable to owners of the Company was mainly due to the decrease in profit for the year of approximately RMB14,773,000, which was partially off-set by the decrease in profit for the year attributable to non-controlling interests of approximately RMB4,718,000.

ANALYSIS OF MAJOR BALANCE SHEET ITEMS

1. *Trade and other receivables*

Trade and bills receivables of the Group include credit sales to the Group's distributors. Other receivables of the Group include prepayments, deposits and other receivables. Trade and other receivables of the Group as at 31 December 2018 amounted to RMB416,782,000, representing an increase of approximately RMB3,908,000 from approximately RMB412,874,000 as at 31 December 2017. The increase was mainly due to the increase in trade and bills receivables of approximately RMB39,483,000, which was partially off-set by the decrease in trade deposits to related parties of approximately RMB12,799,000, the decrease in prepayment of approximately RMB3,050,000 and the decrease in dividend receivable from a joint venture of approximately RMB19,800,000.

2. *Inventories*

As at 31 December 2018, inventories owned by the Group amounted to approximately RMB182,064,000, representing an increase of approximately RMB33,183,000 when compared to that of RMB148,881,000 as at 31 December 2017. The main reason of increase in inventories was the increase in finished goods of approximately RMB25,832,000.

3. *Leasehold land held for own use under operating leases*

As at 31 December 2018, leasehold land held for own use under operating leases amounted to approximately RMB91,139,000 (2017: approximately RMB92,198,000). The decrease was due to the depreciation during the Year Under Review.

4. *Property, plant and equipment*

Property, plant and equipment owned by the Group include building, leasehold improvements, furniture, fixtures and office equipment, machinery, motor vehicles and construction-in-progress. As at 31 December 2018, the net book value of property, plant and equipment owned by the Group amounted to approximately RMB59,984,000, representing an increase of approximately RMB2,501,000 from approximately RMB57,483,000 as at 31 December 2017. The increase in property, plant and equipment was mainly due to the increase in machineries and construction in-progress by approximately RMB3,583,000 and RMB849,000, respectively, which was partially off-set by the depreciation of approximately RMB8,605,000 during the Year Under Review.

5. *Trade and other payables*

Trade and other payables of the Group mainly include trade and bill payables, prepayments from customers, other payables and accrued expenses. As at 31 December 2018, trade and other payables of the Group amounted to approximately RMB219,711,000, representing a decrease of approximately RMB22,403,000 from approximately RMB242,114,000 as at 31 December 2017. The decrease was mainly due to the decrease in trade deposits received of approximately RMB63,743,000, which was partially off-set by the increase in financial liabilities measured at amortised cost of approximately RMB34,239,000.

CASH FLOW

The Group's cash is primarily used to meet the demand of financing its working capital requirement, repaying interest and principal of debts and providing funds for capital expenditures and expansion of the Group's operations.

1. *Net cash generated from operating activities*

The Group's cash generated from operations is primarily derived from receipts from for the sale of the Group's products. For the Year Under Review, the Group's net cash generated from operating activities amounted to approximately RMB62,384,000, while the net cash inflow generated from operating activities for the year ended 31 December 2017 was approximately RMB72,388,000. The decrease in net cash inflow was primarily due the decrease in profit before taxation.

2. *Net cash generated from investing activities*

The Group's net cash generated from investing activities amounted to approximately RMB17,392,000 for the Year Under Review, while the net cash generated from investing activities was approximately RMB24,229,000 for the year ended 31 December 2017. The decrease in net cash inflow generated from investing activities was mainly due to the decrease of proceeds from disposal of the available-for-sales financial assets during the Year Under Review.

3. *Net cash used in financing activities*

The Group's net cash outflow used in financing activities amounted to approximately RMB159,047,000 for the Year Under Review, while the net cash outflow used in financing activities was approximately RMB83,170,000 for the year ended 31 December 2017. The increase in net cash outflow used in financing activities was mainly due to the increase in repayment of bank loans during the Year Under Review.

CAPITAL STRUCTURE

1. *Indebtedness*

The total indebtedness of the Group, which will be due within one year as at 31 December 2018 was approximately RMB336,676,000 (2017: approximately RMB412,980,000). During the Year Under Review, the Group did not experience any difficulties in renewing its banking facilities with the lenders.

2. *Asset-liability ratio*

As at 31 December 2018, the Group's asset-liability ratio, calculated as the total bank borrowings divided by total assets multiplied by 100%, was approximately 26.0% (2017: approximately 31.0%). The decrease was mainly due to the decrease in bank borrowings.

3. *Gearing ratio*

As at 31 December 2018, the Group's gearing ratio, calculated as total debts divided by total equity, was appropriately 52.8% (2017: approximately 64.4%). The decrease was mainly due to the decrease in bank borrowings.

4. *Pledge of assets*

As at 31 December 2018, the Group had pledged investment properties, leasehold land held for own use under operating leases and property, plant and equipment to certain banks in the amount of approximately RMB108,900,000, RMB59,652,000 and RMB22,076,000, respectively. As at 31 December 2017, the Group pledged investment properties, leasehold land held for own use under operating leases and property, plant and equipment to certain banks in the amount of approximately RMB100,000,000, RMB61,107,000 and RMB23,168,000, respectively.

5. *Capital expenditures*

The capital expenditures of the Group primarily included purchases of plant, equipment, leasehold improvements and other costs for acquisition of land. The Group's capital expenditures amounted to approximately RMB11,864,000 and RMB40,125,000 for the years ended 31 December 2018 and 2017, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long-term and short-term bank borrowings. For the Year Under Review, the effective interest rate for fixed rate loans ranged from 3.96% to 6.24%. Taking into account the cash flow generated from operations and the long-term and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 31 December 2018, the Group had cash and cash equivalents of approximately RMB160,660,000 (2017: approximately RMB232,755,000) which was mainly generated from operations of the Group.

CAPITAL COMMITMENT

As at 31 December 2018, the Group had capital commitment of approximately RMB173,362,000 (2017: approximately RMB168,793,000).

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

During the year ended 31 December 2018, the Group did not make any material acquisition or disposal.

LITIGATION

As disclosed in the 2016 annual report of the Company (the "2016 Annual Report"), a claim was filed by the former chief executive officer of Dong Di Xin (the "Plaintiff") against the substantial shareholder of Dong Di Xin (the "Substantial Shareholder") and Dong Di Xin. The related appeal has been lodged by Dong Di Xin (the "Appeal") to the Shenzhen Intermediate People's Court of Guangdong Province (廣東省深圳市中級人民法院) (the "Intermediate Court") against the judgment (the "Judgment") handed down by the Shenzhen Nanshan District People's Court of Guangdong Province (廣東省深圳市南山區人民法院) (the"Court"). The Judgment ordered: (1) the Substantial Shareholder to transfer his 15% equity interest in Dong Di Xin to the Plaintiff (the "Equity Transfer"); (2) the Substantial Shareholder and Dong Di Xin to assist in all relevant procedures for completing the Equity Transfer; and (3) the litigation fee of RMB2,900 shall be borne by the Substantial Shareholder and Dong Di Xin. As disclosed in the 2016 Annual Report, the Judgment did not and will not have any material adverse impact on the Group's ordinary operations and financial positions as the Company will not bear any liability or any significant litigation fee and there will be no dilutive effect on the Group's holding in the equity interest in Dong Di Xin. As disclosed in the announcement of the Company dated 10 August 2018, the Intermediate Court set aside the Judgment of the Court and ruled the case to be returned to the Court for re-trial. As at the date of this report, the re-trial of the case has not been commenced. The re-trial of the case is expected to commence on 30 April 2019. The Company will make further announcement(s) to keep the Shareholders and the public informed of any material progress on the case as and when appropriate according to the Listing Rules.

FUTURE OUTLOOK

1. Diversifying Product Portfolio

For more than two decades, the Group has been introducing well-known and high-quality pharmaceutical and healthcare products from overseas. As the population ages in China, citizens are increasingly health conscious. As for the pharmaceutical products, the Group plans to enter into in-depth strategic cooperation with GMP-certified enterprises that are China Time-honored Brands in the future, so as to fill the gaps in the Chinese patent medicine market together. As for healthcare products, consumers have higher demand for these products while desiring functional and specialized healthcare products. In order to cope with market trends and consumers' new demands and desire, the Group will uphold its strategy of using product functions in its positioning to further strengthen the healthcare product business sector, aiming to meet the changing needs and requirements of consumers.

During the Year Under Review, the Group established the daily cosmetics and personal care products segment and introduced its first product from a well-known international brand, the CARMEX healing lip balm series from the United States. In the future, the Group will actively expand into new business areas so as to diversify its product portfolio. Meanwhile, the capital operating team will continue to facilitate the Group's business in the greater health service sector by actively identifying high quality products with market potential and high-quality manufacturers. It will give preference to production enterprises and overseas upstream manufacturers that embraces the greater health concept as well as domestic GMP enterprises that share synergies with the Company's business. In this way, the Group aims to deepen and consolidate its image as a globally leading and well-known omni-channel enterprise with a complete supply chain in the greater health products and services industry in China.

2. OMO develops duo drivers for consumption upgrade

Online and offline consumption experiences were integrated as a result of the emerging new retail and OMO model. In order to cope with the development of consumption upgrade, the Group's information center will optimize its sales management instrument and combine it with data analysis system to build and manage an analytic information system. At the same time, through leveraging the advantages of steady offline business development, utilizing big data analysis to understand consumption preferences, consumption power, geographical location and consumption cycle and using social media platforms to interact with consumers, a greater number of target users can be reached through multiple channels, thereby achieving in-depth online and offline integration as well as targeted marketing.

3. Enlarging the Export Volume of Medical Devices to the European Market

Some Chinese enterprises that engage in the export trade incurred higher production costs and recorded less profit due to the increase in tariffs on products exported to United States as a result of the China–United States trade frictions in 2018. The tariff on the infrared pyrometer product series of Dong Di Xin, the Group's medical devices segment, has also increased to 10%, leading to a decline in profit in the Group's medical devices segment in 2018. In 2019, Dong Di Xin intends to expand its exporting business to European and other markets to reduce the effect of uncertainty in exports to the United States while enhancing the development and expansion of its own brand in the Chinese market.

4. *Adjusting Our Financial Risk Management Measures in a Timely Manner*

Despite the trade frictions between China and the United States in 2018, the overall macro economy of China continued to develop steadily. With the uncertainties in the global economy in 2019, the Chinese economy is under increasing downward pressure. The Group will place emphasis on and closely monitor various risks in the external markets and will identify, measure as well as analyze and evaluate them while adopting effective measures to prevent and control such risks in a timely manner. These measures include, but are not limited to, the use of forward foreign exchange transactions to hedge against risks of exchange rate fluctuation. Investment strategy will be more prudent while sufficient cash will be reserved to maintain smooth operation of the Group. Its operating strategy will also be adjusted appropriately in response to changes in the market and business to protect the return on investment of Shareholders and other stakeholders.

HUMAN RESOURCES AND TRAINING

As at 31 December 2018, the Group had a total of 998 employees, of whom 130 worked at the Group's headquarters in Shenzhen, and 392 were stationed in 34 regions responsible for sales and marketing, and 476 worked at Dong Di Xin. Total staff cost for the Year Under Review amounted to approximately RMB119,438,000 (2017: approximately RMB118,689,000). The Group releases an annual sales guideline each year, setting out the annual sales targets and quarterly sales strategies to provide sales and marketing guidelines for all representative offices and their staff to observe. The Group has a management team with extensive industry experience (including the Sales Director and Product Manager), which is responsible for coordinating front-line sales and marketing teams to meet the annual sales targets.

During the Year Under Review, the Group adopted a "people-oriented" management concept to have its staff closely involved in the management and development of the Group. The Group implements a strict selection process for hiring employees and adopts a number of incentive mechanisms to enhance the productivity of employees. The Group conducts periodic performance review with employees, and revises their salaries and bonuses accordingly. In addition, the Group has established a business college and cooperates with higher education institutions to bring in teaching resources for EMBA and EDP courses.

The Company has adopted a share option scheme for the purpose of providing incentives and rewards to eligible participants, including eligible employees of the Group, who have contributed to the success of the Group. Details of such share option scheme are set out in the paragraph headed "Share Option Scheme" in this report.

DIVIDENDS

To extend the Company's gratitude for the support of our Shareholders, the Board has recommended the distribution of a final dividend for the year ended 31 December 2018 of HK2.25 cents per share to Shareholders whose names appear on the register of members of the Company on Wednesday, 5 June 2019, amounting to approximately HK$14,006,000, subject to the approval in the Company's forthcoming annual general meeting to be held on Monday, 27 May 2019. Total dividend payout ratio is approximately 30.0% of the profit for the year attributable to owners of the Company. The above-mentioned final dividend is expected to be paid on or before Friday, 28 June 2019.

Directors' and Senior Management's Biographies

DIRECTORS

The biographical details of the Directors and senior management of the Company as at the date of this report are set out below:

EXECUTIVE DIRECTORS

Mr. Zhao Li Sheng (趙利生), aged 60, was appointed as an executive Director of the Company on 25 September 2008. He is the co-founder of the Group and the chairman of the Company. He is primarily responsible for the Group's overall strategic planning and business management. He has over 23 years of experience in business management and development in the distribution of pharmaceutical and healthcare products. He was also appointed as the chairman of Shenzhen Kingworld Industry Company Limited ("SZ Industry") in 1994 and the general manager and chairman of SZ Kingworld in 1996. Mr. Zhao was qualified as a senior business manager by the Business Management Qualification Accreditation Committee of Hubei Province in December 2002. Mr. Zhao was a member of the standing committee (常委) of the 4th and 5th Shenzhen Committee of the Chinese People's Political Consultative Conference (深圳市政協第四及第五屆委員會). Mr. Zhao was the vice-president of The Fifth Council of the Shenzhen General Chamber of Commerce (深圳市總商會(工商聯)第五屆理事會) in 2005. He was the honorary director (名譽會董) of the Federation of Hong Kong Chiu Chow Community Organizations, the council member (理事) of the Third Session of China Overseas Friendship Association (第三屆中華海外聯誼會) in 2008 and the standing council member (常務理事) of the Third China Economic and Social Council (第三屆中國經濟社會理事會) in 2009. Currently, he is the vice president (副會長) of the Shenzhen Healthcare Association (深圳市保健協會) and the Fifth Council of the Pharmaceutical Profession Association (深圳市醫藥行業協會第五屆理事會). He is also the chairman of the Youth Chawnese Committee of Shenzhen (深圳潮人海外經濟促進會青年委員會). He is the spouse of Ms. Chan Lok San, an executive Director of the Company.

Ms. Chan Lok San (陳樂燊), aged 55, was appointed as an executive Director of the Company on 25 September 2008. She is the co-founder of the Group. She is primarily responsible for the Group's financial planning and human resources management. She has over 22 years of experience in the pharmaceutical industry as well as over 12 years of experience in property management. Ms. Chan has been working for SZ Industry since 1994 and SZ Kingworld since 1996, respectively. She has been the vice chairlady of SZ Kingworld and SZ Industry since 2005 and 2006, respectively, and the vice chairlady of Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited since 2005 and the legal representative of Shenzhen Kingworld Department Store Property Management Company Limited and Shenzhen King Gibson Golf Company Limited. She received a master degree in business administration of senior management from Sun Yat-Sen University in 2010. In 2011, she was appointed as a committee of Shenzhen Golf Society and a vice-chairlady of Shenzhen Clothing Society. She was also a member of the Global Foundation of Distinguished Chinese (世界傑出華人基金會) in 2003. Since 25 December 2012, she has served as the chairlady of the EMBA Alumni Association of Sun Yat-Sen University. Currently, she is also the director (理事) of Sun Yat-Sen University Entrepreneur Alumni Association (Third Session) (第三屆中山大學企業家校友聯合會). She is the spouse of Mr. Zhao Li Sheng, an executive Director of the Company.

Mr. Zhou Xuhua (周旭華), aged 52, was appointed as an executive Director of the Company on 3 August 2009. He has been the general manager of SZ Kingworld since 2009. He is primarily responsible for the business development and operations of SZ Kingworld. He was the business manager of SZ Industry between 1994 and 1995 and was the regional manager and deputy general manager of SZ Kingworld after he joined SZ Kingworld in 1996. He has 21 years of experience in the pharmaceutical industry. Mr. Zhou has worked as a clerk and was later promoted to become a supervisor of Shenzhen International Arcade between 1987 and 1993. He completed his education at Shenzhen Finance School (深圳市財經學校) in 1987.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Duan Jidong (段繼東), aged 53, was appointed as an independent non-executive Director of the Company on 5 November 2010. He has approximately 28 years of experience in the pharmaceutical industry. Mr. Duan received a bachelor degree in medicine at The Shanghai Railway Medical Institute (上海鐵道醫學院) in 1989, and was a surgeon with the Central Hospital of Shenyang Railway Bureau (原瀋陽鐵路局中心醫院) from 1989 to 1994 and worked in the Beijing Mundipharma Pharmaceutical Company Limited (北京萌蒂製藥有限公司) from 1994 to 1998. Mr. Duan served as the chairman and legal representative of Kunming Baker Norton Pharmaceutical Company Limited from December 2002 to April 2006, a director of Holley Pharmaceutical (Chongqing) Co., Ltd. (重慶華立藥業股份有限公司, stock code : 000607), a company listed on the Shenzhen Stock Exchange, from 2005 to 2006, and a director of Wuhan Jianmin Pharmaceutical Groups Corp, Ltd. (武漢健民藥業集團股份有限公司, stock code: 600976), a company listed on the Shanghai Stock Exchange, from 2004 to 2006. He was a chief executive officer from 2002 to 2005, and a director from 2004 to 2006, of Kunming Pharmaceutical Group Corporation, Ltd. (昆明製藥集團股份有限公司, stock code: 600422), a company listed on the Shanghai Stock Exchange. From April 2008 to April 2011, he was an independent non-executive director of Zhejiang CONBA Pharmaceutical Company Limited (浙江康恩貝製藥股份有限公司, stock code: 600572), a company listed on the Shanghai Stock Exchange. Since February 2013, he has been an independent non-executive Director of Yan He Medicines Company Limited (仁和药業股份有限公司, stock code : 000650), a company listed on the Shenzhen Stock Exchange. Currently, he is the chairman of Beijing Strategy & Action Enterprise Management Consulting Company Limited (北京時代方略企業管理諮詢有限公司).

Mr. Wong Cheuk Lam (黃焯琳), aged 50, was appointed as an independent non-executive Director of the Company on 5 November 2010. He has over 23 years of experience in accounting and finance fields. Mr. Wong obtained a bachelor degree in arts from the University of Hong Kong in 1992 and a master degree in business from Victoria University of Technology, Australia in 1997. Mr. Wong is a member of the Hong Kong Institute of Certified Public Accountants, a member of CPA Australia and a Certified Taxpay Strategist (PRC). From 1994 to 2003, Mr. Wong worked in accounting positions in Sakura Finance Asia Limited, BOCI Securities Limited and Going Accounting Services Company. He worked at Zhengzhou China Resources Gas Company Limited (鄭州華潤燃氣股份有限公司), a company previously named Zhengzhou Gas Company Limited and was listed on the Stock Exchange as a company secretary from 2003 to January 2013, a chief financial officer from July 2005 to January 2013 and a financial controller from October 2007 to July 2010. From February 2015 to May 2015, Mr. Wong worked in Genvon Group Limited (currently named Beijing Enterprises Medical and Health Industry Group Limited), a company listed on the Main Board of the Stock Exchange (stock code: 2389), as financial controller and deputy company secretary. From May 2015 to June 2016, Mr. Wong was the CFO and company secretary of ASR Logistics Holdings Limited (currently named Beijing Sports and Entertainment Industry Group Limited), a company listed on the Main Board of the Stock Exchange (stock code: 1803). Since August 2018, Mr. Wong has been the deputy company secretary of China Shun Ke Long Holdings Limited （中國順客隆控股有限公司）, a company listed on the Main Board of the Stock Exchange (Stock code: 974).

Mr. Zhang Jianbin (張建斌), aged 58, was appointed as an independent non-executive Director of the Company on 1 August 2013. Mr. Zhang has over 26 years of experience in teaching and researching in the management aspect of marketing, services marketing and brand marketing, and in project consultation work. Mr. Zhang obtained a bachelor degree in engineering (industrial management engineering profession) from Wuhan University of Technology (formerly known as Wuhan Institute of Technology) in June 1982. Mr. Zhang completed a USA MBA program (organized by the graduate school of Columbia University and other universities) of Beijing Information Science & Technology University (formerly known as Beijing Institute of Machinery) in September 1986, and obtained a doctor's degree of economics (industrial economics profession) from the College of Economics, Jinan University in July 1999. Mr. Zhang worked in the Management Engineering Faculty of Wuhan University of Technology (formerly known as Wuhan Institute of Technology) as a teaching assistant and a lecturer from July 1982 to March 1989. He worked in the Management Engineering Faculty of Guangdong University of Technology (formerly known as Guangdong Institute of Technology) as a teaching assistant, lecturer, associate professor and served as deputy director, director and deputy head of the Teaching and Research Department from March 1989 to June 1998. Mr. Zhang has been teaching at Jinan University since July 1998 and is an associate professor and a tutor to master's degree research students at the Management School of Jinan University. Mr. Zhang was also the director of the MBA Department and deputy director of the MBA education centre from 2003 to 2005. Mr. Zhang was a chief marketing consultant of the Fourth Shoe Factory (第四皮鞋廠) in Wuhan city from 1987 to 1989. He was a factory director of Zhongshan Precision Instrument Factory (中山先能精密儀器廠) from 1991 to 1992 and a manager of the Planning Department of Guangdong International Mass Advertising Media Company (廣東國際大眾廣告傳播公司) from 1992 to 1993. From 1993 to 1995, Mr. Zhang was a general manager of Guangdong Design and Planning Company (廣東創世紀設計策劃公司) and was a marketing consultant of Guangdong Construction Real Estate Company (廣東建業房地產公司) from 1995 to 1996. He was a marketing consultant of Guangdong Yihe Real Estate (Group) (廣東頤和地產(集團)有限公司) from 1997 to 2002 and a consultant of Guangdong Persian Technology Company Limited (廣東波斯科技股份有限公司) from 2002 to 2012.

SENIOR MANAGEMENT

Mr. Chan Hon Wan (陳漢雲), aged 58, was appointed as the financial controller and company secretary of the Company on 25 June 2009. Currently, he is also the authorised representative of the Company. He is responsible for the management of the Group's financial matters. Mr. Chan has over 33 years of experience in auditing and accounting fields. He served as a financial controller of Fairwood Fast Food Limited from 1995 to 1998. He also worked as a corporate finance director of Texwood Limited from 2000 to 2005 and a business director of Texwood Group from 2006 to 2008, respectively. Mr. Chan received a bachelor degree in economics from Macquarie University Australia in 1986. In 2005, he received a master degree in science (accountancy) from the Hong Kong Polytechnic University. He is an associate member of the Institute of Chartered Accountants in Australia and an associate member of the Hong Kong Institute of Certified Public Accountants.

Ms. Fang Danna (方丹娜), aged 53, has been the financial manager of SZ Kingworld since 1995. She is primarily responsible for the management of SZ Kingworld's financial policies. Ms. Fang has approximately 27 years of experience in the accounting industry. She worked for the accounting department of Shenzhen Xinwei Electronics Company Limited (深圳新偉電子有限公司) in 1989 before she joined SZ Industry as a financial manager in 1995. Ms. Fang completed a course in accounting from Wuhan University (武漢大學) in 1991.

Mr. Liu Yibing (劉亦兵), aged 59, is the assistant of the General Manager of SZ Kingworld. He is primarily responsible for the implementation of the Group's administrative policies. Mr. Liu has approximately 16 years of experience in the administrative field. He worked in the cadre training center at the human resources department of Foxconn International Group between 1995 and 1998. Mr. Liu received a bachelor degree in Chinese literature from Hunan Normal University (湖南師範大學) in 1982. He joined SZ Kingworld in 2001.

Mr. Ceng Yun (曾澐), aged 48, is the sales controller (commerce) of SZ Kingworld. He is primarily responsible for the customer and sales management. Mr. Ceng has approximately 19 years of experience as a sales manager in the pharmaceutical industry. Mr. Ceng completed a master degree in industrial economics from Nanchang University (南昌大學) in 2001. He joined SZ Kingworld in 1996.

Ms. Liang Caiyun (梁彩雲), aged 50, is the customer services manager of SZ Kingworld. Ms. Liang is primarily responsible for the implementation of SZ Kingworld's overall customer service strategies including but not limited to the delivery of the products and the review of purchase agreements. Ms. Liang has over 28 years of experience in the sales and strategic planning fields. Before joining SZ Kingworld in 1999, she worked in the Aviation Industry Corporation of China ZhongHang Electronic Measuring Instruments Co. Ltd. (中國航空工業總公司中航電測儀器股份有限公司) in 1988 and later worked as a planning and statistics officer of Chiaphua Appliance (Shenzhen) Company Limited in 1997. Ms. Liang completed her tertiary education in the area of industrial enterprises management at 012 Base Vocational School (012基地職工學院) in 1988, and received the qualification certificate of specialty and technology for the intermediate level in statistics from the National Bureau of Statistics of China (國家統計局) in 1996.

Ms. Zhang Dan (張丹), aged 54, is the marketing director of SZ Kingworld. Ms. Zhang is primarily responsible for the formulation and implementation of SZ Kingworld's overall marketing strategies for the Group's products, especially Nin Jiom Pei Pa Koa, Taiko Seirogan, Imada Red Flower Oil and Flying Eagle Wood Lok Medicated Oil. Ms. Zhang has approximately 17 years of experience in the sales and marketing areas. She received a bachelor degree in medical treatment from Yunyang Medical College of Tongji Medical University (同濟醫科大學鄖陽醫學院) in 1986, and was a lecturer at the Hubei Province Wuhan Health School between 1986 and 1995. Ms. Zhang joined SZ Kingworld in 1996.

Ms. Tian Yongli (田永莉), aged 56, is the audit and control manager of SZ Kingworld. Ms. Tian is primarily responsible for the formulation, implementation and review of SZ Kingworld’s accounting policies and internal control. Ms. Tian has approximately 25 years of experience in the auditing and accounting fields. She worked as an accounting officer for Electronic Industry Bureau of Wuhan City (武漢市電子工業局) in 1992. Ms. Tian received the junior accountant qualification from Finance Department of the PRC (中華人民共和國財政部) in 1999, and received a professional diploma in industrial enterprises’ operation and management from Wu Han Radio and TV University (武漢市廣播電視大學) in 1986. Ms. Tian joined SZ Kingworld in 2005.

Mr. Huang Ruozhong (黃若忠), aged 56, is the corporate finance controller of SZ Kingworld and is responsible for managing the matters relating to the Listing. He has 23 years of experience in handling securities and finance related matters. Mr. Huang worked in the securities department of the Shantou branch of the Bank of Communications Co. Ltd. from 1992 to 1999. Mr. Huang worked in the securities trading department of the Shantou Trust and Investment Company from 1999 to 2002, and worked for the Deheng Securities Company Limited (德恒證券有限公司) from 2002 to 2003. Since 2004, Mr. Huang has been the executive directors of 23 subsidiaries and served as a director of Zhuhai Jinming since 2006. In 2001, Mr. Huang was presented with the qualification of handling securities business by the Securities Association of China (中國證券協會). He graduated from the Chinese People’s Liberation Army Air Force Engineering University (中國人民解放軍空軍工程大學) and Chinese People’s Liberation Army Guilin Air Force Academy (中國人民解放軍桂林空軍學院) in 1985 and 1989 respectively. Mr. Huang joined SZ Kingworld in 2003.

The emoluments of each of the above senior management of the Group fall within the band of Nil to HK$1,000,000.

The Board strives to uphold the principles of corporate governance set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and adopted various measures to enhance the internal control system, the Directors' continuing professional training and other areas of practice of the Company. While the Board strives to maintain a high level of corporate governance, it also works hard to create value and achieve maximum return for its Shareholders. The Board will continue to conduct review and improve the quality of corporate governance practices with reference to local and international standards.

During the Year Under Review, the Company complied with the code provisions as set out in the CG Code, other than code provision A.2.1 of the CG Code.

According to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, Mr. Zhao Li Sheng is the Chairman of the Board and the chief executive officer. The Board is in the opinion that having Mr. Zhao to carry out both roles can bring about strong and consistent leadership for the Group, and can be more effective in planning and implementing long-term business strategies. The Board also considers that since members of the Board include competent and independent non-executive Directors, this structure will not impair the balance of power and authority between the Board and its management in the business of the Group. The Board is in the opinion that the structure described above will be beneficial to the Company and its business.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code governing securities transactions of the Directors. Each of the Directors has confirmed his/her compliance with the Model Code during the Year Under Review. The Company has also adopted written guidelines on no less exacting terms than the Model Code for the relevant employees. The senior management, who, because of their office in the Company, is likely to be in possession of unpublished inside information, has been requested to comply with the provisions of the Model Code and the Company's code of conduct regarding securities transactions by Directors. No incidence of non-compliance of the employees' written guidelines by the relevant employees was noted by the Company during the Year Under Review.

BOARD OF DIRECTORS

The Board is the core of the Company's corporate governance framework and its role is clearly separated from that of senior management. The Board is responsible for providing guidance for senior management and maintaining effective supervision over senior management. Since the day-to-day running of the Company has been delegated by the Board to the senior management, the senior management is responsible for the implementation of the policies resolved. In general, the responsibilities of the Board include formulating operation plans and investment proposals of the Company, preparing the proposed and final annual budgets of the Company, assessing the performance of the Company and overseeing the work of senior management.

As at 31 December 2018, the Board comprises a total of six Directors, being three executive Directors (the"Executive Directors"), and three independent non-executive Directors (the "Independent Non-executive Directors"). Mr. Zhao Li Sheng, Ms. Chan Lok San and Mr. Zhou Xuhua served as Executive Directors and Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam served as Independent Non-executive Directors. These Independent Non-executive Directors, who have different business and professional backgrounds, have brought valuable experience and expertise for the best interests of the Group and its Shareholders. Each Independent Non-executive Director has been appointed for a 3-years term of services. Biographical details of and the relationship between the Directors are set out in the paragraph headed "Directors' and Senior Management's Biographies" of this report.

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group, and to review and approve the Group's annual and interim results. During the Year Under Review, four Board meetings were held and attendance of each Director at the Board meetings is set out in the paragraph headed "Board/Committee Meetings and Individual Attendance" of this report.

All members of the Board fully understand their collective and individual responsibility to the Shareholders, and will try their best to carry out their duties to make contributions to the Group's results.

Throughout the Year Under Review and up to the date of this report, the Company has complied with the requirements under Rules 3.10(1) and (2) and 3.10A of the Listing Rules and has appointed three Independent Non-executive Directors, representing more than one-third of the number of Directors at the Board, with at least one Independent Non-executive Director possessing the appropriate professional qualifications, or accounting or related financial management expertise.

Every Director is entitled to have access to Board papers and related materials and has access to the advice and services of the Company Secretary. The Board and each Director also have separate and independent access to the Company's senior management.

Pursuant to the Articles of Association of the Company (the "Articles of Association"), one third of the Directors shall retire from office by rotation at each annual general meeting. Pursuant to the code provision set out in paragraph A.4.3 of Appendix 14 of the Listing Rules, any further appointment of independent non-executive director serving more than nine years should be subject to a separate resolution to be approved by shareholders.

Mr. Duan Jidong and Mr. Wong Cheuk Lam will have been serving as independent non-executive Directors for more than nine years in November 2019 and be subject to separate resolutions to be approved by the Shareholders at the forthcoming annual general meeting of the Company. Notwithstanding that Mr. Duan Jidong and Mr. Wong Cheuk Lam will have been serving as independent non-executive Directors for more than nine years in November 2019, (i) the Board has assessed and reviewed the annual confirmation of independence based on the criteria set out in Rule 3.13 of the Listing Rules and affirmed that Mr. Duan Jidong and Mr. Wong Cheuk Lam remain independent; (ii) the nomination committee of the Company has assessed and is satisfied of the independence of Mr. Duan Jidong and Mr. Wong Cheuk Lam; and (iii) the Board considers that Mr. Duan Jidong and Mr. Wong Cheuk Lam remain independent of management and free of any relationship which could materially interfere with the exercise of his independent judgment.

With the assistance and recommendation from the nomination committee of the Company, the Board has also reviewed the structure, size, composition and diversity of the Board from a number of aspects, including but not limited to the age, gender, nationality, length of service and the professional experience, skills and expertise of Mr. Duan Jidong and Mr. Wong Cheuk Lam. The Board is of the view that their respective education, background and experience practice allow them to provide valuable and relevant insights and contribute to the diversity of the Board. The Board is also of the view that during their tenure as independent non-executive Directors, Mr. Duan Jidong and Mr. Wong Cheuk Lam have made positive contributions to the Group's development, strategy and performance with their independent advice and comments and their understanding of the business of the Group.

In view of the aforesaid factors, the Board would recommend Mr. Duan Jidong and Mr. Wong Cheuk Lam for re-election at the forthcoming annual general meeting of the Company. Accordingly, Mr. Duan Jidong and Mr. Wong Cheuk Lam shall retire at the forthcoming annual general meeting of the Company. The retiring Directors, all being eligible, offer themselves for re-election.

BOARD COMMITTEES

The Board has formed three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All committees have been formed with specific written terms of reference in compliance with the Listing Rules which deal with their respective authorities and duties.

Copies of minutes of all meetings and resolutions of the committees, which are kept by the company secretary of the Company (the "Company Secretary"), are circulated to all Board members and the committees are required to report back to the Board on their decision and recommendations where appropriate. The procedures and arrangements for a Board meeting have been adopted for the committee meetings so far as practicable.

Members, duties and responsibilities of the committees are as follows:

AUDIT COMMITTEE

The Company established an Audit Committee (the "Audit Committee") on 5 November 2010 and has formulated its written terms of reference, which have from time to time been modified in accordance with the prevailing provisions of the CG Code. The Audit Committee has three members, namely Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam, who are Independent Non-executive Directors. Mr. Wong Cheuk Lam has been appointed as the chairman of the Audit Committee.

The primary duties of the Audit Committee are (among other things) to provide an independent review and supervision of financial reporting, and examine the effectiveness of the internal controls and risk management systems of the Group and to ensure the external auditor are independent and the audit process is effective. The Audit Committee examines all matters relating to the accounting principles and policies adopted by the Group, auditing functions, internal controls, risk management and financial reporting. The Audit Committee also serves as a channel of communication between the Board and the external auditor. External auditor and the Directors are invited to attend the committee meetings as and when necessary.

During the Year Under Review, the Audit Committee had held two meetings and all the members attended the meetings. The work performed by the Audit Committee during the Year Under Review included reviewing the audited consolidated financial statements of the Group for the year ended 31 December 2017, the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2018 and the effectiveness of the internal control practices of the Group. The Audit Committee has also reviewed the audit plan and approach of the external auditor and monitored the progress and results of the audit regularly.

The Audit Committee also carried out corporate governance functions during the Year Under Review, including developing and reviewing the Company's policies and practices on corporate governance and other duties prescribed under code provision D.3.1 of the CG Code.

The Audit Committee has, together with the management of the Company and external independent auditors, reviewed the consolidated financial statements, accounting principles and practices adopted for the Group for the Year Under Review, and agreed with the accounting treatment adopted by the Group.

REMUNERATION COMMITTEE

The Company established a Remuneration Committee (the "Remuneration Committee") on 5 November 2010 and has formulated its written terms of reference, which have from time to time been modified in accordance with the prevailing provisions of the CG Code. The Remuneration Committee has three members, namely Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam, who are Independent Non-executive Directors. Mr. Zhang has been appointed as the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee are (among other things) to review and approve the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management and to make recommendations to the Board on the Group's policy and structure for all remuneration of the Directors and senior management.

During the Year Under Review, the Remuneration Committee had held two meetings and all the members attended the meeting. The work performed by the Remuneration Committee during the Year Under Review included considering the policy for the remuneration of executive directors, the performance of executive directors, and the terms of executive directors' service contracts.

The Remuneration Committee adopted the approach under Code Provision B.1.2(c) (ii) of the CG Code to make recommendation to the Board on the remuneration packages of the individual executive Directors and senior management of the Company.

NOMINATION COMMITTEE

The Company established a Nomination Committee (the "Nomination Committee") on 5 November 2010 and has formulated its written terms of reference, which have from time to time been modified in accordance with the prevailing provisions of the CG Code. The Nomination Committee has three members, namely Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam. Mr. Duan has been appointed as the chairman of the Nomination Committee.

The primary duties of the Nomination Committee are (among other things): reviewing the structure, size and diversity of the Board, making recommendations to the Board on appointment of Directors and succession planning for Directors and assessing the independence of Independent Non-executive Directors.

The Nomination Committee shall assess whether any vacancy on the Board has been created or is expected on a regular basis or as required. In the selection and nomination for new Directors, the Nomination Committee identifies the key attributes that an incoming Director should have, based on attributes of the existing Board and the requirements of the Group. The Nomination Committee utilizes various methods for identifying potential candidates, including recommendations from the members of the Board, management, and professional search firms. All potential candidates are evaluated by the Nomination Committee based on their qualifications. The potential candidates will go through a shortlisting process. Interviews are then set up with the shortlisted candidates for the Nomination Committee to assess them before a decision is made. New Directors are appointed by way of a board resolution, after the Nomination Committee has approved their nominations.

The Nomination Committee has adopted a policy concerning diversity of Board members, which is achieved through consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, industry experience, skills, knowledge and length of service in related business areas and will make recommendations on any proposed changes to the Board to complement the Company's corporate strategy.

The Nomination Committee reviews the Board's nomination policy and diversity policy on a regular basis and discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

During the Year Under Review, the Nomination Committee had held two meetings and all the members attended the meetings. The work performed by the Nomination Committee during the Year Under Review included reviewing the established policy and procedure for the nomination and appointment of new Directors, reviewing the Board's nomination policy and diversity policy and the measurable objectives that the Board has set for implementing such policy and assessing the independence of the Independent Non-executive Directors. The Nomination Committee, having reviewed the structure, size, composition and diversity of the Board including the gender, age, culture and educational background, professional experience and industry experience of each Director vis-a-vis the Group's business strategy as well as the structure for the rotation of Directors, considered that the existing arrangements were appropriate.

BOARD/COMMITTEE MEETINGS AND INDIVIDUAL ATTENDANCE

It is proposed to hold Board meetings at least four times a year regularly. Notice is given to Directors at least fourteen days before a regular Board meeting. Directors will be given reasonable and practicable notification under relevant circumstance for any special Board meeting called.

Before each Board meeting, the Directors are provided with a detailed agenda and sufficient relevant information, so as to enable the Directors to make appropriate decisions in relation to the matters to be discussed therein. All Directors are given an opportunity to include matters of their concern in the agenda of the Board meeting. If any Director or any of his/her associates has material interests in any resolution of the Board meeting, such Director must abstain from voting and should not be counted in the quorum of the meeting.

Details of the attendance records of Directors on Board meetings and board committee meetings for the year ended 31 December 2018 are as follows:

Name of Directors	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Executive Directors					
Mr. Zhao Li Sheng *(Chairman)*	4/4	—	—	—	1/1
Ms. Chan Lok San	4/4	—	—	—	1/1
Mr. Zhou Xuhua	4/4	—	—	—	1/1
Independent Non-executive Directors					
Mr. Duan Jidong	4/4	2/2	2/2	2/2	1/1
Mr. Wong Cheuk Lam	4/4	2/2	2/2	2/2	1/1
Mr. Zhang Jianbin	4/4	2/2	2/2	2/2	1/1

TRAINING AND SUPPORT OF DIRECTORS

All Directors have been given relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group. All Directors have been updated on the latest developments regarding the Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices. There is a procedure agreed by the Board to ensure the Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses.

The Directors confirmed that they have complied with Code Provision A.6.5 of the CG Code on Directors' training and have provided a record of the training they received to the Company. All Directors have participated in continuous professional development by the following means to develop and refresh their knowledge.

Name of Directors	Training received
Mr. Zhao Li Sheng	— Reading materials/attending external and in house seminars and programmes
Ms. Chan Lok San	— Reading materials/attending external and in house seminars and programmes
Mr. Zhou Xuhua	— Reading materials/attending external and in house seminars and programmes
Mr. Duan Jidong	— Reading materials/attending external and in house seminars and programmes
Mr. Wong Cheuk Lam	— Reading materials/attending external and in house seminars and programmes
Mr. Zhang Jianbin	— Reading materials/attending external and in house seminars and programmes

RESPONSIBILITIES OF THE DIRECTORS AND EXTERNAL AUDITORS

The Directors are responsible for the preparation of the consolidated financial statements of the Group in accordance with the relevant laws and disclosure stipulations of the Listing Rules and ensuring that these consolidated financial statements give a true and fair view of the state of affairs of the Group, its results and cash flows for the relevant period. The Board also ensures the timely publication of the consolidated financial statements of the Group. The Board confirms that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt about the Company's ability to continue as a going concern.

The responsibilities of the external auditors are to express an independent opinion on the consolidated financial statements prepared by the Directors based on their audit and to report their opinion solely to all the Shareholders, and for no other purpose. The statement of external auditor of the Company, Crowe Horwath (HK) CPA Limited, about their reporting responsibilities on the consolidated financial statements of the Group is set out in the "Independent Auditor's Report" of this report.

REMUNERATION OF EXTERNAL AUDITORS

For the year ended 31 December 2018, the remuneration paid to the external auditors in Hong Kong and the PRC, for audit services totaled approximately RMB1,400,000 (equivalent to approximately HK$1,658,000).

For the year ended 31 December 2018, the total remuneration for the permissible non-audit services provided by the external auditors amounted to RMB400,000 (equivalent to approximately HK$473,000).

INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL COMPLIANCE GUIDELINES

The Board has to be fully responsible for the stability and effectiveness of the systems of internal control and risk management of the Group. Such systems were set up by the Group to fulfill specific needs of the Group and the risks that its management faces. The Group has set up rigorous procedures to avoid unauthorised use or disposal of the Group's assets, ensure proper maintenance of accounting records, and provide reliable financial information for internal and external uses.

The Board has assigned internal audit department to conduct a review on the internal control system, work flow and risk management system of the Group. The result was satisfactory. Such systems and work flow are compliant with the internal compliance guidelines of the Group.

For the year ended 31 December 2018, through reviews conducted by the Audit Committee and study results from internal audit department, the Board has conducted a review on the effectiveness of internal control system, the risk management system and the internal compliance guidelines, and has come to the conclusion that such systems and guidelines have been effectively and adequately executed and followed.

CORPORATE GOVERNANCE MEASURES

During the Year Under Review, since no new opportunities relating to the Restricted Activity (as defined in the Company's prospectus dated 12 November 2010, the "Prospectus") were referred to the Group, the Independent Non-executive Directors had not reviewed any decision in relation to new opportunities referred to the Group.

The Independent Non-executive Directors had, however, reviewed the compliance with the non-competition undertaking entered into by Golden Land International Limited ("Golden Land"), Mr. Zhao Li Sheng ("Mr. Zhao"), Golden Morning International Limited ("Golden Morning") and Ms. Chan Lok San ("Ms. Chan"), the controlling shareholders of the Company (the "Controlling Shareholders"), in favour of the Company under the Deed of Non-Competition (as defined in the Prospectus), the options, pre-emptive rights or first rights of refusals, if any, provided by the Controlling Shareholders on its existing or future competing businesses. The Independent Non-executive Directors confirmed that the terms of the Deed of Non-Competition were complied with by the Controlling Shareholders during the Year Under Review. The Independent Non-executive Directors are not aware of any breach of the terms of the Deed of Non-Competition by the Controlling Shareholders and therefore, no enforcement action was taken against the Controlling Shareholders by the Company during the Year Under Review.

Each of the Controlling Shareholders has confirmed that he/she/it has, during the Year Under Review, complied with the non-competition undertaking under the Deed of Non-Competition.

DIRECTORS' INSURANCE

The Company has arranged appropriate insurance cover in respect of the legal action against the Directors.

COMPANY SECRETARY

Mr. Chan Hon Wan was appointed as the Company Secretary on 25 June 2009. He is an employee of the Company and has day-to-day knowledge of the Company's affairs. He is responsible for ensuring a good information flow within the Board and the compliance of the board policy and procedures.

During the Year Under Review, Mr. Chan has confirmed that he has duly complied with the relevant requirement under Rule 3.29 of the Listing Rules and taken no less than 15 hours of relevant professional training. His biographical details are set out in the paragraph headed "Directors' and Senior Management's Biographies" in this report.

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to convene and putting forward proposals at an extraordinary general meeting

Extraordinary general meetings shall be convened on the written requisition of any one or more Shareholder(s) holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. Such requisition shall be made in writing to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself/themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for directing Shareholders' enquiries to the Board

Shareholders may at any time send their enquires and concerns to the Board in writing through the company secretary of the Company by mail to Rooms 1906-1907, 19th Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong, or by e-mail to kingw@ kingworld.com.cn.

Shareholders may also make enquiries with the Board at the general meetings of the Company.

INVESTOR RELATIONS

The Company believes that maintaining effective communication with the investors is crucial so as to let them have a deeper understanding of the Company's business and its development. To achieve this goal and increase transparency, the Company will continue to adopt proactive measures to foster better investor relations and communications. As such, the Company has formulated investor relations policies for the purpose of letting investors have access to information of the Group in a fair and timely manner, so that they can make an informed decision.

We welcome investors to write to the Company or send their inquiries to the Company's website www.kingworld.com.cn to share their opinions with the Board. The Company's website also discloses the latest business information of the Group to investors and the public.

On behalf of the Board
Kingworld Medicines Group Limited
Mr. Zhao Li Sheng
Chairman of the Board

Hong Kong, 27 March 2019

Report of the Directors

The Directors have pleasure in presenting the annual report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2018 (the "Financial Statements").

PRINCIPAL BUSINESS

The Company is an investment holding company. The Group is principally engaged in (i) distribution of imported branded pharmaceutical and healthcare products in the PRC; and (ii) maunfacturing and sales of electrotherapeutic, physiotherapeutic devices and general medical examination devices. As at 31 December 2018, the Group managed a portfolio of eleven categories with more than sixty products including pharmaceutical products, healthcare products, general foodstuffs and medical products from fourteen suppliers and/or manufacturers in Japan, United States, Canada, Hong Kong, Taiwan, Thailand and the PRC. Many of the products distributed by the Group are established brand names including Nin Jiom Chuan Bei Pei Pa Koa, Taiko Seirogan, Kawai Product Range, Flying Eagle Wood Lok Medicated Oil, Kyushin Pill and Mentholatum Product Series. Amongst these brands, "Nin Jiom" has always been the best-seller of the Group. Nin Jiom Chuan Bei Pei Pa Koa is also the best-selling Chinese medical cough relieving product in the PRC, which is the leading product with the largest market share.

RESULTS AND DIVIDENDS

Profit of the Group for the year ended 31 December 2018 and the state of affairs of the Company and the Group as at that date are set out in the Financial Statements on pages 74 to 184.

To extend the Company's gratitude for the support of the Shareholders, the Board has recommended the distribution of a final dividend for the year ended 31 December 2018 of HK2.25 cents per share to Shareholders whose names appear on the register of members of the Company on Wednesday, 5 June 2019, amounting to approximately HK$14,006,000, subject to the approval from the Company's forthcoming annual general meeting to be held on Monday, 27 May 2019. Total dividend payout ratio is approximately 30.0% of the profit for the year attributable to owners of the Company. The above-mentioned final dividend is expected to be paid on or before Friday, 28 June 2019.

POLICY ON PAYMENT OF DIVIDENDS

The Company has adopted a policy on payment of dividends (the "Dividend Policy"), which establishes an appropriate procedure on declaring and recommending the dividend payment of the Company.

The Company will declare and/or recommend the payment of dividends to the Shareholders after considering the Company's ability to pay dividends, which will depend upon, among other things, its actual and expected financial results, cash flow, general business conditions and strategies, current and future operations, statutory, contractual and regulatory restrictions. The Board has complete discretion on whether to pay a dividend, subject to the Shareholders' approval, where applicable. Even if the Board decides to recommend and pay dividends, the form, frequency and amount will depend upon the operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors affecting the Group. The Board may also consider declaring special dividends from time to time, in addition to the interim and/or final dividends.

The Company shall review and reassess the Dividend Policy and its effectiveness on a regular basis or as required.

CLOSURE OF THE REGISTER OF MEMBERS

To be eligible to attend and vote in the forthcoming annual general meeting

The register of members of the Company will be closed from Tuesday, 21 May 2019 to Monday, 27 May 2019 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for attending and voting at the forthcoming annual general meeting, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Monday, 20 May 2019.

To qualify for the proposed final dividends

The register of members of the Company will be closed from Monday, 3 June 2019 to Wednesday, 5 June 2019 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for receiving the proposed final dividends, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Friday, 31 May 2019.

BUSINESS REVIEW

A review of the business of the Group for the Year Under Review and a discussion on the Group's future business development are provided in the "Management Discussion and Analysis" on pages 9 to 31. An analysis of the Group's performance during the Year Under Review using financial key performance indicators is provided in the five-year "Financial Summary" on page 185. No important event affecting the Group has occurred since the end of the Year Under Review.

ENVIRONMENTAL POLICY

The Group is committed to supporting the environmental sustainability. Our commitment to protect the environment is well reflected by our continuous efforts in promoting green measures and awareness in our daily business operations. The Group encourages environmental protection and promote awareness towards environmental protection to the employees. The Group adheres to the principle of recycling and reducing. It implements green office practices such as double-sided printing and copying, setting up recycling bins, promoting using recycled paper and reducing energy consumption by switching off idle lightings and electrical appliance.

The Group will review its environmental practices from time to time and will consider implementing further eco-friendly measures and practices in the operation of the Group's businesses to move towards adhering the 3Rs – Reduce, Recycle and Reuse and enhance environmental sustainability.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the Year Under Review, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

RELATIONSHIPS WITH STAKEHOLDERS

The Company recognizes that employees are the valuable assets. Thus the Group provides competitive remuneration package to attract and motivate the employees. The Group regularly reviews the remuneration package of employees and makes necessary adjustments to conform to the market standard.

The Group also understands that it is important to maintain good relationship with business partners and bank enterprises to achieve its long-term goals. Accordingly, our senior management have kept good communication, promptly exchanged ideas and shared business update with them when appropriate. During the Year Under Review, there was no material and significant dispute between the Group and its business partners or bank enterprises.

KEY RISKS AND UNCERTAINTIES

The Group's financial condition, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to the Group's businesses. The followings are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

Market Risk

Market risk is the risk that deteriorates profitability or affects ability to meet business objectives arising from the movement in market prices. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign exchange risk

RMB and HK$ are the functional and operational currencies of the Group. The Group faces foreign exchange risk arising from the fluctuations in RMB and HK$. The Group has no major risks in changes in other currency exchange rates.

Liquidity Risk

Liquidity risk is the potential that the Group will be unable to meet its obligations when they fall due because of an inability to obtain adequate funding or liquidate assets. In managing liquidity risk, the Group monitors cash flows and maintains an adequate level of cash and cash equivalents to ensure the ability to finance the Group's operations and reduce the effects of fluctuation in cash flows.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels.

Key functions in the Group are guided by their standard operating procedures, limits of authority and reporting framework. Our management will identify and assess key operational exposures regularly so that appropriate risk response can be taken.

LITIGATION AND CONTINGENT LIABILITIES

As disclosed on page 29 of this report, except for a claim filed by the Plaintiff against the Substantial Shareholder and Dong Di Xin and the Appeal to the Court against the Judgment, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

As disclosed in the 2016 Annual Report, the Judgment will not have any material adverse impact on the Group's ordinary operations and financial positions as the Company will not bear any liability or any significant litigation fee and there will be no dilutive effect on the Group's holding in the equity interest in Dong Di Xin. As disclosed in the announcement of the Company dated 10 August 2018, the Intermediate Court set aside the Judgment of the Court and ruled the case to be returned to the Court for re-trial.

As at the date of this report, the re-trial of the case has not been commenced. The re-trial of the case is expected to commence on 30 April 2019. The Company will keep the Shareholders and the public informed of any material progress on the case by way of further announcement(s) as and when appropriate according to the Listing Rules.

USE OF PROCEEDS FROM THE LISTING OF THE COMPANY

The net proceeds from the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 25 November 2010, after deduction of related expenses, was approximately HK$241,862,000 (equivalent to approximately RMB206,167,000). As at 31 December 2018, the Group had used net proceeds of approximately RMB136,920,000, of which RMB6,000,000 had been applied for upgrading the transportation and delivery services to customers, RMB15,760,000 had been applied for expanding the product display booth scheme, approximately RMB20,600,000 was used as working capital and approximately RMB94,560,000 has been applied for acquisition of Dong Di Xin. The remaining net proceeds are intended to be applied in accordance with the proposed application set forth in the Prospectus.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants, including directors, eligible employees, consultants, suppliers, customers, and shareholders of any member of the Group or associated company or any of their respective associates, who contributed to the success of the Group. The Share Option Scheme was conditionally approved by a written resolution of the shareholders of the Company dated 5 November 2010. Details of the Share Option Scheme are set out in the Prospectus.

The principal terms of the Share Option Scheme are summarised as follows:

(a) The maximum number of the Company's shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company must not exceed 10% of the nominal amount of all issued shares of the Company as at the Listing Date (i.e. 25 November 2010, the "Listing Date") (which were 600,000,000 shares) unless shareholders' approval has been obtained, and which must not in aggregate exceed 30% of the shares of the Company in issue from time to time.

    As at the date of this report, the total number of shares available for issue under the Share Option Scheme is 60,000,000 shares, which represents 10% of the issued shares as at the Listing Date and approximately 9.64% of the issued shares of the Company as at the date of this report.

(b) The total number of shares issued and to be issued upon the exercise of options granted to each participant (including both exercised and outstanding options) under the Share Option Scheme and any other share option schemes of the Company in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue.

(c) The subscription price of a share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to the relevant participant and shall be at least the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a business day; (ii) the average of the closing prices of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of the Company's shares on the date of grant of the option.

(d) An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine, which shall not exceed 10 years from the date of grant subject to the provisions of early termination thereof.

(e) An offer for the grant of options must be accepted within 7 days inclusive of the day on which such offer was made and must be accepted in its entirety and any number of shares which is less than what has been offered under any circumstances shall not be accepted. The amount payable by the grantee of an option to the Company on acceptance for the grant of an option is HK$1.

(f) Any grant of an option to a director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by the Independent Non-executive Directors (excluding any Independent Non-executive Director who is the grantee of the option).

(g) The Share Option Scheme shall be valid and effective commencing on the date of adoption of the Share Option Scheme, (i.e. 5 November 2010), and expiring at the close of business on the business day immediately preceding the tenth anniversary thereof.

A summary of share options granted under the Share Option Scheme of the Company during the year ended 31 December 2018 is as follows:

Grantees	Position held with the Group and/or relationship with the Group	Date of grant	Option Period (Note 3)	Exercise Price per Share (HK$) (Note 4)	Number of Share Options: Outstanding as at 1 January 2018	Granted during the Year	Cancelled during the Year	Lapsed during the Year	Outstanding as at 31 December 2018	Approximate percentage of the Company's total issued share capital
Zhao Li Sheng (Note 1)	Chairman/Executive Director	1 June 2015	1 June 2015 to 31 May 2019	2.54	364,000	–	–	(156,000)	208,000	0.0334%
		23 April 2018	23 April 2018 to 22 April 2024	1.26	–	468,000	–	–	468,000	0.0751%
Chan Lok San (Note 2)	Executive Director	1 June 2015	1 June 2015 to 31 May 2019	2.54	328,000	–	–	(140,000)	188,000	0.0302%
		23 April 2018	23 April 2018 to 22 April 2024	1.26	–	416,000	–	–	416,000	0.0668%
Zhou Xuhua	Executive Director	1 June 2015	1 June 2015 to 31 May 2019	2.54	328,000	–	–	(140,000)	188,000	0.0302%
		23 April 2018	23 April 2018 to 22 April 2024	1.26	–	416,000	–	–	416,000	0.0668%
DuanJidong	Independent non-executive Director	1 June 2015	1 June 2015 to 31 May 2019	2.54	288,000	–	–	(124,000)	164,000	0.0263%
		23 April 2018	23 April 2018 to 22 April 2024	1.26	–	372,000	–	–	372,000	0.0597%
Zhang Jianbin	Independent non-executive Director	1 June 2015	1 June 2015 to 31 May 2019	2.54	288,000	–	–	(124,000)	164,000	0.0263%
		23 April 2018	23 April 2018 to 22 April 2024	1.26	–	372,000	–	–	372,000	0.0597%
Wong Cheuk Lam	Independent non-executive Director	1 June 2015	1 June 2015 to 31 May 2019	2.54	288,000	–	–	(124,000)	164,000	0.0263%
		23 April 2018	23 April 2018 to 22 April 2024	1.26	–	372,000	–	–	372,000	0.0597%

Grantees	Position held with the Group and/or relationship with the Group	Date of grant	Option Period (Note 3)	Exercise Price per Share (HK$) (Note 4)	Number of Share Options: Outstanding as at 1 January 2018	Granted during the Year	Cancelled during the Year	Lapsed during the Year	Outstanding as at 31 December 2018	Approximate percentage of the Company's total issued share capital
Sub-total of Share Options granted to Directors					**1,884,000**	**2,416,000**	**—**	**(808,000)**	**3,492,000**	**0.5605%**
57 Employees	Employees of the Group	1 June 2015	1 June 2015 to 31 May 2019	2.54	8,265,000	—	—	(4,971,000)	3,294,000	0.5291%
97 Employees	Employees of the Group	23 April 2018	23 April 2018 to 22 April 2024	1.26	—	19,992,000	—	—	19,992,000	3.2115%
Sub-total of Share Options granted to Directors and Employees					**16,340,000**	**—**	**—**	**(6,191,000)**	**10,149,000**	**1.63%**
Hong Kong Zhixin Financial News Agency Ltd. (香港智信財經通訊社有限公司) ("Hong Kong Zhixin") (Note 5)	Consultant of the Group	9 October 2015	9 October 2015 to 8 October 2018	2.54	6,200,000	—	—	—	6,200,000	0.9959%
Total					**16,349,000**	**22,408,000**	**—**	**(5,779,000)**	**32,978,000**	**5,2970%**

Note 1: Zhao Li Sheng is also a substantial shareholder of the Company through his beneficial Interest, interests of spouse and controlled corporation.

Note 2: Chan Lok San (being the spouse of Zhao Li Sheng) is also a substantial shareholderof the Company through interests of spouse and controlled corporation.

Note 3: The vesting and exercise of certain Share Options are subject to the terms of the Share Option Scheme and the performance target(s) and terms set out in the respective letters of grant.

Note 4: The closing price of the Share on the date of grant of Share Options on 1 June 2015 and 23 April 2018 was HK$2.45 and HK$1.26, respectively.

Note 5: On 9 October 2015, the Company entered into a service contract with Hong Kong Zhixin pursuant to which the Company has agreed to appoint Hong Kong Zhixin as a public relations consultant of the Company in Hong Kong and Mainland China for the provision of the services for a term of three years. In consideration of the provision of the services by Hong Kong Zhixin, the Company has agreed to (i) pay HK$30,000 per month to Hong Kong Zhixin during the term of the service, and (ii) grant Share Options to Hong Kong Zhixin or its nominees to subscribe for an aggregate of 6,200,000 new Shares under the Share Option Scheme at the exercise price of HK$2.54 per share.

BORROWINGS

Details of the Group's bank borrowings as at 31 December 2018 are set out in Note 27 to the Financial Statements.

EQUITY-LINKED AGREEMENTS

Other than the Share Option Scheme of the Company as disclosed above, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the Year Under Review or subsisted at the end of the year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save as disclosed in this report, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company, the Company's subsidiaries or holding companies, or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the Year Under Review.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's articles of association of the Company, each Director or other officers of the Company shall be indemnified out of the assets and profits of the Company against all losses or liabilities which he or she may sustain or incur in or about the execution of the duties of his or her office or otherwise in relation thereto. In addition, the Company has maintained appropriate directors and officers liability insurance in respect of relevant legal actions against the Directors.

GOING CONCERN

Based on the current financial position and the available financing facilities, the Group has sufficient financial resources for ongoing operation in the foreseeable future. As such, the Financial Statements were prepared on a "going concern" basis.

PUBLIC FLOAT

According to the information disclosed publicly and as far as the Directors are aware, during the Year Under Review and up to the date of this report, at least 25% of the issued shares of the Company was held by public shareholders.

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

For the year ended 31 December 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 29 to the Financial Statements.

RESERVES

Details of change in reserves of the Group and the Company are set out on page 78 of the Consolidated Statement of Changes in Equity and Note 31 to the Financial Statements.

DISTRIBUTABLE RESERVES

Under the Companies Law of the Cayman Islands, the funds in the share premium account and contributed surplus account of the Company are distributable to the owners of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

As at 31 December 2018, the aggregate amount of reserves available for distribution to owners of the Company was approximately RMB71,918,000 (2017: approximately RMB109,238,000). After the end of the Year Under Review, the Directors proposed a final dividend of HK2.25 cents (equivalent to RMB1.98 cents) (2017: HK3.43 cents, equivalent to RMB2.87 cents) per share amounting to approximately RMB12,326,000 (2017: approximately RMB17,866,000). The proposed final dividend has not been recognised as a liability at the end of the Year Under Review.

CHARITY DONATIONS

Charity donations made by the Group during the Year Under Review was approximately RMB6,269,000 (2017: approximately RMB5,400,000).

PROPERTY, PLANT AND EQUIPMENT

Details of changes in property, plant and equipment of the Group are set out in Note 13 to the Financial Statements.

INVESTMENT PROPERTIES

The Group's investment properties were revalued as at 31 December 2018. Increase in fair value of investment properties due to revaluation amounted to approximately RMB122,600,000, which has been included in the Consolidated Statement of Profit or Loss. Details of changes in the Group's investment properties for the year ended 31 December 2018 are set out in Note 14 of the Financial Statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the terms of the Company's Articles of Association or the laws in the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to its existing Shareholders.

SUBSIDIARY COMPANIES

Details of the major subsidiary companies of the Company as at 31 December 2018 are set out in Note 15 to the Financial Statements.

DIRECTORS

The Directors of the Company during the year ended 31 December 2018 and up to the date of this report have been:

Executive Directors

Mr. Zhao Li Sheng *(Chairman)*
Ms. Chan Lok San
Mr. Zhou Xuhua

Independent Non-executive Directors

Mr. Duan Jidong
Mr. Wong Cheuk Lam
Mr. Zhang Jianbin

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Company are set out in pages 32 to 36 under the section headed "Directors' and Senior Management's Biographies" in this report.

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company confirmed that it has received from each Independent Non-executive Director a written annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers, based on the confirmations received, the Independent Non-executive Directors remain independent.

REMUNERATIONS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

The Remuneration Committee considers and makes recommendation to the Board on the remuneration and other benefits payable to the Directors. The committee regularly oversees the remuneration of all Directors to ensure that their remuneration and compensation are at appropriate level. The Group maintains competitive remuneration packages with reference to the industry standard and according to the business development of the Group to attract and retain its Directors as well as to control costs.

The Board determines the remuneration of the Directors on the basis of the Company's performance, together with the relevant Directors' qualifications, responsibilities, experience, contributions and positions held with the Company. Details of the remuneration of the Directors are set out in Note 11 to the Financial Statements.

The five highest paid individuals of the Group in the Year Under Review include 3 (2017: 3) Directors. Details of the five highest paid individuals are set out in Note 12 to the Financial Statements.

SERVICE CONTRACTS OF DIRECTORS

Executive Directors

Each of the Executive Directors has entered into a service contract with the Company for a term of three years commencing from the Listing Date and may be terminated by not less than three months' prior notice in writing served by either party to the other. Subject to the retirement and re-election at the annual general meeting of the Company in accordance with (inter alia) the Articles of Association, the latest service contract was renewed on 25 November 2016 until being terminated pursuant to the terms of the service contract.

For the Year Under Review, the annual remuneration payable to each of the Executive Directors was as follows:

	RMB'000
Mr. Zhao Li Sheng	1,247
Ms. Chan Lok San	1,044
Mr. Zhou Xuhua	1,194

Under their respective service contracts, each of the Executive Directors is entitled to a discretionary year-end bonus of an amount to be determined by the Remuneration Committee and approved by the Board.

Each of the Executive Directors will also be entitled to reimbursement of reasonable expenses including traveling, hotel, entertainment and other expenses properly incurred in the performance of his or her duties under the relevant service contract.

Independent Non-executive Directors

Each of the Independent Non-executive Directors (other than Mr. Zhang Jianbin) has signed a letter of appointment with the Company for a term of three years commencing on the Listing Date and may be terminated by giving three months' notice in writing thereof by either party to the other. Subject to the retirement and re-election at the annual general meeting of the Company in accordance with (inter alia) the Articles of Association, the latest letter of appointment was renewed on 25 November 2016 until being terminated pursuant to the terms of the letter of appointment. Mr. Zhang Jianbin has signed a letter of appointment with the Company for a term of three years commencing from 1 August 2013, which may be terminated by giving three months' notice in writing by either party to the other. Subject to the retirement and re-election at the annual general meeting of the Company in accordance with (inter alia) the Articles of Association, the letter of appointment was renewed on 1 August 2016 until being terminated pursuant to the terms of the letter of appointment.

For the Year Under Review, the annual remuneration payable to each of the Independent Non-executive Directors was as follows:

	RMB'000
Mr. Duan Jidong	156
Mr. Wong Cheuk Lam	156
Mr. Zhang Jianbin	156

Each of the Independent Non-executive Directors will also be entitled to reimbursement of traveling expenses properly incurred in the performance of his/her duties under the relevant appointment letter.

Save as disclosed above, none of the Directors has entered or is proposed to enter into any service agreements with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed under the paragraph headed "Continuing Connected Transactions", during the year ended 31 December 2018, no Director is considered to have interests in the businesses which compete or are likely to compete directly or indirectly with the businesses of the Group.

DISCLOSURE OF INTERESTS

(a) Interests and Short Positions of Directors and Chief Executive in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 31 December 2018, the interests and short positions held by the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required (i) 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 (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

(I) Interest in the shares in the Company:

Name of Directors	Capacity/Nature of Interest	Number of shares in the Company held	Approximate percentage of the Company's total issued share capital
Zhao Li Sheng (Note 1)	Beneficial owner	16,876,000	2.71%
	Interest of spouse	90,744,000	14.58%
	Interest of a controlled corporation	297,812,250	47.84%
Chan Lok San (Note 2)	Beneficial owner	744,000	0.12%
	Interest of spouse	314,688,250	50.55%
	Interest of a controlled corporation	90,000,000	14.46%
Zhou Xuhua (Note 3)	Beneficial owner	744,000	0.12%
	Interest of spouse	3,800,000	0.61%
Duan Jidong (Note 4)	Beneficial owner	660,000	0.11%
Wong Cheuk Lam (Note 4)	Beneficial owner	660,000	0.11%
Zhang Jianbin (Note 4)	Beneficial owner	660,000	0.11%

Notes:

1. In addition to 16,876,000 shares which are beneficially owned by Mr. Zhao Li Sheng ("Mr. Zhao"), Mr. Zhao is deemed (by virtue of the SFO) to be interested in 388,556,250 shares in the Company. These shares are held in the following capacities:

    (a) 297,812,250 shares are held by Golden Land International Limited ("Golden Land"). Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Mr. Zhao is deemed to be interested in the 297,812,250 shares held by Golden Land. Mr. Zhao is also the sole director of Golden Land.

    (b) 744,000 shares are held by Ms. Chan Lok San ("Ms. Chan"), the spouse of Mr. Zhao, in her own name and 90,000,000 shares are held by Golden Morning International Limited ("Golden Morning"). Ms. Chan, is the beneficial owner of the entire issued share capital of Golden Morning, therefore, Mr. Zhao is also deemed to be interested in the 744,000 shares held by Ms. Chan and 90,000,000 shares held by Golden Morning.

2. Ms. Chan Lok San is deemed (by virtue of the SFO) to be interested in 405,432,250 shares in the Company. These shares are held in the following capacities:

    (a) 744,000 shares are held by Ms. Chan in her own name and 90,000,000 shares are held by Golden Morning. Ms. Chan is the beneficial owner of the entire issued share capital of Golden Morning, therefore, Ms. Chan is deemed to be interested in the 90,000,000 shares held by Golden Morning. Ms. Chan is also the sole director of Golden Morning.

    (b) 16,876,000 shares are held by Mr. Zhao Li Sheng, the spouse of Ms. Chan, in his own name and 297,812,250 shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Ms. Chan is also deemed to be interested in the 16,876,000 shares held by Mr. Zhao and the 297,812,250 shares held by Golden Land.

3. 744,000 shares are held by Mr. Zhou Xuhua ("Mr. Zhou"), in his own name and Mr. Zhou is also deemed (by virtue of the SFO) to be interested in 3,800,000 shares in the Company held by his spouse, Huang Xiaoli.

4. Interests in options granted pursuant to the Share Option Scheme.

(II) Long positions in the underlying shares – share options under share option scheme

Name of Directors	Date of grant	Option Period (Note 3)	Exercise Price per Share (HK$) (Note 4)	Number of Share Options: Outstanding as at 1 January 2018	Granted during the Year	Cancelled during the Year	Lapsed during the Year	Outstanding as at 31 December 2018	Approximate percentage of the Company's total issued share capital
Zhao Li Sheng (Note 1)	1 June 2015	1 June 2015 to 31 May 2019	2.54	364,000	–	–	(156,000)	208,000	0.0334%
	23 April 2018	23 April 2018 to 22 April 2024	1.26	–	468,000	–	–	468,000	0.0751%
Chan Lok San (Note 2)	1 June 2015	1 June 2015 to 31 May 2019	2.54	328,000	–	–	(140,000)	188,000	0.0302%
	23 April 2018	23 April 2018 to 22 April 2024	1.26	–	416,000	–	–	416,000	0.0668%
Zhou Xuhua	1 June 2015	1 June 2015 to 31 May 2019	2.54	328,000	–	–	(140,000)	188,000	0.0302%
	23 April 2018	23 April 2018 to 22 April 2024	1.26	–	416,000	–	–	416,000	0.0668%
Duan Jidong	1 June 2015	1 June 2015 to 31 May 2019	2.54	288,000	–	–	(124,000)	164,000	0.0263%
	23 April 2018	23 April 2018 to 22 April 2024	1.26	–	372,000	–	–	372,000	0.0597%
Zhang Jianbin	1 June 2015	1 June 2015 to 31 May 2019	2.54	288,000	–	–	(124,000)	164,000	0.0263%
	23 April 2018	23 April 2018 to 22 April 2024	1.26	–	372,000	–	–	372,000	0.0597%
Wong Cheuk Lam	1 June 2015	1 June 2015 to 31 May 2019	2.54	288,000	–	–	(124,000)	164,000	0.0263%
	23 April 2018	23 April 2018 to 22 April 2024	1.26	–	372,000	–	–	372,000	0.0597%
Total				**1,884,000**	**2,416,000**	**–**	**(808,000)**	**3,492,000**	0.5605%

Note 1: Zhao Li Sheng is also a substantial shareholder of the Company through his beneficial interest, interests of spouse and controlled corporation.

Note 2: Chan Lok San (being the spouse of Zhao Li Sheng) is also a substantial shareholder of the Company through interests of spouse and controlled corporation.

Note 3: The vesting and exercise of certain Share Options are subject to the terms of the Share Option Scheme and the performance target(s) and terms set out in the respective letters of grant.

Note 4: The closing price of the Share on the date of grant of Share Options on 1 June 2015 and 23 April 2018 was HK$2.45 and HK$1.26, respectively.

(III) Interests in the shares of the associated corporations of the Company

Name of Directors	Name of associated corporations	Capacity/Nature of Interest	Percentage of shareholding
Zhao Li Sheng	Golden Land	Beneficial owner	100%
Chan Lok San	Golden Morning	Beneficial owner	100%

As at 31 December 2018, save as disclosed above, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

Save as disclosed above, as at 31 December 2018, none of the Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(b) *Substantial Shareholders' Interests and Short Positions in the Shares and Underlying Shares of the Company*

As at 31 December 2018, so far as was known to the Directors, the interests or short positions held by the following persons (other than the Directors) in the shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or the interests or short positions recorded in the register kept by the Company under section 336 of the SFO were as follows:

Interests in the Shares

Name of Shareholders	Capacity/Nature of Interest	Number of shares in the Company held	Approximate percentage of the Company's total issued share capital
Golden Land	Beneficial owner	297,812,250	47.84%
Golden Morning	Beneficial owner	90,000,000	14.46%
Zhao Li Sheng (Note 1)	Beneficial owner	16,876,000	2.71%
	Interest of spouse	90,744,000	14.58%
	Interest of a controlled corporation	297,812,250	47.84%
Chan Lok San (Note 2)	Beneficial owner	744,000	0.12%
	Interest of spouse	314,688,250	50.55%
	Interest of a controlled corporation	90,000,000	14.46%
Sinopharm Healthcare Fund L.P. (Note 3)	Beneficial owner	62,187,750	9.99%
Sinopharm Capital Limited (Note 4)	Interest of a controlled corporation	62,187,750	9.99%
Sun Hill Capital Investments Limited (Note 5)	Interest of a controlled corporation	62,187,750	9.99%
Wu Aimin (Note 6)	Interest of a controlled corporation	62,187,750	9.99%

Notes:

1. In addition to 16,876,000 shares which are beneficially owned by Mr. Zhao Li Sheng, Mr. Zhao is deemed (by virtue of the SFO) to be interested in 388,556,250 shares in the Company. These shares are held in the following capacities:

    (a) 297,812,250 shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Mr. Zhao is deemed to be interested in the 297,812,250 shares held by Golden Land. Mr. Zhao is also the sole director of Golden Land.

    (b) 744,000 shares are held by Ms. Chan, the spouse of Mr. Zhao, in her own name and 90,000,000 shares are held by Golden Morning. Ms. Chan is the beneficial owner of the entire Issued share capital of Golden Morning, therefore, Mr. Zhao is also deemed to be interested in the 744,000 shares held by Ms. Chan and 90,000,000 shares held by Golden Morning.

2. Ms. Chan is deemed (by virtue of the SFO) to be interested in 405,432,250 shares in the Company. These shares are held in the following capacities:

   (a) 744,000 shares are held by Ms. Chan in her own name and 90,000,000 shares are held by Golden Morning. Ms. Chan is the beneficial owner of the entire issued share capital of Golden Morning, therefore, Ms. Chan is deemed to be interested in the 90,000,000 shares held by Golden Morning. Ms. Chan is also the sole director of Golden Morning.

   (b) 16,876,000 shares are held by Zhao Li Sheng, the spouse of Ms. Chan, in his own name and 297,812,250 shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Ms. Chan is also deemed to be interested in the 16,876,000 shares held by Mr. Zhao and the 297,812,250 shares held by Golden Land.

3. Pursuant to the share purchase agreement entered into between Golden Land and Sinopharm Capital dated 16 September 2014 (as supplemented by the supplemental agreements dated 7 November 2014 and 15 December 2014), Sinopharm Capital designated Sinopharm Healthcare Fund L.P. as its nominee to acquire 62,187,750 shares of the Company from Golden Land for a consideration of HK$133,703,662.5.

4. The corporate substantial shareholder notice filed by Sinopharm Capital Limited indicated that it controlled 1.64% interest in Sinopharm Healthcare Fund L.P.

5. The corporate substantial shareholder notice filed by Sun Hill Capital Investments Limited indicated that it controlled 100% interest in Sinopharm Capital Limited and indirectly controlled 1.91% interest in Sinopharm Healthcare Fund L.P., 100% interest in Shine Light Fund Management Limited and 0.11% interest in Shine Light Investment Fund.

6. The individual substantial shareholder notice filed by Wu Aimin indicated that he controlled 70% interest in Sun Hill Capital Investments Limited, which in turn controlled 100% interest in Sinopharm Capital Limited, which in turn controlled 1.64% interest in Sinopharm Healthcare Fund L.P..

Save as disclosed above, to the best knowledge of the Directors of the Company, as at 31 December 2018, no person (other than the Directors) had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or any interest or short positions recorded in the register kept by the Company under section 336 of the SFO.

DIRECTORS' RIGHTS IN ACQUIRING SHARES AND DEBENTURES

Save as disclosed in the paragraph headed "Share Option Scheme" in this report, at no time during the Year Under Review, the Company or any of its subsidiaries had no arrangements to enable the Directors or executives (including their spouse and children under 18 years of age) of the Company to have the rights to acquire securities of the Company or its associated companies (as defined in the SFO), or to acquire benefits by means of acquisition of securities of the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the paragraph headed "Continuing Connected Transactions", as at 31 December 2018 and during any time for the year ended 31 December 2018, there was no contract of significance (as defined in Appendix 16 to the Listing Rules) subsisting in which a Director is or was materially interested, whether directly or indirectly.

Save as disclosed under the paragraph headed "Continuing Connected Transactions", as at 31 December 2018 and during any time for the year ended 31 December 2018, there was no contract of significance in relation to the Company's business subsisting to which the Company, its subsidiary, its holding company or a subsidiary of its holding company was a party and in which a Director has or had, or at any time during that period, in any way, whether directly or indirectly, a material interest.

Save as disclosed under the paragraph headed "Continuing Connected Transactions", as at 31 December 2018 and during any time for the year ended 31 December 2018, none of the Directors was in any way, directly or indirectly, materially interested in any contract of significance entered into or proposed to be entered into with the Company in relation to the Company's business.

MANAGEMENT CONTRACTS

There was no contracts concerning the management or administration of the whole or any substantial part of the business of the Company which was entered into or existed during the Year Under Review.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2018, the Group entered into various transactions with certain individuals and entities that are regarded as connected persons of the Company (as defined under Chapter 14A of the Listing Rules). Details of these individuals and entities are set out in Note 36 to the Financial Statements.

The recurring related party transactions set out in Note 36 to the Financial Statements fall within the definition of "continuing connected transaction" under Chapter 14A of the Listing Rules while the key management remuneration set out in Note 11 to the Financial Statements do not fall within the definition of "connected transaction" or "continuing connected transaction" under Chapter 14A of the Listing Rules. The Company has complied with the relevant disclosure requirements in accordance with Chapter 14A of the Listing Rules.

As disclosed in the announcement of the Company dated 14 December 2017 (the "Announcement"), on 14 December 2017, the Company entered into two new master distribution agreements with Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited (深圳市金活利生藥業有限公司) ("SZ Kingworld Lifeshine") and Yuen Tai Pharmaceuticals Limited (遠大製藥廠有限公司) ("Yuen Tai") respectively (collectively, the "New Master Distribution Agreements").

Unless otherwise defined herein, terms used in the following section headed "New master distribution agreements for the year ending 31 December 2018" shall have the same meanings as defined in the Announcement.

New Master Distribution Agreements for the year ended 31 December 2018

Transaction	Member of the Group	Connected person	Actual transaction amounts for the year ended 31 December 2018 RMB'000	Approximate annual cap for the year ended 31 December 2018 RMB'000
Purchase and distribution of Pharmaceutical and Healthcare Products from SZ Kingworld Lifeshine	SZ Kingworld	SZ Kingworld Lifeshine	11,664	21,910
Purchase and distribution of Pharmaceutical and Healthcare Products from Yuen Tai	HK Kingworld	Yuen Tai	13	7,556

Principal terms of the New Master Distribution Agreements are as follows:

2018 SZ Kingworld Lifeshine Master Distribution Agreement

SZ Kingworld Lifeshine is a wholly-owned subsidiary of Morning Gold Medicine Company Limited, which is owned as to 51% by Mr. Zhao Li Sheng and 49% by Ms. Chan Lok San (both being the Executive Directors of the Company).

On 14 December 2017, SZ Kingworld Lifeshine and SZ Kingworld entered into the 2018 SZ Kingworld Lifeshine Master Distribution Agreement, pursuant to which the Group will purchase certain pharmaceutical and healthcare products from SZ Kingworld Lifeshine and act as the exclusive distributor for distribution of such pharmaceutical and healthcare products in the PRC for a term of one year commencing from 1 January 2018 and ended on 31 December 2018 (both days inclusive).

The terms and conditions (including but not limited to the prices) on which the pharmaceutical and healthcare products are to be purchased by members of the Group should be on normal commercial terms and no less favourable than those obtained from independent third parties by such member of the Group.

40% of the purchase price shall be paid in advance by the relevant member of the Group within three days after such member of the Group has placed an order for each batch of products and the remaining purchase price shall be paid upon delivery of the products and the passing of the product examination.

On 11 December 2018, in view of the prospective expiry of the 2018 SZ Kingworld Life Shine Master Distribution Agreement, SZ Kingworld Life Shine and SZ Kingworld entered into the 2019 SZ Kingworld Life Shine Master Distribution Agreement. For details, please refer to the announcement of the Company dated 11 December 2018.

2018 Yuen Tai Master Distribution Agreement

Yuen Tai is a wholly-owned subsidiary of Morning Gold Medicine Company Limited, which is owned as to 51% by Mr. Zhao Li Sheng and 49% by Ms. Chan Lok San (both being the Executive Directors of the Company).

On 14 December 2017, Yuen Tai and HK Kingworld entered into the 2018 Yuen Tai Master Distribution Agreement, pursuant to which the Group will purchase certain pharmaceutical and healthcare products from Yuen Tai and act as the exclusive distributor for distribution of such pharmaceutical and healthcare products in the PRC for a term of one year commencing from 1 January 2018 and ended on 31 December 2018 (both days inclusive).

The terms and conditions (including but not limited to the prices) on which the pharmaceutical and healthcare products are to be purchased by members of the Group should be on normal commercial terms and no less favourable than those obtained from independent third parties by such member of the Group.

40% of the purchase price shall be paid in advance by the relevant member of the Group within three days after such member of the Group has placed an order for each batch of products and the remaining purchase price shall be paid upon delivery of the products and the passing of the product examination.

On 11 December 2018, in view of the prospective expiry of the 2018 Yuen Tai Master Distribution Agreement, Yuen Tai and HK Kingworld entered into the 2019 Yuen Tai Master Distribution Agreement. For details, please refer to the announcement of the Company dated 11 December 2018.

The Independent Non-executive Directors have reviewed the above continuing connected transactions and confirm that these transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

(iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The auditor of the Company has issued a letter to the Board confirming that the above continuing connected transactions:

(i) have received the approval of the Board;

(ii) did not involve the provision of goods or services by the Group;

(iii) have been entered into in accordance with the relevant agreements governing the transactions; and

(iv) did not exceed the respective annual caps as disclosed in the Announcement.

PLEDGE OF ASSETS

As at 31 December 2018, the Group had pledged investment properties, leasehold land held for own use under operating leases and property, plant and equipment to certain banks in the amount of approximately RMB108,900,000, RMB59,652,000 and RMB22,076,000 respectively. As at 31 December 2017, the Group pledged investment properties, leasehold land held for own use under operating leases and property, plant and equipment to certain banks in the amount of approximately RMB100,000,000, RMB61,017,000 and RMB23,168,000, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long and short-term bank borrowings. For the Year Under Review, the effective interest rate for fixed rate loans was 3.96% to 6.24%. Taking into account the cash flow generated from operations and the long and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 31 December 2018, the Group had cash and cash equivalents of approximately RMB160,660,000 (2017: approximately RMB232,755,000) which was mainly generated from operations of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year Under Review, the total revenue of the Group's five largest customers accounted for approximately 12.7% of the Group's revenue, in which revenue from the largest customer of the Group accounted for approximately 3.5% of the total revenue of the Group. During the same period, total purchases of the Group's five largest suppliers accounted for approximately 67.8% of the Group's total purchase, in which purchase from the largest supplier of the Group accounted for approximately 56.7% of the total purchase of the Group.

None of the Directors, their respective close associates or any Shareholders (interested in 5% or more of the share capital, to the best knowledge of the Board) has any interest in any of the five largest suppliers or the Group's five largest customers.

TAX RELIEF AND EXEMPTION

The Company is not aware that any holders of securities of the Company are entitled to any tax relief or exemption by reason of their holdings of such securities.

EMPLOYEE BENEFITS

Details of the employee benefits of the Group for the year ended 31 December 2018 are set out in Note 33 to the Financial Statements. No forfeited contributions (by the Group on behalf of employees who leave the defined contribution plans prior to vesting fully in such contributions) can be used by the Group to reduce the existing level of contributions.

EVENT AFTER THE REPORTING PERIOD

There is no material event after the reporting period as at the date of this report.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2018 have been audited by Crowe (HK) CPA Limited (formerly known as Crowe Horwath (HK) CPA Limited, "Crowe"). Crowe will retire as auditor at the conclusion of the forthcoming annual general meeting and being eligible, offer themselves for re-appointment. A resolution will be submitted to the forthcoming annual general meeting of the Company for the re-appointment of Crowe as the auditor of the Company.

On behalf of the Board
Kingworld Medicines Group Limited
Mr. Zhao Li Sheng
Chairman of the Board

Hong Kong, 27 March, 2019

Independent Auditor's Report

國富浩華(香港)會計師事務所有限公司
Crowe (HK) CPA Limited
Member Crowe Horwath International

9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

TO THE SHAREHOLDERS OF KINGWORLD MEDICINES GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Kingworld Medicines Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 74 to 184, which comprise the consolidated statement of financial position as at 31 December 2018, and 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 2018, 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 (the "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 judgment, were of most significance in our audit of the consolidated financial statements 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.

The Key Audit Matter	*How the matter was addressed in our audit*
(a) Impairment of goodwill and intangible assets (Refer to notes 2(j)(ii) and (v)(ii), 16, 19 and 31(b) and (i) to the consolidated financial statements) The Group has goodwill of RMB90,693,000 and intangible assets of RMB59,672,000 relating to Shenzhen Dong Di Xin Technology Company Limited acquired in 2015. Their recoverable amount is based on an assessment of the higher of fair value less cost to sell and value in use of the identified cash generating unit to which the goodwill and intangible assets are allocated. Value in use is calculated as the net present value of estimated future cash flows. For impairment assessment at the reporting period end, the Group appointed an independent professional valuer to perform valuation for value in use of the cash generating unit to which goodwill and intangible assets are allocated, and made reference to the valuation of the valuer to determine asset impairments. The Group's assessment of impairment is a judgemental process which requires assumptions and estimates concerning the estimated future cash flows, discount rate and growth rate based on management's view of future business prospects.	We reviewed and challenged the impairment analysis prepared by the management as outlined below: With regard to the overall impairment assessments performed by the management, we evaluated the design of internal controls in place to determine any asset impairments. We reviewed and challenged the appropriateness of the models, key assumptions and estimates used by management and the valuers for determining the recoverable value of the goodwill and intangible assets. We tested the key assumptions by reference to third party data, where available. We evaluated and challenged the key assumptions used in each valuation model and performed sensitivity analysis around key drivers of cash flow forecasts, including unit of sales, gross margins growth rates and operating costs. We reviewed the calculation of discount rate used for determining the value in use, taking into account the cost of capital of the Group and comparable companies, and challenged the reasonableness of the methodology and assumptions applied in determining the discount rate. Furthermore, we assessed historical accuracy in management's forecasting process. We also assessed the Group's disclosures in respect of goodwill and intangible assets in notes 16 and 19, respectively, to the consolidated financial statements.

KEY AUDIT MATTERS *(Continued)*

The Key Audit Matter

(b) Impairment of trade and bills receivables

(Refer to notes 2(j)(i), 22, 30(a)(iii) and 31(d) to the consolidated financial statements)

At 31 December 2018, trade and bills receivables amounted to approximately RMB294 million, net of allowance for doubtful debts of aproximately RMB5.6 million, for which there are no collaterals as security for settlement. In the normal ordinary course of its business, the Group grants its customers with credit period up to 120 days after billing. The Group's top five largest debtors accounted for approximately 39.67% of its total trade and bills receivables at 31 December 2018. This may give rise to the risk of bad debt losses arising from unfavorable changes in the customers' abilities to settle their trade debts after year end.

Management's judgement and inherent estimation uncertainty are involved in determining the trade and bills receivables provisioning and in assessing its adequacy through considering the expected recoverability of the year-end trade and bills receivables.

How the matter was addressed in our audit

We reviewed and challenged the assumptions applied by management in estimating the provision for impairment against trade and bills receivables at the year end as outlined below:

We reviewed the Group's credit control and debt recovery procedures and actions taken to monitor and collect the trade and bills receivables.

We reviewed historical settlement history of the customers and testing subsequent cash receipts from the customers after year end.

We enquired management of any disputes with customers, assessed the replies to the debtor confirmations directly obtained from the customers and reviewed correspondences with the customers for dispute.

We tested ageing analysis for trade and bills receivables by customers, critically evaluated updated creditworthiness of the customers and assessed other forward looking information such as the future economic conditions.

We assessed the reasonableness of the expected credit loss rates that were applied to calculate the lifetime expected credit loss of trade and bills receivables and checked the calculation of the required provision for the lifetime expected credit loss of trade and bills receivables.

We also assessed the Group's disclosures in respect of trade and bills receivables in notes 22 and 30(a)(iii) to the consolidated financial statements.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than 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 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.

The directors are assisted by the Audit Committee in discharging their responsibilities 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 section 405 of the Hong Kong Companies Ordinance, 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.

As part of an audit in accordance with HKSAs, we exercise professional judgment 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 the Audit Committee 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 the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, 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.

Crowe (HK) CPA Limited
Certified Public Accountants
Hong Kong, 27 March 2019

Leung Chun Wa
Practising Certificate Number P04963

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018
(Expressed in Renminbi)

	Note	2018 RMB'000	2017 RMB'000
Revenue	4	**1,078,843**	1,031,488
Cost of sales		**(767,346)**	(708,317)
Gross profit		**311,497**	323,171
Valuation gain on investment properties	14	**10,000**	4,470
Other revenue, income and other net loss	6	**17,609**	38,311
Selling and distribution costs		**(155,073)**	(162,105)
Administrative expenses		**(96,356)**	(89,313)
Amortisation of intangible assets	19	**(18,831)**	(18,831)
Profit from operations		**68,846**	95,703
Finance costs	7 (a)	**(17,003)**	(26,210)
Share of profit of a joint venture	18	**19,512**	13,834
Share of loss of an associate	17	**(975)**	—
Profit before taxation	7	**70,380**	83,327
Income tax	8	**(18,621)**	(16,795)
Profit for the year		**51,759**	66,532
Attributable to:			
Owners of the Company		**41,005**	51,060
Non-controlling interests		**10,754**	15,472
Profit for the year		**51,759**	66,532
Earnings per share	10		
Basic (RMB cents)		**6.60**	8.20
Diluted (RMB cents)		**6.60**	8.20

The notes on pages 81 to 184 form part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018
(Expressed in Renminbi)

	2018 RMB'000	2017 RMB'000
Profit for the year	**51,759**	66,532
Other comprehensive income/(loss) for the year (net of tax)		
Items that will not be reclassified to profit or loss:		
Fair value loss on financial assets	**(7,900)**	—
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside the PRC	**(1,956)**	1,561
Financial assets at fair value through other comprehensive income:		
Reclassification adjustments for gain on disposal included in the consolidated statement of profit or loss	**(81)**	—
Available-for-sale investments:		
Fair value gain	**—**	615
Reclassification adjustments for gain on disposal included in the consolidated statement of profit or loss	**—**	(5,241)
	(9,937)	(3,065)
Total comprehensive income for the year (net of tax)	**41,822**	63,467
Attributable to:		
Owners of the Company	**31,104**	48,273
Non-controlling interests	**10,718**	15,194
Total comprehensive income for the year	**41,822**	63,467

The notes on pages 81 to 184 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2018
(Expressed in Renminbi)

	Note	2018 RMB'000	2017 RMB'000
Non-current assets			
Leasehold land held for own use under operating leases	13	**91,139**	92,198
Property, plant and equipment	13	**59,984**	57,483
Investment properties	14	**122,600**	112,600
Interest in a joint venture	18	**62,579**	43,067
Interest in associates	17	**4,026**	–
Goodwill	16	**90,693**	90,693
Intangible assets	19	**59,672**	78,503
Financial assets at fair value through profit or loss	23	**5,549**	4,775
Financial assets at fair value through other comprehensive income	20	**24,190**	–
Available-for-sale financial assets	20	**–**	14,141
		520,432	493,460
Current assets			
Inventories	21	**182,064**	148,881
Trade and other receivables	22	**416,782**	412,874
Available-for-sale financial assets	20	**–**	25,783
Financial assets at fair value through profit or loss	23	**15,135**	17,895
Pledged bank deposits	24	**1,642**	750
Cash and cash equivalents	24	**160,660**	232,755
		776,283	838,938
Current liabilities			
Contract liabilities	25	**72,718**	–
Trade and other payables	26	**219,711**	242,114
Bank loans	27	**336,676**	412,980
Tax payable	28(a)	**4,123**	10,028
		633,228	665,122
Net current assets		**143,055**	173,816
Total assets less current liabilities		**663,487**	667,276
Non-current liabilities			
Deferred tax liabilities	28(b)	**25,257**	25,641
		25,257	25,641
NET ASSETS		**638,230**	641,635

The notes on pages 81 to 184 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2018
(Expressed in Renminbi)

	Note	2018 RMB'000	2017 RMB'000
CAPITAL AND RESERVES	29		
Share capital		**53,468**	53,468
Reserves		**512,324**	499,626
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**565,792**	553,094
NON-CONTROLLING INTERESTS		**72,438**	88,541
TOTAL EQUITY		**638,230**	641,635

Approved and authorised for issue by the board of directors on 27 March 2019.

Mr. Zhao Li Sheng
Director

Ms. Chan Lok San
Director

The notes on pages 81 to 184 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018
(Expressed in Renminbi)

	Attributable to owners of the Company												
	Share capital RMB'000 (note 29(a))	Share premium RMB'000 (note 29(b))	Statutory and discretionary reserves RMB'000 (note 29(c))	Contributed surplus RMB'000 (note 29(d))	Convertible bonds equity reserve RMB'000 (note 29(e))	Fair value reserve RMB'000 (note 29(f))	Exchange reserve RMB'000 (note 29(g))	Capital reserve RMB'000 (note 29(h))	Other reserve RMB'000 (note 29(i))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total Equity RMB'000
At 1 January 2018	**53,468**	**152,700**	**44,108**	**29,068**	**–**	**2,425**	**(19,117)**	**8,109**	**–**	**282,333**	**553,094**	**88,541**	**641,635**
Changes in equity:													
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**41,005**	**41,005**	**10,754**	**51,759**
Other comprehensive income/(loss) for the year													
– Exchange difference arising from the translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**–**	**(1,956)**	**–**	**–**	**–**	**(1,956)**	**–**	**(1,956)**
– Fair value change on financial assets	**–**	**–**	**–**	**–**	**–**	**(7,900)**	**–**	**–**	**–**	**–**	**(7,900)**	**–**	**(7,900)**
– Reclassification adjustment upon disposal of financial assets at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**–**	**(45)**	**–**	**–**	**–**	**–**	**(45)**	**(36)**	**(81)**
Total other comprehensive income/(loss) for the year	**–**	**–**	**–**	**–**	**–**	**(7,945)**	**(1,956)**	**–**	**–**	**–**	**(9,901)**	**(36)**	**(9,937)**
Total comprehensive income/(loss) for the year	**–**	**–**	**–**	**–**	**–**	**(7,945)**	**(1,956)**	**–**	**–**	**41,005**	**31,104**	**10,718**	**41,822**
Dividends (note 9(b))	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(18,751)**	**(18,751)**	**–**	**(18,751)**
Distribution to non-controlling interest (note 15(f))	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(26,821)**	**(26,821)**
Equity settled share-based transactions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**345**	**–**	**–**	**345**	**–**	**345**
At 31 December 2018	**53,468**	**152,700**	**44,108**	**29,068**	**–**	**(5,520)**	**(21,073)**	**8,454**	**–**	**304,587**	**565,792**	**72,438**	**638,230**
At 1 January 2017	53,468	152,700	38,740	29,068	6,259	6,773	(20,678)	753	(19,654)	276,386	523,815	114,835	638,650
Changes in equity:													
Profit for the year	–	–	–	–	–	–	–	–	–	51,060	51,060	15,472	66,532
Other comprehensive income/(loss) for the year													
– Exchange difference arising from the translation of foreign operations	–	–	–	–	–	–	1,561	–	–	–	1,561	–	1,561
– Fair value change on available-for sale investments	–	–	–	–	–	579	–	–	–	–	579	36	615
– Reclassification adjustment upon disposal of available-for sale investment	–	–	–	–	–	(4,927)	–	–	–	–	(4,927)	(314)	(5,241)
Total other comprehensive income/(loss) for the year	–	–	–	–	–	(4,348)	1,561	–	–	–	(2,787)	(278)	(3,065)
Total comprehensive income/(loss) for the year	–	–	–	–	–	(4,348)	1,561	–	–	51,060	48,273	15,194	63,467
Appropriation of statutory and discretionary reserves	–	–	5,368	–	–	–	–	–	–	(5,368)	–	–	–
Dividends (note 9(b))	–	–	–	–	–	–	–	–	–	(15,350)	(15,350)	–	(15,350)
Distribution to non-controlling interests (note 15(f))	–	–	–	–	–	–	–	–	–	–	–	(52,488)	(52,488)
Deemed distribution to non-controlling interests (note 15(g))	–	–	–	–	–	–	–	–	–	(11,000)	(11,000)	11,000	–
Transfer of convertible bonds equity reserve and other reserve upon derecognition	–	–	–	–	(6,259)	–	–	–	19,654	(13,395)	–	–	–
Equity settled share-based transactions	–	–	–	–	–	–	–	7,356	–	–	7,356	–	7,356
At 31 December 2017	53,468	152,700	44,108	29,068	–	2,425	(19,117)	8,109	–	282,333	553,094	88,541	641,635

The notes on pages 81 to 184 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018
(Expressed in Renminbi)

	Note	2018 RMB'000	2017 RMB'000
Operating activities			
Profit before taxation		**70,380**	83,327
Adjustments for:			
Depreciation of property, plant and equipments	7(c)	**8,605**	5,579
Amortisation of leasehold land for own use under operating leases	7(c)	**1,365**	1,365
Finance costs	7(a)	**17,003**	26,210
Bank interest income	6	**(619)**	(633)
Dividend received from financial assets at fair value through other comprehensive income	6	**(1,448)**	—
Dividend received from available-for-sale financial asset	6	**—**	(1,483)
Dividend received from financial assets at fair value through profit or loss	6	**(430)**	(623)
Interest received from financial assets at fair value through other comprehensive income	6	**(3,506)**	—
Interest from available-for-sale financial investments	6	**—**	(1,849)
Loss on disposal of property, plant and equipment	7(c)	**36**	119
Equity settled share-based transaction	7(c)	**332**	7,614
Impairment loss on trade receivables/ (Reversal of impairment loss on trade receivables)	7(c)	**135**	(237)
Reversal of impairment loss on other receivables	7(c)	**(576)**	—
Reversal of inventories write-down	7(c)	**—**	(1,282)
Write-off of bills receivables	7(c)	**—**	248
Change in fair value of financial assets at fair value through profit or loss	6	**2,750**	(2,236)
Change in fair value of other financial liabilities	6	**—**	(13,255)
Amortisation of intangible assets	7(c)	**18,831**	18,831
Share of profit of a joint venture	18	**(19,512)**	(13,834)
Share of loss of an associate	17	**975**	—
Valuation gain on investment properties	14	**(10,000)**	(4,470)
Write-down of inventories	21	**2,957**	—
Changes in working capital			
Increase in inventories		**(36,140)**	(19,966)
(Increase) /decrease in trade and other receivables		**(23,266)**	44,789
(Increase) /decrease in deposits for letters of credit		**(892)**	8,547
Increase in contract liabilities		**2,915**	—
Increase in trade and other payables		**57,400**	(39,575)
Cash generated from operations		**87,295**	97,186
Income tax paid		**(24,910)**	(24,798)
Net cash generated from operating activities		**62,385**	72,388

The notes on pages 81 to 184 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018
(Expressed in Renminbi)

	Note	2018 RMB'000	2017 RMB'000
Investing activities			
Payment for the purchase of property, plant and equipment		**(11,864)**	(40,125)
Payment for the acquisition of financial assets at fair value through other comprehensive income		**(1,114,350)**	—
Payment for the acquisition of available-for-sale financial assets		**—**	(25,700)
Proceeds from disposal of property, plant and equipment		**4**	67
Proceeds from disposal of financial assets at fair value through other comprehensive in-come		**1,122,800**	—
Proceeds from disposal of available-for-sales financial assets		**—**	65,199
Interest received from financial assets at fair value through other comprehensive income		**3,506**	—
Interest received from available-for-sale financial investments		**—**	1,849
Bank interest received		**619**	633
Dividend received from financial assets at fair value through other comprehensive income	6	**1,448**	—
Dividend received from available-for-sale financial assets	6	**—**	1,483
Dividend received from financial assets at fair value through profit or loss	6	**430**	623
Dividend received from a joint venture	18	**19,800**	20,200
Payment for investment in associates	17	**(5,001)**	—
Net cash generated from investing activities		**17,392**	24,229
Financing activities			
Proceeds from new bank loans	24(b)	**647,238**	287,595
Repayment of bank loans	24(b)	**(733,710)**	(175,572)
Redemption of convertible bond	24(b)	**—**	(115,796)
Interest on bank loans paid	7(a)	**(17,003)**	(16,090)
Interest on convertible bond paid		**—**	(5,469)
Dividend paid to owners of the Company	9(b)	**(18,751)**	(15,350)
Dividends paid to non-controlling interests	24(b)	**(36,821)**	(42,488)
Net cash used in financing activities		**(159,047)**	(83,170)
Net (decrease)/increase in cash and cash equivalents		**(79,270)**	13,447
Cash and cash equivalents at beginning of year		**232,755**	229,984
Effect of foreign exchange rate changes		**7,175**	(10,676)
Cash and cash equivalents at end of year	24	**160,660**	232,755

The notes on pages 81 to 184 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018
(Expressed in Renminbi)

1. GENERAL INFORMATION

Kingworld Medicines Group Limited (the "Company") was incorporated as an exempted company in the Cayman Islands with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 10 July 2008. The address of the Company's registered office and the principal place of business are disclosed in the corporate information in the annual report.

The Company is an investment holding company. The Company and its subsidiaries (together referred to as the "Group") are principally engaged in (i) distribution sale of branded imported pharmaceutical and healthcare products, and (ii) manufacturing and sales of electrotherapeutic, physiotherapeutic devices and general medical examination devices in the People's Republic of China (the "PRC") and Hong Kong.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). A summary of the significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting year of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) *Basis of preparation of the consolidated financial statements*

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries and the Group's interests in a joint venture and associates.

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand except when otherwise indicated. The Company and other investment holding subsidiaries incorporated in the Cayman Islands, the British Virgin Islands (the "BVI") and Hong Kong have adopted Hong Kong dollar ("HK$") as their functional currency. The functional currency of the PRC subsidiaries is RMB. As the Group mainly operates in the Mainland China, RMB is used as the presentation currency of the Group.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair values as explained in the accounting policies set out below:

— investment properties (see note 2(f));

— derivative financial instruments (see note 2(z));

— financial instruments classified as financial assets at fair value through other compreheasive income (see note 2(e)); and

— financial assets at fair value through profit or loss (see note 2(e)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing 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.

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 31.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

c) *Subsidiaries and non-controlling interests*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in 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.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from 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 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. 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. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less any impairment losses (see note 2(j)).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

d) *Associate and joint ventures*

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operation policy decisions. A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any).The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(j)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in an joint venture or *vice versa*, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have joint control over an associate and joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

e) *Other investments in debt and equity securities*

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 30(f). These investments are subsequently accounted for as follows, depending on their classification.

(A) Policy applicable from 1 January 2018

Investments other than equity investments

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

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 2(t)(iv)).

– fair value through other comprehensive income (FVOCI) - recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment 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 investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

e) *Other investments in debt and equity securities (Continued)*

(A) Policy applicable from 1 January 2018 (Continued)

Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable 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 may 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) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 2(t)(iii).

(B) Policy applicable prior to 1 January 2018

Investments in securities held for trading and designated upon initial recognition at fair value through profit or loss, and derivative financial instruments (see note 2(z)) were classified as financial assets measured at FVPL. Any attributable transaction costs were recognised in profit or loss as incurred. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in profit or loss.

Dated debt securities that the Group had the positive ability and intention to hold to maturity were classified as held-to-maturity securities. Held-to-maturity securities were stated at amortised cost (for impairment see note 2(j) – policy applicable prior to 1 January 2018).

Investments which did not fall into any of the above categories were classified as available-for-sale financial assets. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve (recycling). Dividend income from equity investments and interest income from debt securities calculated using the effective interest method were recognised in profit or loss in accordance with the policies set out in notes 2(t)(iii) and 2(t)(iv), respectively. Foreign exchange gains and losses arising from debt securities were also recognised in profit or loss. When the investments were derecognised or impaired (see note 2(j) - policy applicable prior to 1 January 2018), the cumulative gain or loss recognised in equity was reclassified to profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

f) *Investment properties*

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(h)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated in the consolidated statement of financial position at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(t)(ii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(h)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2(h).

g) *Property, plant and equipment*

Property, plant and equipment, other than construction in progress, are stated in the consolidated statement of financial position at cost less any accumulated depreciation and any accumulated impairment losses (see note 2(j)(ii)).

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

— buildings held for own use situated on leasehold land under operating leases are depreciated on a straight-line basis over the shorter of their estimated lives, being no more than 50 years and the unexpired term of the lease.

— leasehold land	over the remaining lease terms
— leasehold improvements	5 years or over the remaining term of the lease, if shorter
— furniture, fixtures and office equipment	5 to 10 years
— machineries	10 years
— motor vehicles	5 years

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

g) *Property, plant and equipment* *(Continued)*

Changes arising on the revaluation of properties held for own use are generally dealt with in other comprehensive income and are accumulated separately in equity in the property revaluation reserve. The only exceptions are as follows:

(i) when a deficit arises on revaluation, it will be charged to profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and

(ii) when a surplus arises on revaluation, it will be credited to profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to profit or loss.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss during the financial period in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Property, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties, plant and equipment 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.

h) *Leased assets*

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) *Leased assets* *(Continued)*

i) *Classification of assets leased to the Group*

Assets held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

— Property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 2(f)); and

— Land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

ii) *Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged as expenses in the accounting period in which they are incurred.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

i) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value as follows:

– pharmaceutical products
– healthcare products
– medical devices

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) *Credit losses and impairment of assets*

i) *Credit losses from financial instruments and contract assets*

(A) *Policy applicable from 1 January 2018*

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables and loans to associates);

– contract assets as defined in HKFRS 15 (see note 2(k)); and

– debt securities measured at FVOCI (recycling).

Financial assets measured at fair value, including units in bond funds, equity securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) *Credit losses and impairment of assets* *(Continued)*

i) Credit losses from financial instruments and contract assets (Continued)

(A) *Policy applicable from 1 January 2018* ***(Continued)***

Measurement of ECLs *(Continued)*

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate;

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

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

– lifetime ECLs: these are losses that are expected to result from all possible defaultevents over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables, lease receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments (including loan commitments issued), the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) *Credit losses and impairment of assets* *(Continued)*

i) *Credit losses from financial instruments and contract assets (Continued)*

(A) *Policy applicable from 1 January 2018* ***(Continued)***

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90-120 days past due. 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 since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

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

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

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) *Credit losses and impairment of assets* *(Continued)*

i) Credit losses from financial instruments and contract assets (Continued)

(A) *Policy applicable from 1 January 2018* ***(Continued)***

Significant increases in credit risk ***(Continued)***

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income recognised in accordance with note 2(t)(iv) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) *Credit losses and impairment of assets* ***(Continued)***

i) ***Credit losses from financial instruments and contract assets (Continued)***

(A) *Policy applicable from 1 January 2018* ***(Continued)***

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(B) *Policy applicable prior to 1 January 2018*

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables, available-for-sale investments and held-to-maturity debt securities). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment.

Objective evidence of impairment included:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence existed, an impairment loss was determined and recognised as follows:

– For trade and other receivables and other financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) *Credit losses and impairment of assets* *(Continued)*

i) *Credit losses from financial instruments and contract assets (Continued)*

(B) Policy applicable prior to 1 January 2018 ***(Continued)***

This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

– For available-for-sale investments, the cumulative loss that had been recognised in the fair value reserve (recycling) was reclassified to profit or loss. The amount of the cumulative loss that was recognised in profit or loss was the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities were not reversed through profit or loss. Any subsequent increase in the fair value of such assets was recognised in other comprehensive income. Impairment losses recognised in profit or loss in respect of available-for-sale debt securities were reversed if the subsequent increase in fair value could be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances were recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) *Credit losses and impairment of assets* *(Continued)*

ii) *Impairment of other non-current assets*

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– intangible assets;

– interests in associates and a joint venture;

– goodwill; and

– investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) *Credit losses and impairment of assets (Continued)*

ii) *Impairment of other non-current assets (Continued)*

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

iii) *Interim financial reporting and impairment*

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(j)(i) and (iii)).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

k) *Contract assets and contract liabilities*

A contract asset is recognised when the Group recognises revenue (see note 2(t)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(j)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 2(l)).

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 2(t)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2(l)).

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 2(t)).

l) *Trade and other receivables*

A receivable is 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. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 2(k)). Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(j)).

m) *Trade and other payables*

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expenses is recognised in accordance with the Group's accounting policy for borrowing costs (see note 2(r)).

o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(j)(i).

p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevants amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided that those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary differences or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

p) Income tax *(Continued)*

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(f), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

q) *Provisions and contingent liabilities*

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

r) *Borrowing costs*

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences 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 in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

s) *Translation of foreign currencies*

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of operations outside Mainland China are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

s) *Translation of foreign currencies (Continued)*

On the disposal of an operation outside Mainland China, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

t) *Revenue and other income*

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract, control of the goods or services may be transferred over time or a point in time. Control of the goods or services is transferred over time if the Group's performance:

(i) provides the benefits received and consumed simultaneously by the customer;

(ii) creates or enhances an asset that the customer controls as the Group performs; or

(iii) does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation, which is measured based on direct measurements of the value of individual goods or services transferred by the Group to the customer. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or services.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

t) *Revenue and other income (Continued)*

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

i) *Sale of goods*

Sales of goods are recognised as follows:

Revenue from sale of goods is recognised when the control of the goods has been transferred to the customer who has taken possession of and accepted the goods transferred by the Group.

Revenue excludes value-added tax or other sales taxes and is after deduction of any trade discounts.

In the comparative period, revenue from sales of goods was recognised when the goods were delivered to the customers' premises, which was taken to be the point in time when the customer had accepted the goods and the related risks and rewards of ownership, irrespective of whether the products had been made-to-order or were standardised. No adjustments have been made to opening balances as at 1 January 2018 as all revenues recognised were standardised.

ii) *Rental income from operating leases*

Rental income receivable under operating leases is recognised when the use rights of the leased assets are passed to a tenant and is credited to the profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

iii) *Dividends*

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

iv) *Interest income*

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 2(j)(i)).

v) *Promotional income*

Income from provision of promotional services is recognised when the promotional services are rendered.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

t) *Revenue and other income* *(Continued)*

vi) *Government grants*

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

u) *Segment reporting*

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Company's directors, i.e., the chief operating decision-makers, for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

v) i) *Business combinations*

Acquisitions of 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 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 Incomes 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; and

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

v) i) *Business combinations (Continued)*

- 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.

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 amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount 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. Other types of non-controlling interests are measured at their fair value.

Where the consideration transferred by the Group 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 included 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 against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for 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 an asset or a liability is remeasured to fair value at subsequent reporting dates in with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

v) i) *Business combinations (Continued)*

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), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

ii) *Goodwill*

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any noncontrolling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(j)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

w) *Employee benefits*

i) *Short term employee benefits and contribution to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contribution to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii) *Share-based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

w) *Employee benefits (Continued)*

ii) Share-based payments (Continued)

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/ credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

iii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

x) *Related parties*

a) A person, or a close member of that person's family, is related to the Group if that person:

   i) has control or joint control over the Group;

   ii) has significant influence over the Group; or

   iii) is a member of the key management personnel of the Group or the Group's parent.

b) An entity is related to the Group if any of the following conditions applies:

   i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

   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) Both entities 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).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

x) *Related parties (Continued)*

b) An entity is related to the Group if any of the following conditions applies: *(Continued)*

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 Group's parent.

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.

y) *Intangible assets (other than goodwill)*

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill 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 are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

The following intangible assets with finite useful lives are amortised on a straight-line basis from the date they are available for use and over their estimated useful lives are as follows:

– Customer relationship	8 years
– Patents	5 years

Derecognition of intangible assets

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

z) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period, the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(i) HKFRS 9, *Financial instruments*

(ii) HKFRS 15, *Revenue from contracts with customers*

(iii) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Except for the application of HKFRS 9 and HKFRS 15, the application of the new and amendments to HKFRSs in the current year are not expected to have material impact on the Groups financial performance and positions for the current and prior years and on the disclosures set out in these consolidated financial statements.

(i) HKFRS 9, Financial instruments

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

i) HKFRS 9, Financial instruments (Continued)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrrying amount at 31 December 2017 RMB'000	Reclassification RMB'000	HKFRS 9 carrying amount at 1 January 2018 RMB'000
Financial assets measured at FVOCI (non-recycling) (non-current)			
Equity securities (note (i))	—	14,141	14,141
Financial assets classified as available-for-sale (non-current) under HKAS 39 (note (i))	14,141	(14,141)	—
Financial assets measured at FVOCI (recycling) (current)			
Bank wealth management products (note(ii))	—	25,783	25,783
Financial assets classified as available-for-sale (current) under HKAS 39 (note(ii))	25,783	(25,783)	—

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(i) HKFRS 9, Financial instruments *(Continued)*

a. Classification of financial assets and financial liabilities (Continued)

Notes:

(i) Under HKAS 39, equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are eligible for and designated at FVOCI under HKFRS 9 by the Group. At 1 January 2018, the Group designated its investments in equity securities at FVOCI, as the investment is held for strategic purposes (see note 2(j)(i)).

(ii) Under HKAS 39, these investments in bank wealth management products were classified as available-for-sale financial assets. At 1 January 2018, the Group reclassified its investments in bank wealth management products at FVOCI under the requirements of HKFRS 9.

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under HKFRS 9, see respective accounting policy notes in notes 2(e), (z), (j), (l) and (o).

The measurement categories for all financial liabilities remain the same.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

b. Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables);

– contract assets as defined in HKFRS 15 (see note 2(k)); and

– debt securities measured at FVOCI (recycling).

For further details on the Group's accounting policy for accounting for credit losses, see note 2(j)(i) and (ii).

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(i) HKFRS 9, Financial instruments (Continued)

c. Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

- Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.
- The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):
  - the determination of the business model within which a financial asset is held; and
  - the designation of certain investments in equity instruments not held for trading to be classified as at FVOCI (non-recycling).
- If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(ii) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKASs 11 and 18.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(ii) HKFRS 15, Revenue from contracts with customers *(Continued)*

Further details of the nature and effect of the changes on previous accounting policies are set out below:

a. Timing of revenue recognition

Previously, revenue arising from construction contracts and provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract, which is taken as single point in time when the customers have taken acceptance of the goods transferred by the Group.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises its revenue.

b. Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred.

Previously, the Group only applied such a policy when payments were significantly deferred, which was not common in the Group's arrangements with its customers. The Group did not apply such a policy when payments were received in advance.

It is not common for the Group to receive payments significantly in advance of revenue recognition in the Group's arrangements with its customers. Accordingly, this change is policy does not have a significant impact on the financial assets and liabilities as at 1 January 2018.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(ii) HKFRS 15, Revenue from contracts with customers (Continued)

c. Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue (see note 2(t)) before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays non-refundable consideration, or is contractually required to pay non-refundable consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis (see note 2(k)).

Previously, contract assets were presented in the statement of financial position under "trade and other receivables" and contract liabilities were presented under "trade and other payables".

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of HKFRS 15:

(i) "Trade deposit received" amounting to RMB63,743,000, which were previously included in trade and other payables (note 26) are now included under contract liabilities (note 25).

(ii) "Receipt in advance" amounting to RMB6,061,000, which were previously included in trade and other payables (note 26) are now included under contract liabilities (note 25); and

d. Transportation costs

Before the adoption of HKFRS 15, transportation costs were treated as distribution costs. Under HKFRS 15, the amount is classified to cost of sales as it constitutes contract cost to fulfill the performance obligation of sales of products to customers.

e. Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018.

The following tables summarise the estimated impact of adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under HKAS 18 and HKAS 11 if those superseded standards had continued to apply to 2018 instead of HKFRS 15. These tables show only those line items impacted by the adoption of HKFRS 15:

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(ii) HKFRS 15, Revenue from contracts with customers (Continued)

e. Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018. (Continued)

	Amounts reported in accordance with HKFRS 15 (A) RMB'000	Hypothetical amounts under HKASs 18 and 11 (B) RMB'000	Difference: Estimated impact of adoption of HKFRS 15 on 2018 (A) - (B) RMB'000
Line items in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Cost of sales	(767,346)	(755,538)	(11,808)
Gross profit	311,497	323,305	(11,808)
Distribution costs	(155,073)	(166,881)	11,808
Line items in the consolidated statement of financial position as at 31 December 2018 impact by the adoption of HKFRS 15:			
Trade and other payables	(219,711)	(292,429)	72,718
Contract liabilities	(72,718)	—	(72,718)

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(ii) HKFRS 15, Revenue from contracts with customers *(Continued)*

e. Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018. (Continued)

The significant differences arise as a result of the changes in accounting policies described above.

	Amounts reported in accordance with HKFRS 15 (A) RMB'000	Hypothetical amounts under HKASs 18 and 11 (B) RMB'000	Difference: Estimated impact of adoption of HKFRS 15 on 2018 (A) - (B) RMB'000
Line items in the consolidated statement of cash flow for the year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Increase in trade and other payables	57,400	60,315	(2,915)
Increase in contract liabilities	2,915	—	2,915

The significant difference arise as a result of the changes in accounting policies described above.

(iii) HK(IFRIC) 22, Foreign currency transactions and advance consideration

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

4. REVENUE

Revenue represents sales of branded imported pharmaceutical and healthcare products, electrotherapeutic and physiotherapeutic devices, and general medical examination devices at net invoiced value of goods sold, less value-added and sales taxes, returns and discounts, during the year.

	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers within the scope of HKFRS15		
Disaggregated by major products		
– pharmaceutical products	**621,322**	575,322
– healthcare products	**252,600**	246,803
– medical devices	**204,921**	209,363
	1,078,843	1,031,488
Timing of revenue recognition		
A point in time	**1,078,843**	1,031,488

Note: The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11 (see note 3(ii)).

Disaggregation of revenue from contracts with customers by divisions is disclosed in Note 5.

5. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's directors for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

1. Distribution sales of pharmaceutical and healthcare products: this segment distributes and sells branded imported pharmaceutical and healthcare products primarily in Hong Kong and the PRC.

2. Manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices: this segment manufactures and sells electrotherapeutic and physiotherapeutic devices and general medical examination devices. Currently, the Group's activities in this regard are primarily carried out in the PRC.

5. SEGMENT REPORTING *(Continued)*

a) *Segment results, assets and liabilities*

For the purposes of assessing segment performance and allocating resources between segments, the Group's directors monitor the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of financial assets at fair value through other comprehensive income, trading securities, deferred tax assets and other corporate assets. Segment liabilities include provisions and trade and other payables attributable to the activities of the individual segments and borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Segment profit includes the Group's share of profit arising from the activities of the Group's joint venture. However, other than reporting inter-segment sales of electronic products, assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured. In particular, all research and development facilities and activities, patents and trademarks relating to the electronics division are allocated to the Hong Kong segment.

The measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including investment income and "depreciation and amortisation" is regarded as including impairment losses on non-current assets. To arrive at adjusted EBITDA, the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as directors' and auditors' remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted EBITDA, directors are provided with segment information concerning revenue (including inter-segment sales), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

5. SEGMENT REPORTING *(Continued)*

a) *Segment results, assets and liabilities* *(Continued)*

Information regarding the Group's reportable segments as provided to the Group's directors for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 is set out below.

	Distribution sales of pharmaceutical and healthcare products				Manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices			
	Hong Kong		PRC		PRC		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue from external customers	**119,310**	175,205	**855,082**	736,355	**204,921**	209,362	**1,179,313**	1,120,922
Inter-segment revenue	**21,728**	40,815	**24,140**	16,467	**—**	—	**45,868**	57,282
Reportable segment revenue	**141,038**	216,020	**879,222**	752,822	**204,921**	209,362	**1,225,181**	1,178,204
Reportable segment profit (adjusted EBITDA)	**3,406**	31,424	**62,597**	22,188	**40,666**	73,990	**106,669**	127,602
Interest income from bank deposits	**85**	10	**372**	276	**162**	347	**619**	633
Interest expense	**—**	—	**6,557**	10,103	**—**	—	**6,557**	10,103
Depreciation and amortisation for the year	**314**	311	**7,100**	4,346	**21,387**	21,118	**28,801**	25,775
Reportable segment assets	**262,574**	323,249	**841,484**	825,688	**167,837**	179,814	**1,271,895**	1,328,751
(including investment in joint venture)	**—**	—	**62,579**	43,067	**—**	—	**62,579**	43,067
Additions to non-current segment assets during the year	**—**	—	**14,938**	34,567	**6,500**	5,558	**21,438**	40,125
Reportable segment liabilities	**3,620**	25,819	**406,566**	375,893	**42,517**	42,236	**452,703**	443,948

5. SEGMENT REPORTING *(Continued)*

b) *Reconciliations of reportable segment revenues, profit or loss, assets and liabilities*

	2018 **RMB'000**	2017 RMB'000
Revenue		
Reportable segment revenue	**1,225,181**	1,178,204
Elimination of inter-segment revenue	**(45,868)**	(57,282)
Elimination of Group's share of revenue of joint venture	**(100,470)**	(89,434)
Consolidated revenue (note 4)	**1,078,843**	1,031,488

	2018 **RMB'000**	2017 RMB'000
Profit		
Reportable segment profit derived from the Group's external customers and joint venture	**106,669**	127,602
Other income	**17,609**	38,311
Depreciation and amortisation	**(28,801)**	(25,775)
Finance costs	**(17,003)**	(26,210)
Unallocated head office and corporate expenses	**(8,094)**	(30,601)
Consolidated profit before taxation	**70,380**	83,327

5. SEGMENT REPORTING *(Continued)*

b) *Reconciliations of reportable segment revenues, profit or loss, assets and liabilities (Continued)*

	2018 RMB'000	2017 RMB'000
Assets		
Reportable segment assets	**1,271,895**	1,328,751
Elimination of inter-segment receivables	**(21,083)**	(34,454)
	1,250,812	1,294,297
Non-current financial assets	**24,190**	14,141
Financial assets at fair value though profit or loss	**15,135**	17,895
Unallocated head office and corporate assets	**6,578**	6,065
Consolidated total assets	**1,296,715**	1,332,398

	2018 RMB'000	2017 RMB'000
Liabilities		
Reportable segment liabilities	**452,703**	443,948
Elimination of inter-segment payables	**(15,626)**	(24,801)
	437,077	419,147
Current tax liabilities	**4,123**	10,028
Deferred tax liabilities	**25,257**	25,641
Unallocated head office and corporate liabilities	**192,028**	235,947
Consolidated total liabilities	**658,485**	690,763

5. SEGMENT REPORTING *(Continued)*

c) *Geographic Information*

The following is an analysis of geographical location of (i) the Group's revenue from continuing operations from external customers and (ii) the Group's leasehold land held for own use under operating leases, property, plant and equipment, investment properties, deposit paid for property, plant and equipment, deposit paid for acquisition of land, intangible assets, goodwill and interest in associate and a joint venture. The geographical location of customers is based on to the location at which the goods delivered. The geographical locations of leasehold land held for own use under operating leases, property, plant and equipment and investment properties are based on the physical location of the asset under consideration. In the case of intangible assets and goodwill, it is based on the location of the operation to which they are allocated. In the case of interests in associate and joint venture, it is the location of operations of such associate and joint venture.

	Revenues from external customers		**Specified non-current assets**	
	2018 **RMB'000**	2017 RMB'000	**2018** **RMB'000**	2017 RMB'000
PRC	**959,533**	856,283	**399,074**	382,658
Hong Kong	**119,310**	175,205	**91,619**	91,887
	1,078,843	1,031,488	**490,693**	474,545

d) *Information about major customers*

Revenues from customers contributed 10% or more of the total revenue of the Group are as follows:

	2018 **RMB'000**	2017 RMB'000
Customer A-revenue from distribution sales of pharmaceutical and healthcare products	**N/A#**	104,383

\# The transactions with this customer did not contribute 10% or more of total revenue of the Group during the year ended 31 December 2018.

6. OTHER REVENUE, INCOME AND OTHER NET LOSS

	2018 **RMB'000**	2017 RMB'000
Other revenue:		
Total interest income on financial assets not at fair value through profit or loss:		
Bank interest income	**619**	633
Interest income from financial assets at fair value through other comprehensive income	**3,506**	—
Interest income from available-for-sale financial assets	**—**	1,849
Gross rental income from investment properties	**2,923**	2,764
Dividend income from financial assets at fair value through other comprehensive income and through profit or loss	**1,878**	2,106
Promotional service income	**13,767**	6,668
	22,693	14,020
Government grants (note)	**4,294**	1,082
Forward contract loss	**—**	(447)
Exchange gain/(loss)	**(7,705)**	8,486
Change in fair value of other financial liabilities	**—**	13,255
Change in fair value of financial assets at fair value through profit or loss	**(2,750)**	2,236
Others	**1,077**	(321)
	17,609	38,311

Note: Government grants were awarded to the Group by the local government agencies as incentives primarily to encourage the development of the Group and the contribution to the local economic development. There was no unfulfilled conditions attached to these grants.

7. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting) the following:

		2018 RMB'000	2017 RMB'000
a)	**Finance costs**		
	Total interest expense on financial liabilities not at fair value through profit or loss:		
	– Interest on bank loans	**17,003**	16,090
	– Interest imputed on the liability component of convertible bonds	—	10,120
		17,003	26,210
b)	**Staff costs (including directors' and chief executive's remuneration)**		
	Salaries and other benefits	**108,318**	101,068
	Contributions to defined contribution retirement plan	**11,120**	10,449
	Equity-settled share-based payments	**—**	7,172
		119,438	118,689
c)	**Other items**		
	Amortisation of intangible assets (note 19)	**18,831**	18,831
	Auditor's remuneration		
	– audit service	**1,400**	1,435
	– non-audit services	**399**	409
	Cost of inventories sold (note 21)	**767,346**	708,317
	Write-down of inventories (note 21)	**2,957**	—
	Reversal of inventories write-down (note 21)	**—**	(1,282)
	Depreciation of property, plant and equipment (note 13)	**8,605**	5,579
	Amortisation of leasehold land for own use under operating leases (note 13)	**1,365**	1,365
	Impairment losses on trade receivables/ (reversal of impairment losses on trade receivables) (note 22(c))	**135**	(237)
	Reversal of impairment loss on other receivables	**(576)**	—
	Write-off of bills receivables	**—**	248
	Loss on disposal of property, plant and equipment	**36**	119
	Operating lease charges in respect of land and buildings	**7,602**	7,863
	Rental income from investment properties less direct outgoings of RMB391,000 (2017: RMB460,000)	**(2,533)**	(2,304)
	Research and development costs	**13,872**	12,828
	Equity-settled share-based payments		
	– staff costs	**—**	7,172
	– consultancy fees to quasi-employees	**332**	442

Note:

(i) Cost of inventories recognised as expenses includes approximately RMB34,456,000 (2017: RMB31,170,000) relating to staff costs, depreciation and operating lease rentals, which are included in the respective total amounts disclosed separately above.

8. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

a) *Income tax in the consolidated statement of profit or loss represents:*

	2018	2017
	RMB'000	RMB'000
Hong Kong Profits Tax		
– Current year	**5,383**	6,035
PRC Enterprise Income Tax		
– Current year	**13,622**	13,288
Deferred tax (note 28(b))		
– Origination and reversal of temporary differences	**(384)**	(2,528)
	18,621	16,795

i) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.

ii) The provision for Hong Kong Profits Tax for the years ended 31 December 2018 and 2017 is calculated at 16.5% of the estimated assessable profits for the year.

iii) The PRC Enterprise Income Tax charge of the Group during the years ended 31 December 2018 and 2017 represented mainly the PRC Enterprise Income Tax charge from the Group's PRC subsidiaries, Shenzhen Kingworld Medicine Company Limited ("SZ Kingworld"), Shenzhen Dong Di Xin Technology Company Limited ("Dong Di Xin") and are based on a statutory rate of 25% (2017: 25%), except for Dong Di Xin, which is chargeable at a preferential income tax rate of 15%.

8. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(Continued)*

b) *Reconciliation between tax expense and accounting profit at the applicable tax rates:*

	2018 **RMB'000**	2017 RMB'000
Profit before taxation	**70,380**	83,327
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdiction concerned	**19,291**	21,615
Tax effect of non-deductible expenses	**7,014**	16,078
Tax effect of non-taxable income	**(9,463)**	(23,020)
Tax effect of prior years' tax losses utilised	**—**	(66)
Tax effect of unrecognised temporary differences	**302**	(503)
Tax effect of unused tax losses not recognised	**1,494**	2,740
Tax concession	**(17)**	(49)
Actual tax expense	**18,621**	16,795

c) As at 31 December 2018, the undistributed profits of the Group's PRC subsidiaries amounted to approximately RMB344,967,000 (2017: RMB296,857,000) for which the potential deferred tax liabilities of approximately RMB17,249,000 (2017: RMB14,843,000) have not been recognised in these financial statements because the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

9. DIVIDENDS

a) *Dividends payable to owners of the Company attributable to the year*

	2018 **RMB'000**	2017 RMB'000
Final dividend proposed after the end of the reporting period of HK2.25 cents (equivalent to RMB1.98 cents) (2017: HK3.43 cents (equivalent to RMB2.87 cents)) per ordinary share	**12,326**	17,866

The final dividend for the year ended 31 December 2018 proposed after the end of the reporting period is subject to approval by the Company's shareholders in the forthcoming annual general meeting. It has not been recognised as a liability at the end of the reporting period.

b) *Dividends payable to owners of the Company attributable to the previous financial year, approved and paid during the year*

	2018 **RMB'000**	2017 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK3.43 cents (equivalent to approximately RMB3.01 cents) (2017: HK2.95 cents (equivalent to approximately RMB2.47 cents))	**18,751**	15,350

10. EARNINGS PER SHARE

a) *Basic earnings per share*

The calculation of the basic earnings per share attributable to owners of the Company is based on the following data:

	2018 **RMB'000**	2017 RMB'000
Earnings		
Profit for the year attributable to owners of the Company	**41,005**	51,060
Earnings for the purpose of basic earnings per share	**41,005**	51,060

	2018 **'000**	2017 '000
Number of shares		
Weighted average number of ordinary shares in issue	**622,500**	622,500
Weighted average number of ordinary shares for the purpose of basic earnings per share	**622,500**	622,500

b) *Diluted earnings per share*

Diluted earnings per share for the years ended 31 December 2018 and 2017 was the same as the basic earnings per share because of the exercise price of the share options granted was higher than the weighted average market price of the Company's shares during the years ended 31 December 2018 and 2017. As the conversion or exercise of the share options would have an anti-dilutive effect on earnings per share, the calculation of diluted earnings per share does not assume conversion or exercise of potential ordinary shares of the share options.

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation and the chief executive's emoluments are as follows:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Equity-settled share-based payment RMB'000	Total RMB'000
2018						
Executive directors:						
Zhao Li Sheng						
(chief executive officer)	**—**	**1,232**	**—**	**15**	**—**	**1,247**
Chan Lok San	**—**	**1,029**	**—**	**15**	**—**	**1,044**
Zhou Xuhua	**—**	**859**	**284**	**51**	**—**	**1,194**
Independent non-executive						
directors:					**—**	
Duan Jidong	**156**	**—**	**—**	**—**	**—**	**156**
Wong Cheuk Lam	**156**	**—**	**—**	**—**	**—**	**156**
Zhang Jianbin	**156**	**—**	**—**	**—**	**—**	**156**
	468	**3,120**	**284**	**81**	**—**	**3,953**
2017						
Executive directors:						
Zhao Li Sheng						
(chief executive officer)	—	1,246	—	16	256	1,518
Chan Lok San	—	1,039	—	16	231	1,286
Zhou Xuhua	—	853	739	53	231	1,876
Independent non-executive						
directors:						
Duan Jidong	156	—	—	—	203	359
Wong Cheuk Lam	156	—	—	—	203	359
Zhang Jianbin	156	—	—	—	203	359
Non-executive director:						
Zhang Yi (resigned on						
18 December 2017)	—	—	—	—	—	—
	468	3,138	739	85	1,327	5,757

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*

During the years ended 31 December 2018 and 2017, no amount was paid or payable to the directors or chief executive or any of the five highest paid individuals set out in note 12 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which any director or chief executive waived or agreed to waive any emolument during both years.

12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group include 3 (2017: 3) directors during the year, whose emoluments are disclosed in note 11. The aggregate of the emoluments in respect of the remaining individuals are as follows:

	2018	2017
	RMB'000	RMB'000
Salaries and other emoluments	**1,133**	1,301
Retirement scheme contributions	**32**	29
Equity-settled share-based payment	**—**	348
	1,165	1,678

The emoluments of individuals other than directors with the highest emoluments are within the following band:

	2018	2017
Nil to HK$1,000,000	**2**	2

13. LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES/PROPERTY, PLANT AND EQUIPMENT

	Property, plant and equipment								
	Buildings held for own use (notes a and b) RMB'000	**Leasehold improvements** RMB'000	**Furniture, fixtures and office equipment** RMB'000	**Machineries** RMB'000	**Motor vehicles** RMB'000	**Construction-in-progress** RMB'000	**Sub-total** RMB'000	**Leasehold land held for own use under operating leases** (notes a and b) RMB'000	**Total** RMB'000
Cost									
At 1 January 2017	—	3,911	19,029	14,220	10,471	1,268	48,899	—	48,899
Exchange adjustments	—	(7)	(5)	—	(361)	—	(373)	—	(373)
Transferred from deposit paid for property, plant and equipment	12,618	—	—	—	—	—	12,618	62,382	75,000
Transferred from deposit paid for acquisition of land	—	—	—	—	—	—	—	18,988	18,988
Other costs for acquisition of land	—	—	—	—	—	—	—	12,193	12,193
Additions	11,641	111	1,690	4,911	617	8,962	27,932	—	27,932
Transferal	—	8,588	220	—	—	(8,808)	—	—	—
Disposals	—	—	(393)	(185)	(150)	—	(728)	—	(728)
At 31 December 2017	24,259	12,603	20,541	18,946	10,577	1,422	88,348	93,563	181,911
At 1 January 2018	24,259	12,603	20,541	18,946	10,577	1,422	88,348	93,563	181,911
Exchange adjustments	—	5	3	—	261	—	269	—	269
Additions	—	541	2,072	3,977	1,096	3,680	11,366	306	11,672
Transferal	—	—	2,831	—	—	(2,831)	—	—	—
Disposals	—	(1)	(433)	(394)	(662)	—	(1,490)	—	(1,490)
At 31 December 2018	24,259	13,148	25,014	22,529	11,272	2,271	98,493	93,869	192,362
Accumulated depreciation									
At 1 January 2017	—	3,443	8,960	5,868	7,820	—	26,091	—	26,091
Exchange adjustments	—	(7)	(5)	—	(256)	—	(268)	—	(268)
Charge for the year	1,091	995	1,392	1,589	512	—	5,579	1,365	6,944
Disposals	—	—	(293)	(99)	(145)	—	(537)	—	(537)
At 31 December 2017	1,091	4,431	10,054	7,358	7,931	—	30,865	1,365	32,230
At 1 January 2018	1,091	4,431	10,054	7,358	7,931	—	30,865	1,365	32,230
Exchange adjustments	—	5	3	—	213	—	221	—	221
Charge for the year	1,091	1,961	2,779	2,136	638	—	8,605	1,365	9,970
Disposals	—	—	(173)	(362)	(647)	—	(1,182)	—	(1,182)
At 31 December 2018	2,182	6,397	12,663	9,132	8,135	—	38,509	2,730	41,239
Carrying amount									
At 31 December 2018	22,077	6,751	12,351	13,397	3,137	2,271	59,984	91,139	151,123
At 31 December 2017	23,168	8,172	10,487	11,588	2,646	1,422	57,483	92,198	149,681

13. LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES/PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Note:

(a) Leasehold land held for own use under operating leases and buildings held for own use are situated in the PRC under medium-term leases as at 31 December 2018 and 2017.

(b) As at 31 December 2018, certain leasehold land held for own use under operating leases and buildings held for own use with a total carrying amount of RMB81,728,000 (2017: RMB84,185,000) were pledged in favour of a bank for bank loans of the Group (note 27).

14. INVESTMENT PROPERTIES

	RMB'000
Fair value	
At 1 January 2017	108,130
Fair value adjustment	4,470
At 31 December 2017 and 1 January 2018	112,600
Fair value adjustment	10,000
At 31 December 2018	122,600

a) The Group's investment properties were revalued as at 31 December 2018 and 2017 on an open market value basis calculated by reference to (i) comparable market transactions in the relevant markets or (ii) net rental income allowing for reversionary income potential. The valuations were carried out by an independent firm of qualified valuers, Cushman & Wakefield Limited ("Cushman & Wakefield"), who amongst its staff have members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The Group's property manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results when the valuations are performed at each annual reporting date.

b) The Group's investment properties are held under medium-term lease in the PRC.

c) At 31 December 2018, certain of the Group's investment properties with a total fair value of approximately RMB108,900,000 (2017: RMB100,000,000) were pledged in favour of the banks for the bank loans and banking facilities granted to the Group (note 27).

14. INVESTMENT PROPERTIES *(Continued)*

d) *Fair value measurement of properties*

(i) Fair value hierarchy

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

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

		Fair value measurements as at 31 December 2018 categorised into		
	Fair value at 31 December 2018 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Group				
Recurring fair value measurement				
Investment properties:				
– Commercial – PRC	**122,600**	**—**	**—**	**122,600**

14. INVESTMENT PROPERTIES *(Continued)*

d) *Fair value measurement of properties (Continued)*

(i) *Fair value hierarchy (Continued)*

	Fair value at 31 December 2017 RMB'000	Fair value measurements as at 31 December 2017 categorised into Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Group				
Recurring fair value measurement				
Investment properties:				
– Commercial – PRC	112,600	—	—	112,600

During the years ended 31 December 2018 and 2017, 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.

(ii) *Information about Level 3 fair value measurements*

		Valuation techniques	Unobservable input	Range
Investment properties: – Commercial – PRC	(i)	Direct comparison method	Sales evidence of comparable properties (adjusted for the difference in the quality and location of the properties)	RMB42,782-RMB45,252 per square meter (2017: RMB36,712 - RMB39,650)
	(ii)	Discounted cash flow	Risk-adjusted discount rate (i.e. market rental yield)	4% (2017: 4.25%-4.50%)
			Expected market rental growth	4% (2017: 4.25%-4.50%)
			Expected occupancy rate	100% (2017: 100%)

14. INVESTMENT PROPERTIES *(Continued)*

d) *Fair value measurement of properties* *(Continued)*

(ii) Information about Level 3 fair value measurements (Continued)

The fair value of investment properties located in the Mainland China is determined by (i) direct comparison method with reference to the sales evidence of comparable properties (adjusted for difference in the quality and location of the properties) or where appropriate, (ii) discounting a projected cash flow forecast associated with the properties using risk-adjusted discount rate which is the market rental yield for the properties. The valuation takes into account expected market rental growth and occupancy rate of the respective properties. The discount rate used has been adjusted for the quality and location of the buildings and the tenant credit quality. The fair value measurement is positively correlated to the sales price of comparable properties, the expected market rental growth and the occupancy rate, and negatively correlated to the risk-adjusted discount rate.

The movements during the year in the balance of these Level 3 fair value measurements are as follows:

	2018 **RMB'000**	2017 RMB'000
Investment properties – Commercial – Mainland China		
At 1 January	**112,600**	108,130
Net gain from a fair value adjustment recognised in valuation gains on investment properties in profit or loss	**10,000**	4,470
At 31 December	**122,600**	112,600

e) The Group leases out investment properties under operating leases. The leases run for a period for one to three years (2017: one to two years). None of the leases include contingent rentals.

Total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2018 **RMB'000**	2017 RMB'000
Within 1 year	**2,760**	1,681
After 1 year but within 5 years	**801**	1,051
	3,561	2,732

f) All properties held under operating lease that would otherwise meet the definition of investment property are classified as investment property.

(Expressed in Renminbi)

15. SUBSIDIARIES

The following is a list of principal subsidiaries of the Group as at 31 December 2018.

Name	Place of incorporation/ operations	Proportion of ownership interest held by the Group at effective interest	Class of shares/ capital held	Particulars of issued and paid up capital	Principal activities
Kingworld Medicine and Healthcare Group Limited ("BVI Kingworld")	The BVI/Hong Kong	100%	Ordinary shares	111 shares of US$1 each	Investment holding
Kingworld Medicine Healthcare Limited	Hong Kong	100%	Ordinary shares	195,546,680 shares	Investment holding and distribution sale of branded imported pharmaceutical and healthcare products in Hong Kong
金活(香港)控股有限公司 Kingworld (Hong Kong) Holdings Limited	Hong Kong	100%	Ordinary shares	1 share	Investment holding
深圳市金活醫藥有限公司 SZ Kingworld Medicine Company Limited (note (b)) ("SZ Kingworld")	The PRC	100%	Registered capital	RMB180,900,000	Distribution sale of branded imported pharmaceutical and healthcare products in the PRC
深圳市東迪欣科技有限公司 Shenzhen Dong Di Xin Technology Company Limited (note (c)) ("Dong Di Xin")	The PRC	55%	Registered capital	RMB2,000,000	Manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices in the PRC
深圳市龍德健康有限公司 Shenzhen City Longde Jiankang Company Limited	The PRC	90%	Registered capital	RMB28,800,000	Property investment

15. SUBSIDIARIES *(Continued)*

Notes:

a) Except for BVI Kingworld which is directly owned by the Company, all other principal subsidiaries are indirectly owned by the Company.

b) Wholly-foreign owned enterprise established in the PRC.

c) Limited liability company established in the PRC.

d) The English names of the above PRC subsidiaries are for identification purpose only.

e) The following table lists out the information relating to Dong Di Xin, the only subsidiary of the Group which has a material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

	Dong Di Xin	
	2018	2017
	RMB'000	RMB'000
NCI percentage	**45%**	45%
Current assets	**144,390**	171,664
Non-current assets	**84,476**	99,204
Current liabilities	**(60,777)**	(64,152)
Non-current liabilities	**(9,269)**	(12,004)
Net assets	**158,820**	194,712
Carrying amount of NCI*	**72,438**	88,541
Revenue	**204,921**	209,362
Profit for the year	**23,586**	34,046
Total comprehensive income	**22,505**	33,267
Profit allocated to NCI*	**10,754**	15,472
Total comprehensive income allocated to NCI*	**10,718**	15,194
Dividend paid to NCI* (notes f & g)	**26,821**	52,488
Cash flows from operating activities	**8,377**	55,811
Cash flows from investing activities	**20,174**	34,394
Cash flows from financing activities	**(43,608)**	(78,675)

* These also include amounts attributable to the NCI of Shenzhen Zhilong Jinggong Technology Company Limited, a subsidiary of Dong Di Xin which is 51% owned by Dong Di Xin.

15. SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

f) Distributions declared and approved, paid or payable to the non-controlling shareholders of Dong Di Xin, and the non-controlling shareholders of a subsidiary of Dong Di Xin during the year

	2018	2017
	RMB'000	RMB'000
Dividends declared and approved during the financial year:		
To non-controlling shareholders of Dong Di Xin		
– paid during the year	**25,427**	41,400
– payable at end of the year (note 26(d))	**—**	10,000
	25,427	51,400
To non-controlling shareholders of a subsidiary of Dong Di Xin		
– paid during the year	**1,394**	1,088
	26,821	52,488

g) Deemed distributions to non-controlling shareholders of Dong Di Xin

As at 31 December 2017, included in the amount of RMB51,400,000 paid/payable to the non-controlling shareholders of Dong Di Xin are special distributions of RMB20,000,000 paid and payable by Dong Di Xin to its non-controlling shareholders in relation to undistributed profits prior to acquisition of 55% equity interest of Dong Di Xin in 2015, as agreed between the Group and non-controlling shareholders of Dong Di Xin. Accordingly, after these special distributions to the non-controlling shareholders of Dong Di Xin, the Group's interests in Dong Di Xin have been decreased by RMB11,000,000 which was regarded as deemed distributions to the non-controlling interests.

16. GOODWILL

	RMB'000
Cost	
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	90,693
Accumulated impairment losses	
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	—
Carrying amount	
At 31 December 2018	90,693
At 31 December 2017	90,693

The goodwill arose on acquisition of Dong Di Xin during the year ended 31 December 2015. The goodwill represented the expected future profitability of Dong Di Xin as an established business at the acquisition date.

The recoverable amount of the cash-generating units ("CGU") has been determined based on a value in use calculation. At 31 December 2018, the recoverable amount of the CGU to which goodwill is allocated is determined taking into account the valuation performed by Hong Kong Appraisal Advisory Limited, an independent firm of qualified valuers not connected to the Group and with qualification and experiences in valuing similar assets, based on the cash flows forecasts derived from the most recent financial budgets for the next 5 years (2017: 5 years) approved by the management using the pre-tax discount rate of 18.92% (2017: 20.70%) per annum which reflects current market assessments of the time value of money and the risks specific to the CGU. Other key assumptions for the value in use calculations are the budgeted growth rate of 3% to 4% (2017: -2% to 5%) and budgeted gross margin of 45.7% (2017: 44.5%), which are determined based on past performance, management's expectations for the market development and market growth forecasts.

Based on the results of the valuation, the recoverable amount has been assessed as being higher than the carrying amount. Accordingly, no impairment loss (2017: nil) on goodwill has been recognised for the year.

The management believes that any reasonably possible change in the key assumptions would not cause the carrying amount of the goodwill to exceed its recoverable amount.

17. INTEREST IN ASSOCIATES

	2018 RMB'000	2017 RMB'000
Share of net assets	**4,026**	—

The following list contains only the particulars of associates, which are unlisted corporate entity whose quoted market price is not available:

Name of associate	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital/ Registered capital	Proportion of ownership interest held by a subsidiary of the Group at effective interest	Principal activity
深圳至元健康科技創新中心	Limited liability company	The PRC	RMB20,500,000	48.78%	Marketing and promotion of healthcare and technology
Ming VitaMed Enterprise III Limited	Limited liability company	The BVI	USD1,000	24%	Inactive

The associates are accounted for using the equity method in the consolidated financial statements.

Summarised financial information of the material associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	2018 RMB'000	2017 RMB'000
Gross amounts of the associate	**4,025**	—
Current assets	**8,251**	—
Non-current assets	**—**	—
Current liabilities	**—**	—
Non-current liabilities	**—**	—
Equity	**8,251**	—
Revenue	**—**	—
Loss from continuing operations	**(1,999)**	—
Post-tax profit or loss from discontinued operations	**—**	—
Other comprehensive income	**—**	—
Total comprehensive income	**(1,999)**	—
Dividend received from the associate	**—**	—
Reconciled to the group's interest in the associate		
Gross amounts of net assets of the associate	**8,251**	—
Group's effective interest	**48.78%**	—
Group's share of net assets of the associate	**4,025**	—
Carrying amount in the consolidated financial statements	**4,025**	—
Loss shared by the Group	**975**	—

17. INTEREST IN ASSOCIATES *(Continued)*

Aggregate information of an associate that is individually not material:

	2018 RMB'000	2017 RMB'000
Aggregate carrying amount of individually immaterial associate in the consolidated financial statements	**1**	—
Aggregate amounts of the group's share of these associate's		
Profit from continuing operations	—	—
Post-tax profit or loss from discounted operations	—	—
Other comprehensive income	—	—
Total comprehensive income	—	—

18. INTEREST IN A JOINT VENTURE

	2018 RMB'000	2017 RMB'000
Share of net assets	**62,579**	43,067

Details of the Group's interest in a joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

Name of entity	Form of business structure	Place of incorporation and operation	Class of capital held	Particulars of issued and paid up capital	Proportion of ownership interest held by a subsidiary of the Group at effective interest	Principal activities
珠海市金明醫藥有限公司 Zhuhai City Jinming Medicine Company Limited ("Zhuhai Jinming")	Limited liability company	The PRC	Registered capital	RMB5,000,000	50%	Distribution sale of branded imported pharmaceutical and healthcare products in the PRC

Notes:

a) Zhuhai Jinming was established by a wholly-owned subsidiary of the Company with a pharmaceutical and healthcare product distributor in the Mainland China, the other investor to this joint venture, to carry out the Group's distribution sales of pharmaceutical and healthcare products in the Guangdong province in the PRC.

b) The English name of the above PRC joint venture is for identification purpose only.

Zhuhai Jinming, the only joint venture in which the Group participates, is an unlisted corporate entity whose quoted market price is not available.

The joint venture is accounted for using equity method in the consolidated financial statements.

18. INTEREST IN A JOINT VENTURE *(Continued)*

Summarised financial information of Zhuhai Jinming and a reconciliation to the carrying amount in the consolidated financial statements, are disclosed below:

	2018 **RMB'000**	2017 RMB'000
Gross amounts of Zhuhai Jinming		
Current assets	**55,760**	67,152
Non-current assets	**164,056**	135,183
Current liabilities	**(69,496)**	(97,003)
Non-current liabilities	**(25,162)**	(19,198)
Equity	**125,158**	86,134
Included in the above assets and liabilities:		
Cash and cash equivalents	**2,253**	9,666
Current financial liabilities (excluding trade and other payables)	**(979)**	(1,766)
Non-current financial liabilities	**(25,162)**	(19,198)
Revenue	**200,940**	178,868
Profit from continuing operations	**39,024**	27,668
Other comprehensive income	**—**	—
Total comprehensive income	**39,024**	27,668
Included in the above profit:		
Valuation gain on investment property	**23,858**	15,984
Depreciation	**(512)**	(174)
Interest income	**31**	26
Income tax expense	**(12,538)**	(8,556)
Reconciled to the Group's interest in Zhuhai Jinming		
Gross amounts of Zhuhai Jinming's net assets	**125,158**	86,134
Group's effective interest	**50%**	50%
Carrying amount in the consolidated financial statements	**62,579**	43,067
Profit shared by the Group	**19,512**	13,834
Other comprehensive income shared by the Group	**—**	—
Total comprehensive income shared by the Group	**19,512**	13,834
Dividends declared and approved, paid or payable to shareholders of Zhuhai Jinming during the year:		
– paid during the year	**—**	40,400
– payable at end of the year	**—**	39,600
	—	80,000
Dividends shared by the Group during the financial year:		
– paid during the year	**—**	20,200
– payable at end of the year (note 22)	**—**	19,800
	—	40,000

(Expressed in Renminbi)

18. INTEREST IN A JOINT VENTURE *(Continued)*

The fair value of Zhuhai Jinming's investment properties as at 31 December 2018 and 2017 were determined on an open market value basis calculated by reference to net rental income allowing for reversionary income potential, which is categorised under Level 3 fair value measurements. The valuations at 31 December 2018 and 2017 were carried out by an independent firm of qualified valuers, Cushman & Wakefield Limited, who amongst their staff have members of the Hong Kong Institute of Surveyors with recent experience in the location and category of properties being valued.

Information about Level 3 fair value measurements is as follows:

	Valuation techniques	Unobservable input	Range
Investment properties: – Commercial – PRC	Discounted cash flow	Risk-adjusted discount rate (i.e. market rental yield)	6% (2017: 6%)
		Expected market rental growth	6% (2017: 6%)
		Expected occupancy rate	100% (2017: 100%)

The fair value of investment properties of Zhuhai Jinming is determined by discounting a projected cash flow forecast associated with the properties using risk-adjusted discount rate which is the market rental yield for the properties. The valuation takes into account expected market rental growth and occupancy rate of the respective properties. The discount rates used have been adjusted for the quality and location of the buildings and the tenant credit quality. The fair value measurement is positively correlated to the expected market rental growth and the occupancy rate, and negatively correlated to the risk-adjusted discount rate.

19. INTANGIBLE ASSETS

	Customer relationship (note a) RMB'000	Patents (note b) RMB'000	Total RMB'000
Cost			
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	104,727	28,700	133,427
Accumulated amortisation and impairment losses			
At 1 January 2017	25,091	11,002	36,093
Charge for the year	13,091	5,740	18,831
At 31 December 2017	38,182	16,742	54,924
At 1 January 2018	38,182	16,742	54,924
Charge for the year	13,091	5,740	18,831
At 31 December 2018	51,273	22,482	73,755
Carrying amount			
At 31 December 2018	53,454	6,218	59,672
At 31 December 2017	66,545	11,958	78,503

Notes:

(a) The customer relationship has a finite useful life and is amortised on a straight-line basis over 8 years.

(b) The patents represent the patent rights and know-how of the Group in relation to the manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices which are amortised on a straight-line basis over 5 years.

The recoverable amount of the cash-generating units ("CGU") has been determined based on a value in use calculation. At 31 December 2018, the recoverable amount of the CGU to which intangible assets in allocated is determined taking into account the valuation performed by Hong Kong Appraisal Advisory Limited, an independent firm of qualified valuers not connected to the Group and with qualifications and experiences in valuing similar assets, based on the cash flows forecasts derived from the most recent financial budgets for the next 5 years (2017: 5 years) approved by the management using the pre-tax discount rate of 18.92% (2017: 20.70%) per annum which reflects current market assessments of the time value of money and the risks specific to the CGU. Other key assumptions for the value in use calculations are the budgeted growth rate of 3% to 4% (2017: -2% to 5%) and budgeted gross margin of 45.7% (2017: 44.5%), which are determined based on past performance, management's expectations for the market development and market growth forecasts.

Based on the results of the valuation, the recoverable amount has been assessed as being higher than the carrying amount. Accordingly, no impairment loss (2017: nil) on the intangible assets has been recognised for the year.

The management believes that any reasonably possible change in the key assumptions would not cause the carrying amounts of the intangible assets to exceeds their recoverable amounts.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPRENENSIVE INCOME/ AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Note	**31 December 2018 RMB'000**	**1 January 2018 RMB'000**	**31 December** 2017 RMB'000
Non-current				
Financial assets at fair value through other comprehensive income (non-recycling)				
– Unlisted Equity Investment, at fair value	(a) and (b)	**24,190**	**14,141**	—
Available-for-sale financial assets				
– Unlisted Equity Investment, at cost	(a)	—	—	300
– Unlisted Equity Investments, at fair value	(b)	—	—	13,841
		24,190	**14,141**	14,141
Current				
Available-for-sale financial assets				
– Bank Wealth Management Products, at fair value	(c)	—	**25,783**	25,783

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPRENENSIVE INCOME/ AVAILABLE-FOR-SALE FINANCIAL ASSETS *(Continued)*

Notes:

(a) As at 31 December 2017, this available-for-sale investment represents investment in unlisted equity securities which are designated as available-for-sale financial assets and has no fixed maturity date or coupon rate. As at 31 December 2017, this unlisted equity securities were stated at cost less impairment, if any, because the range of reasonable fair value estimates is so significant that the directors are of the opinion that its fair value cannot be measured reliably. The Group does not intend to dispose it in the near future. The investment was reclassified as financial assets at fair value through other comprehensive income (non-recycling) since 1 January 2018 upon adoption of HKFRS 9.

(b) Included in unlisted equity investments measured at fair value at 31 December 2018 and 2017 are:

(i) investment in 5.52% interest in Sinopharm Healthcare Fund L. P. (the "Fund") which are designated as financial assets at fair value through other comprehensive income (non-recycling) (2017: available-for-sale financial assets at fair value through other comprehensive income (recycling)) and has no fixed maturity date or coupon rate. Pursuant to a partnership agreement signed on 24 June 2015, the Group has committed to invest US$5 million (equivalent to approximately RMB33.93 million) to subscribe approximately 5.52% of the aggregate initial limited partners' interest of the Fund. At the same contributed, the Fund holds approximately 9.99% of the total issued share capital of the Company. During the year ended 31 December 2015 and 2016, the Group has contributed US$1.5 million (equivalent to approximately RMB10.18 million) and US$1 million (equivalent to approximately RMB6.9 million), respectively, into the Fund. During the year ended 31 December 2018, the Group contributed the remaining US$2.5 million (equivalent to approximately RMB17.25 million) into the Fund. The fair value of the Group's interest in the Fund is determined taken into account the valuation performed by Hong Kong Appraisal Advisory Limited, an independent valuer not connected to the Group, based on the quoted prices of equity instruments for which the Fund invested in. During the year ended 31 December 2018, an decrease in fair value amounting to RMB7,858,000 has been recognised to other comprehensive income. As at 31 December 2018, the fair value of the investment is approximately HK$25.6 million (equivalent to RMB22.5 million) (2017: HK$14.9 million (equivalent to RMB12.4 million)). The Group does not intend to dispose it in the near future.

A cross-holding position has been existing between the Fund and the Company. The Group's interest in the Fund is 5.52% and the Fund held in aggregate 9.99% of the issued share capital of the Company.

(ii) investment in 15% interest in Dong Hua Tong Investments Limited which are designated as financial assets at fair value through other comprehensive income (non-recycling) (2017: available-for-sale financial assets at fair value through other comprehensive income (recycling)) and has no fixed maturity date or coupon rate. The fair value of the investment was also determined with reference to valuation performed by Hong Kong Appraisal Advisory Limited based on the median of the market multiples of market comparable companies after adjusting for lack of marketability and control discount. As at 31 December 2018, the fair value of the investment is approximately HK$1.6 million (equivalent to RMB1.4 million) (2017: HK$1.7 million (equivalent to RMB1.4 million)). The Group does not intend to dispose it in the near future.

These investments were reclassified as financial assets at fair value through other comprehensive income (non-recycling) since 1 January 2018 upon adoption of HKFRS 9.

(c) As at 31 December 2017, the amount represents investments in bank wealth management products issued by banks with expected return ranging from 3% to 5% per annum and matured within one year. The carrying amount approximated the fair value. The fair values are approximate to their costs plus expected return by reference to valuation performed by Hong Kong Appraisal Advisory Limited, an independent frim of qualified valuers not connected to the Group. The investments were reclassified as financial assets at fair value through other comprehesive income (recycling) since 1 January 2018 upon adoption of HKFRS 9.

21. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	**15,827**	7,113
Work in progress	**4,183**	5,546
Finished goods	**162,054**	136,222
	182,064	148,881

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2018 RMB'000	2017 RMB'000
Carrying amount of inventories sold	**767,346**	708,317
Write-down of inventories	**2,957**	—
Reversal of inventories write-down	**—**	(1,282)

22. TRADE AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade and bills receivables	**299,605**	259,987
Less: Allowance for doubtful debts (note (c))	**(5,575)**	(5,440)
	294,030	254,547
Other receivables	**31,369**	38,979
Other loan (note (e))	**45,958**	43,743
Amounts due from related parties (note 34(b))	**1,020**	553
Amount due from an associate (note 34(b))	**4,140**	—
Dividend receivable from a joint venture (note 18)	**—**	19,800
Loans and receivables	**376,517**	357,622
Prepayments	**18,956**	22,006
Trade and other deposits	**2,044**	1,182
Trade deposits to related parties (note 34(b))	**19,265**	32,064
	416,782	412,874

a) All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

22. TRADE AND OTHER RECEIVABLES *(Continued)*

b) *Ageing analysis*

Included in trade and other receivables are trade and bills receivables (net of allowance for doubtful debts) with the following ageing analysis based on invoice date, as of the end of the reporting period:

	2018 RMB'000	2017 RMB'000
0-90 days	**250,884**	225,323
91-120 days	**9,857**	2,843
121-180 days	**11,671**	9,159
181-365 days	**21,586**	17,209
More than 1 year	**32**	13
	294,030	254,547

The Group generally granted credit terms ranging from 30 days to 120 days to its customers. Further details on the Group's credit policy are set out in note 30(a).

c) *Impairment of trade and bills receivables*

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly.

Movements in the allowance for doubtful debts:

	2018 RMB'000	2017 RMB'000
At 1 January	**5,440**	5,677
Impairment losses recognised (note 7(c))	**135**	—
Impairment losses reversed (note 7(c))	**—**	(237)
At 31 December	**5,575**	5,440

As at 31 December 2018, trade and bills receivables amounting to RMB5,575,000 (2017: RMB5,440,000) were determined to be impaired according to the expected credit loss rates (2017: being individually impaired receivables outstanding over a long period). Accordingly, allowances for doubtful debts of RMB5,575,000 (2017: RMB5,440,000) were recognised as at 31 December 2018. The Group does not hold any collateral over these balances.

22. TRADE AND OTHER RECEIVABLES *(Continued)*

d) *Trade and bills receivables that are not impaired*

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The ageing analysis of trade and bills receivables (net of allowance for doubtful debts) that are neither individually nor collectively considered to be impaired is as follows:

	As at 31 December 2018				
	Lifetime ECL %	Gross carrying amount RMB'000	Lifetime ECL RMB'000	Net carrying amount RMB'000	Credit impaired Yes/NO
Not past due	—%	248,848	—	248,848	No
Past due					
0-90 days	—%	23,157	—	23,157	No
91-180 days	0.35%	22,002	(78)	21,924	No
181-365 days	47.67%	193	(92)	101	No
Credit impaired	100%	5,405	(5,405)	—	Yes
		299,605	(5,575)	294,030	

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Comparative information under HKAS 39:

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 2(j)(i) – policy applicable prior to 1 January 2018).

22. TRADE AND OTHER RECEIVABLES *(Continued)*

d) Trade and bills receivables that are not impaired (Continued)

The ageing analysis of trade and bills receivables (net of allowance for doubtful debts) that are neither individually nor collectively considered to be impaired is as follows:

	2017 RMB'000
Neither past due nor impaired	225,323
Past due but not impaired	
– 91-180 days	12,002
– 181-365 days	17,209
– More than 1 year	13
	29,224
	254,547

Receivables that were neither past due nor impaired relate to a wide range of customers for which there was no recent history of default.

Receivables that were past due but not impaired relate to a number of individual customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

Receivables that were neither past due nor impaired relate to a wide range of customers for which there was no recent history of default.

Receivables that were past due but not impaired relate to a number of individual customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

e) The amount represents shareholders' loan of HK$52.3 million (equivalent to RMB45.9 million) (2017: HK$52.3 million (equivalent to RMB43.7 million)) to Dong Hua Tong Investment Limited in which the Group has held 15% interests as further detailed in note 20(b)(ii). The amount is unsecured, interest-free and repayable on demand. The directors of the Company considered that no impairment on the amount is necessary, taking into account the financial position of Dong Hua Tong Investment Limited at 31 December 2018 and the dividends received from Dong Hua Tong Investment Limited during the two years ended 31 December 2018 and 2017.

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Note	2018 RMB'000	2017 RMB'000
Non-current			
Unlisted Equity Investments, at fair value	(a)	**5,549**	4,775
Current			
Listed securities			
– Chuangmei Pharmaceutical Co., Ltd. ("Chuangmei")	(b)	**15,135**	17,895

The above financial assets at 31 December 2018 and 2017 were upon initial recognition, designated by the Company at fair value through profit or loss.

(a) The Group have invested in 10% interest in Shenzhen Qianhai Industry Internet Co., Ltd.. The fair value of the investment was determined with reference to valuation performed by Hong Kong Appraisal Advisory Limited based on the median of the market multiples of market comparable companies after adjusting for lack of marketability and control discount. As at 31 December 2018, the fair value of the investment is approximately RMB5.5 million. The Group does not intend to dispose it in the near future.

(b) Chuangmei was incorporated in the PRC and the shares of which are listed on the Main Board of the Stock Exchange of Hong Kong Limited. As at 31 December 2018, a total of 2,302,000 ordinary shares of Chuangmei were held by the Company, representing 2.13% of Chuangmei's total issued ordinary shares. As at 31 December 2018, the fair value of investment in Chuangmei ordinary shares was determined with reference to the closing market price of its shares on that date.

24. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	2018 RMB'000	2017 RMB'000
Bank balances	**160,344**	232,487
Cash on hand	**316**	268
Cash and cash equivalents in the consolidated statement of cash flows and consolidated statement of financial position	**160,660**	232,755
Pledged bank deposits (note a)	**1,642**	750
Total cash and bank balances	**162,302**	233,505

Cash at bank earns interest at floating rates based on daily bank deposit rates.

a) As at 31 December 2018, the Group's pledged bank deposits for letter of credit with use restrictions amounted to RMB1,642,000 (2017: RMB750,000) (Note 26).

24. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS *(Continued)*

b) Reconciliation of liabllities arising from financing activities

	Dividend payable to NCI RMB'000	Accrued interest RMB'000	Liability component of convertible bonds RMB'000	Bank loans RMB'000	Total liabilities from financing activities RMB'000
At 1 January 2018	10,000	–	–	412,980	422,980
Interest recognised in profit or loss	–	(17,003)	–	–	(17,003)
Dividends declared and payable to non-controlling interests	26,821	–	–	–	26,821
Changes from financing cash flows					
– Proceeds from new bank loans	–	–	–	647,238	647,238
– Repayment of bank loans	–	–	–	(733,710)	(733,710)
– Dividends paid to non-controlling interests	(36,821)	–	–	–	(36,821)
Finance costs paid	–	17,003	–	–	17,003
Exchange adjustments	–	–	–	10,168	10,168
At 31 December 2018	–	–	–	336,676	336,676
At 1 January 2017	–	–	114,909	311,196	426,105
Interest recognised in profit or loss	–	16,090	10,120	–	26,210
Dividends declared and approved to non-controlling interests	52,488	–	–	–	52,488
Changes from financing cash flows					
– Proceeds from new bank loans	–	–	–	287,595	287,595
– Repayment of bank loans	–	–	–	(175,572)	(175,572)
– Redemption of convertible bonds	–	–	(115,796)	–	(115,796)
– Dividends paid to non-controlling interests	(42,488)	–	–	–	(42,488)
Finance costs paid	–	(16,090)	(5,469)	–	(21,559)
Exchange adjustments	–	–	(3,764)	(10,239)	(14,003)
At 31 December 2017	10,000	–	–	412,980	422,980

25. CONTRACT LIABILITIES

	Notes	**31 December 2018 RMB'000**	1 January 2018 RMB'000	31 December 2017 (i) RMB'000
Contract liabilities				
- Security deposits received	(ii)	**60,917**	63,743	—
- Receipts in advance	(ii)	**11,801**	6,061	—
		72,718	69,804	—

Notes:

(i) The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018.

(ii) Upon the adoption of HKFRS 15, deposits received from customers according to the requirements of the sales contracts previously included as trade deposits received and receipts in advance under "Trade and other payable" (note 26) were reclassified to contract liabilities since 1 January 2018.

Security deposits are received from the Group's distributors/customers as protection against non-performance of the obligations by the distributors/customers under the relevant master distributorship agreements which were entered into between the Group and the relevant distributors/customers. Receipts in advance are collected from the distributors/customers of the Group when they placed the orders for purchase of goods from the Group. These security deposits and receipts in advance from the distributors/customers are not intended and regarded as a financing arrangement under the relevant master distributorship agreements.

Movements in contract liabilities	**2018 RMB'000**
Balance at 1 January	**69,804**
Increase in contract liabilities as a result of receiving deposits during the year	**7,681**
Decrease in contract liabilities as a result of recognising revenue during the year that was included in contract liabilities at the beginning of the year	**(4,822)**
Exchange difference	**55**
Balance at 31 December	**72,718**

26. TRADE AND OTHER PAYABLES

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Trade payables (note (c))	**169,084**	126,636	126,636
Accruals	**8,879**	8,500	8,500
Other payables	**28,436**	27,024	27,024
Amount due to NCI (note (d))	**—**	10,000	10,000
Financial liabilities measured at amortised cost	**206,399**	172,160	172,160
Value-added tax payable	**13,312**	150	150
Trade deposits received	**—**	—	63,743
Receipts in advance	**—**	—	6,061
	219,711	172,310	242,114

a) All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

b) As at 31 December 2018, the pledged bank deposit amounted to RMB1,642,000 (2017: RMB750,000) was used for the issurance of letters of credit to the trade payables amounted to RMB1,642,000 (2017: RMB750,000).

c) Ageing analysis

Included in trade and other payables are trade payables with the following ageing analysis (presented based on invoice date) as of the end of the reporting period.

	2018 RMB'000	2017 RMB'000
0-90 days	**168,678**	125,916
91-180 days	**406**	720
	169,084	126,636

The credit terms granted by the suppliers were generally ranging from 45 days to 90 days.

d) Amount due to NCI represents special dividend payable to the NCI of Dong Di Xin as at 31 December 2017 and fully paid during the year ended 31 December 2018.

27. BANK LOANS

At 31 December 2018, the bank loans were repayable as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year or on demand	**336,676**	412,980

At 31 December 2018, the bank loans were as follows:

	2018 RMB'000	2017 RMB'000
Bank loans		
– secured (note c)	**336,676**	362,980
– unsecured	**—**	50,000
Total bank loans	**336,676**	412,980

a) All of the bank loans are carried at amortised cost.

b) The range of effective interest rates on the Group's bank loans are as follows:

	2018	2017
Effective interest rates:		
Fixed rate loans	**3.96%-6.24%**	3.3%-5.66%

c) The bank loans were secured by the following assets of the Group.

	2018 RMB'000	2017 RMB'000
Investment properties (note 14)	**108,900**	100,000
Property, plant and equipment (note 13)	**22,076**	23,168
Leasehold land held for own use under operating lease (note 13)	**59,652**	61,017

The Group's bank loans amounted to RMB146,106,000 as at 31 December 2018 were secured by Group's investment property. The Group's bank loans amounted to RMB190,570,000 as at 31 December 2018 were secured by Group's leasehold land held for own use under operating lease and property, plant and equipment and guarantee by Mr. Zhao Li Sheng, the ultimate controlling party and director of the Group, and Ms. Chan Lok San, the director of the Group.

28. CURRENT AND DEFERRED TAX

a) *Current taxation in the consolidated statement of financial position represents:*

	2018 RMB'000	2017 RMB'000
At 1 January	**10,028**	15,503
Provision for the year		
– Hong Kong Profits Tax	**5,383**	6,035
– PRC Enterprise Income Tax	**13,622**	13,288
	19,005	19,323
Paid during the year	**(24,910)**	(24,798)
At 31 December	**4,123**	10,028
Representing		
– Hong Kong Profits Tax	**4,407**	(316)
– PRC Enterprise Income Tax	**(8,530)**	10,344

b) *Deferred tax liabilities recognised*

The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Amortisation of intangible assets RMB'000	Revaluation of investment properties RMB'000	Revaluation of other property RMB'000	Convertible bonds RMB'000	Total RMB'000
At 1 January 2017	14,601	12,603	172	793	28,169
(Credited)/charged to consolidated statement of profit or loss (8(a))	(2,824)	1,089	—	(793)	(2,528)
At 31 December 2017	11,777	13,692	172	—	25,641
At 1 January 2018	**11,777**	**13,692**	**172**	**—**	**25,641**
(Credited)/charged to consolidated statement of profit or loss (note 8(a))	**(2,824)**	**2,440**	**—**	**—**	**(384)**
At 31 December 2018	**8,953**	**16,132**	**172**	**—**	**25,257**

c) *Deferred tax assets and liabilities not recognised*

Save as disclosed in note 8(c), there were no significant unrecognised deferred tax assets and liabilities of the Group and the Company as at 31 December 2018 and 2017.

29. SHARE CAPITAL AND RESERVES

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of the equity between the beginning and the end of the year are set out below:

	Share capital RMB'000 (note a)	Share premium RMB'000 (note b)	Contributed surplus RMB'000 (note d)	Convertible bonds equity reserve RMB'000 (note e)	Exchange reserve RMB'000 (note g)	Captial reserve RMB'000 (note h)	Other reserve RMB'000 (note i)	Retained profits RMB'000	Total RMB'000
At 1 January 2018	**53,468**	**152,700**	**95,863**	**—**	**(17,603)**	**8,109**	**—**	**(139,325)**	**153,212**
Change in equity:									
Loss for the year	—	—	—	—	—	—	—	**(18,569)**	**(18,569)**
Other comprehensive income for the year	—	—	—	—	**20,585**	—	_	—	**20,585**
Total comprehensive (loss)/ income for the year	—	—	—	—	**20,585**	—	—	**(18,569)**	**2,016**
Equity settled share-based transactions	—	—	—	—	—	**345**	—	—	**345**
Dividends (note 9)	—	—	—	—	—	—	—	**(18,751)**	**(18,751)**
At 31 December 2018	**53,468**	**152,700**	**95,863**	**—**	**2,982**	**8,454**	**—**	**(176,645)**	**136,822**
At 1 January 2017	53,468	152,700	95,863	6,259	(20,476)	753	(19,654)	(80,036)	188,877
Change in equity:									
Loss for the year	—	—	—	—	—	—	—	(30,544)	(30,544)
Other comprehensive income for the year	—	—	—	—	2,873	—	—	—	2,873
Total comprehensive income/ (loss) for the year	—	—	—	—	2,873	—	—	(30,544)	(27,671)
Transfer of convertible bonds equity reserve and other reserve upon derecognition	—	—	—	(6,259)	—	—	19,654	(13,395)	—
Equity settled share-based transactions	—	—	—	—	—	7,356	—	—	7,356
Dividends (note 9)	—	—	—	—	—	—	—	(15,350)	(15,350)
At 31 December 2017	53,468	152,700	95,863	—	(17,603)	8,109	—	(139,325)	153,212

29. SHARE CAPITAL AND RESERVES *(Continued)*

a) *Share Capital*

	Number of shares '000	Amount HK$'000	Amount equivalent to RMB$'000
Authorised:			
Ordinary shares of HK$0.1 each			
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	10,000,000	1,000,000	877,900
Issued and fully paid:			
Ordinary shares of HK$0.1 each			
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	622,500	62,250	53,468

b) *Share premium*

The application of the share premium account of the Company is governed by the Companies Law of the Cayman Islands.

c) *Statutory and discretionary reserves*

The Group's PRC subsidiaries are required to transfer 10% of their net profits as determined in accordance with the PRC regulations to the statutory reserve until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders.

The transfer of net profits to the discretionary reserve of the Group's PRC subsidiaries is determined by the shareholders in general meetings in accordance with the articles of association and the PRC regulations.

The statutory and discretionary reserves are non-distributable. They can be used to reduce previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

29. SHARE CAPITAL AND RESERVES *(Continued)*

d) *Contributed surplus*

The Group's contributed surplus represents the difference between the nominal value of the shares issued by the Company and the aggregate of the share capital and share premium of the subsidiaries acquired upon a group reorganisation (the "Reorganisation") which was completed on 3 November 2010 in preparation for listing of shares of the Company on the Main Board of the Stock Exchange and rationalising the Group's structure.

The Company's contributed surplus represents the excess of total net assets of the subsidiaries acquired, pursuant to the Reorganisation, over the nominal value of the Company's shares issued in exchange thereof.

e) *Convertible bonds equity reserve*

The convertible bonds equity reserve represented the value of the unexercised equity component of the mandatorily convertible bonds or Convertible Bonds issued by the Group in the previous years.

f) *Fair value reserve*

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale investments held at the end of the reporting period and is dealt with in accordance with the accounting policies in note 2(e).

g) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of the Group's operations outside the Mainland China. The reserve is dealt with in accordance with the accounting policies set out in note 2(s).

h) *Capital reserve*

The portion of the grant date fair value of unexercised share options granted to employees of the Company that has been recognised in accordance with the accounting policies adopted for share-based payments in note 2(w)(ii).

i) *Other reserve*

Other reserve represented difference between the carrying amount of the equity component of the convertible bonds and the fair value of the financial liability upon reclassification as a result of the amendments of terms and conditions of the convertible bonds issued in previous years.

29. SHARE CAPITAL AND RESERVES *(Continued)*

j) *Distributable reserves of the Company*

i) Under the Companies Law of the Cayman Islands, the funds in the share premium account and contributed surplus account of the Company are distributable to the owners of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

ii) At 31 December 2018, the aggregate amount of reserves available for distribution to owners of the Company was RMB71,918,000 (2017: RMB109,238,000). After the end of the reporting period, the directors proposed a final dividend of HK2.25 cents (equivalent to RMB1.98 cents) (2017: HK3.43 cents (equivalent to RMB2.87 cents)) per share amounting to RMB12,326,000 (2017: RMB17,866,000) (note 9). The proposed final dividend has not been recognised as a liability at the end of the reporting period.

k) *Capital management*

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while structure regularly. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt.

The Group monitors its capital structure on the basis of net debt to equity ratio. The Group defines net debt as interest-bearing bank loans, less pledged bank deposits and cash and cash equivalents. Equity comprises all components of equity.

The Group's net debt to equity ratio at 31 December 2018 and 2017 were as follows:

	2018 **RMB'000**	2017 RMB'000
Bank loans	**336,676**	412,980
Total debt	**336,676**	412,980
Less: Cash and bank balances	**(162,302)**	(233,505)
Adjusted net debt	**174,374**	179,475
Total equity	**638,230**	641,635
Net debt to equity ratio	**27.32%**	27.97%

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements in either the current or prior years.

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The Group's major financial instruments include cash and cash equivalents, financial assets at fair value through other comprehensive income (2017: available-for-sale financial assets), trade and other receivables and payables, financical assets at fair value through profit or loss, pledged bank deposits, other financial asset and liabilities, and bank loans. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, interest rate risk, currency risk and business risk. The policies on how to mitigate these risks are set out as below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

a) *Credit risk*

i) As at 31 December 2018 and 2017, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statements of financial position after deducting any impairment allowance.

ii) In respect of trade and bills receivables, in order to minimise the credit risk, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of its customers' financial position and condition is performed on each and every major customer periodically. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group does not require collateral in respect of its financial assets. Trade and bills receivables are usually due within 30 days to 120 days.

iii) In respect of trade and bills receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk. At the end of the reporting period, the Group had certain concentration of credit risk of 14.49% (2017: 10.78%) of the total trade and bills receivables due from the Group's largest debtor and 39.67% (2017: 31.61%) of the total trade and bills receivables due from the Group's five largest debtors as at 31 December 2018.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and bills receivables are set out in note 22(d).

iv) In respect of other receivables and other financial asset, the credit quality of the debtors is assessed by taking into account of their financial position, relationship with the Group, credit history and other factors. Management regularly reviews the recoverability about these other receivables and follow up the amounts overdue, if any. The directors are of the opinion that the probability of default by counterparties is low.

v) The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings given by international credit-rating agencies.

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

b) *Liquidity risk*

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to board approval. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following liquidity risk tables set out the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current rates at the end of the reporting period) and the earliest date the Group is required to pay:

	Within 1 year or on demand RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amount RMB'000
2018			
Non-derivative financial liabilities			
Trade and bills payables	**169,084**	**169,084**	**169,084**
Accruals	**8,879**	**8,879**	**8,879**
Other payables (excluding value-added-tax payables)	**28,436**	**28,436**	**28,436**
Bank loans	**358,283**	**358,283**	**336,676**
	564,682	**564,682**	**543,075**
2017			
Non-derivative financial liabilities			
Trade and bills payables	126,636	126,636	126,636
Accruals	8,500	8,500	8,500
Other payables (excluding trade deposit received and receipts in advance)	27,174	27,174	27,174
Amount due to NCI	10,000	10,000	10,000
Bank loans	446,942	446,942	412,980
	619,252	619,252	585,290

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

c) *Interest rate risk*

The Group's interest rate risk arises primarily from borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts.

i) *Interest rate profile*

The following table details the interest rate profile of the Group's bank loans, bank balances and deposits at the end of the reporting period:

	2018		2017	
	Effective interest rates %	**RMB'000**	Effective interest rates %	RMB'000
Fixed rate borrowings:				
Bank loans	**3.96%-6.24%**	**336,676**	3.3%-5.66%	412,980
Variable rate borrowings:				
Bank loans	**—**	**—**	—	—
Total borrowings		**336,676**		412,980
Net fixed rate borrowings as a percentage of total borrowings		**100%**		100%
Fixed rate pledged bank deposits		**1,642**		750
Variable rate bank balances		**160,660**		232,755

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

c) *Interest rate risk* *(Continued)*

ii) *Sensitivity analysis*

All bank loans and pledged deposits of the Group which are fixed rate instruments are insensitive to any change in interest rates. A change in interest rates at the end of the reporting period would not affect profit or loss.

At 31 December 2018, it is estimated that a general increase/decrease of 100 basis points in interest rates for bank balances, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately RMB1,607,000 (2017: RMB2,335,000). Other components of consolidated equity would not change in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until end of next annual reporting period. The analysis is performed on the same basis for the 2017.

d) *Currency risk*

The Group is exposed to currency risk primarily through purchases which give rise to trade and other payables, cash and cash equivalents, trade and other receivables and bank loans. The carrying values of these financial assets and liabilities are denominated in foreign currencies other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily US$, HK$ and Euro and RMB to the extent that they are not the functional currency of the operations to which the transactions and balances related. The management monitors foreign exchange exposure by closely reviewing the movement of the foreign currency rate and consider hedging significant foreign currency exposure should the need arise.

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

d) *Currency risk (Continued)*

i) *Exposure to currency risk*

	2018 **RMB'000**	2017 RMB'000
Assets/(liabilities)		
Cash and cash equivalents		
US$	**37,871**	62,253
HK$	**87**	84
RMB	**809**	4,259
Euro	**14,981**	14,285
Trade and other receivables		
US$	**52,831**	27,934
Trade and other payables		
US$	**(13,285)**	(18,026)
HK$	**(128,927)**	(80,155)
EUR$	**—**	(849)
Bank loans		
HK$	**(286,895)**	(103,928)
Total assets		
US$	**90,702**	90,187
HK$	**87**	84
RMB	**809**	4,259
Euro	**14,981**	14,285
Total liabilities		
US$	**(13,285)**	(18,026)
HK$	**(415,822)**	(184,083)
Euro	**—**	(849)

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

d) *Currency risk (Continued)*

ii) *Sensitivity analysis*

The following table indicates the approximate change in the Group's profit after tax (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of the reporting period.

	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
At 31 December 2018			
US$	**5%**	**3,871**	—
	(5%)	**(3,871)**	—
HK$	**5%**	**(20,787)**	—
	(5%)	**20,787**	—
RMB	**5%**	**40**	—
	(5%)	**(40)**	—
EUR$	**5%**	**749**	
	(5%)	**(749)**	—
At 31 December 2017			
US$	5%	3,608	—
	(5%)	(3,608)	—
HK$	5%	(9,200)	—
	(5%)	9,200	—
RMB	5%	213	—
	(5%)	(213)	—
EUR$	5%	672	—
	(5%)	(672)	—

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

d) *Currency risk (Continued)*

ii) *Sensitivity analysis (Continued)*

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the Group entities' exposure to currency risk for non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until end of next annual reporting period. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes. The analysis is performed on the same basis for 2017.

e) *Business risk*

The Group has a certain concentration of business risk as 50.6% (2017: 44.8%) of its total turnover during the year from a principal product, Nin Jiom Pei Pa Koa (京都念慈庵蜜煉川貝枇杷膏), which was purchased from a sole supplier that is the designated distributor of the manufacturer of Nin Jiom Pei Pa Koa. In November 2013, the Group entered into a four-year period distribution agreement with the manufacturer and the supplier of Nin Jiom Pei Pa Koa, pursuant to which the Group is entitled the non-exclusive distribution right to sell Nin Jiom Pei Pa Koa in certain provinces in the PRC and is granted the credit terms of 60 days. The distribution agreement was renewed in April 2017 for four-year period. If there is any change in consumer taste and demand of the product, or the supplier does not further renew the purchase agreement, the Group's turnover and profitability will be adversely affected.

f) *Fair value*

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities, recorded at amortised cost, in the consolidated financial statements approximate their fair values.

Fair value hierachy

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

- Level 1 valuations: Fair value measured using only Level 1 inputs, that is,unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs, that is, observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

f) *Fair value (Continued)*

Fair value hierachy (Continued)

The Group uses independent valuers to perform valuations of financial instruments which are categorised into Level 2 and Level 3 of the fair value hierachy. Valuation reports with analysis of changes in fair value measurement are prepared by the independent valuer at each interim and annual reporting date, and are reviewed and approved by the financial controller. Discussion of the valuation process and results with the financial controller is held twice a year to coincide with the reporting dates.

		Fair value measurements as at 31 December 2018 categorised into				Fair value measurements as at 31 December 2017 categorised into		
	Fair value at 31 December 2018	Level 1	Level 2	Level 3	Fair value at 31 December 2017	Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurements								
Assets:								
Financial assets at fair value through other comprehensive income (non-recycling)								
– Unlisted equity investments	**23,890**	**—**	**22,482**	**1,408**	—	—	—	—
Available-for-sale investments, at fair value								
– Unlisted equity investments	**—**	**—**	**—**	**—**	13,841	—	12,460	1,381
– Bank wealth management products	**—**	**—**	**—**	**—**	25,783	—	—	25,783
Financial assets at fair value through profit or loss								
– Unlisted equity investments	**5,549**	**—**	**—**	**5,549**	4,775	—	—	4,775
– Listed securities	**15,135**	**15,135**	**—**	**—**	17,895	17,895	—	—

During the years ended 31 December 2018 and 2017, 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 the fair value hierarchy as at the end of the Reporting Period in which they occur.

(Expressed in Renminbi)

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

f) *Fair value (Continued)*

Fair value hierachy (Continued)

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

Note:

1. The valuation techniques and key inputs used of unlisted equity investments for level 3 fair value measurement at the end of the reporting period are as follows:

2018	Valuation technique	Significant unobservable inputs	Range
Financial assets at fair value through other comprehensive income – unlisted equity investment	Asset-based Approach	Discount for lack of control	28.98%
		Discount for lack of marketability	20.89%
Financial assets at fair value through profit or loss – unlisted equity investment	Asset-based Approach	Discount for lack of control	28.98%
		Discount for lack of marketability	20.89%
2017	**Valuation technique**	**Significant unobservable inputs**	**Range**
Available-for-sale investments, at fair value – unlisted equity investment	Asset-based Approach	Discount for lack of control	28.98%
		Discount for lack of marketability	20.89%
Financial assets at fair value through profit or loss – unlisted equity investment	Asset-based Approach	Discount for lack of control	28.98%
		Discount for lack of marketability	20.98%
Bank wealth management products	Market comparable products	Return of comparable products	3% to 5%

The increase in discount for lack of control and discount for lack of marketability would result in decrease in fair value measurement of unlisted equity investments. No sensitivity analysis is disclosed for the impact of changes in discount for lack of control and discount for lack of marketability as the exposure is insignificant to the Group.

2. The valuation techniques and key inputs used of unlisted equity investments for level 2 fair value measurement are as follows:

   The fair value of unlisted equity investments is assessed to approximate the share of net asset values of the Fund, which take into consideration the fair value of the assets held under the investments.

3. For fair value of other financial instruments for level 2 and level 3, the valuation techniques and key inputs used included discount for lack of marketability and change in share price of comparable companies. No sensitivity analysis is disclosed for the impact of changes as the management considers that the exposure is insignificant to the Group.

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

f) *Fair value (Continued)*

Fair value hierachy (Continued)

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The following table presents the changes in level 3 instruments for the years ended 31 December 2018 and 31 December 2017.

		Available-for-sale investments		Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	
	Other financial liabilities RMB'000	Bank wealth management products RMB'000	Unlisted equity investments RMB'000	Unlisted equity investments RMB'000	Unlisted equity investments RMB'000	Total RMB'000
At 1 January 2017	(13,256)	65,199	6,340	—	4,232	62,515
Addition	—	25,700	—	—	—	25,700
Redemption	—	(65,199)	—	—	—	(65,199)
Change in fair value on other financial liabilities recognised in profit or loss	13,256	—	—	—	—	13,256
Fair value gain recognised in profit or loss	—	—	—	—	543	543
Fair value gain recognised in other comprehensive income	—	83	(4,959)	—	—	(4,876)
At 31 December 2017	—	25,783	1,381	—	4,775	31,939
At 1 January 2018	**—**	**25,783**	**1,381**	—	**4,775**	**31,939**
Reclassification	**—**	**—**	**(1,381)**	**1,381**	**—**	**—**
Redemption	**—**	**(25,783)**	**—**	**—**	**—**	**(25,783)**
Fair value gain recognised in profit or loss	**—**	**—**	**—**	—	**774**	**774**
Fair value loss recognised in other comprehensive income	**—**	**—**	**—**	**(43)**	**—**	**(43)**
Exchange difference	**—**	**—**	**—**	**70**	**—**	**70**
At 31 December 2018	**—**	**—**	**—**	**1,408**	**5,549**	**6,957**

31. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set forth in note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

a) Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. Intangible assets are amortised on a straight-line basis over the estimated useful lives. Both the period and method of amortisation are reviewed annually. The depreciation and amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

b) Impairment of assets

If circumstances indicate that carrying value of the Group's property, plant and equipment, deposit paid for property, plant and equipment, intangible assets and available-for-sale financial assets, at cost may not be recoverable, the assets may be considered impaired, and an impairment loss may be recognised in profit or loss. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs of disposal and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volumes, sales revenue and amount of operating costs.

31. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

c) *Valuation of investment properties*

Investment properties are included in the consolidated statement of financial position at their open market value, which is assessed annually by independent qualified valuers, after taking into consideration on an open market value basis calculated by reference to recent market transactions in comparable properties or the net rental income allowing for reversionary income potential.

The assumptions adopted in the property valuations are based on the market conditions existing at the end of the reporting period, with reference to current market sales prices and the appropriate capitalisation rate.

d) *Impairment of receivables*

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers and other debtors to make the required payments. The Group bases the estimates on the aging of the receivable balance, debtors' credit-worthiness, historical write-off experience and forward looking information such as economic conditions. If the financial condition of the customers and debtors were to deteriorate, actual impairment losses would be higher than estimated.

e) *Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the historical experience of selling merchandise of similar nature. It could change significantly as a result of changes in customer taste or competitor actions. The Group reassesses these estimates at the end of the reporting period.

f) *Income tax*

Determining income tax provision involves judgement on the future tax treatment of certain transactions. The directors carefully evaluate tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations.

g) *Investments in subsidiaries*

Investments in subsidiaries are carried at cost less any impairment. Judgement is required when determining whether an impairment existed. In making this judgement, historical data and factors such as industry, sector performance and financial information regarding the subsidiaries are taken into account.

31. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

h) *Fair value of financial instruments*

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

i) *Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2018 was RMB90,693,000 (2017: RMB90,693,000). Further details of impairment testing of goodwill are given in note 16 to the financial statements.

j) *Share-based payments*

Share options granted during the year were measured at fair value on the date of grant (note 36). In assessing the fair values of the share options, the generally accepted option pricing models were used to calculate the fair values of the share options. The option pricing models require the input of subjective assumptions, including the expected volatility and expected life of options. Any changes in these assumptions can significantly affect the estimate of the fair values of the share options.

k) *Dong Di Xin Litigation*

As at 31 December 2018, a claim has been filed by the former Chief Executive Officer of Dong Di Xin (the "Plaintiff") against the substantial shareholder of Dong Di Xin (the "Substantial Shareholder") and Dong Di Xin. The related appeal has been lodged by Dong Di Xin (the"Appeal") to Shenzhen Intermediate People's Court of Guangdong Province (廣東省深圳市中級人民法院) (the"Court") against the judgment handed down by Shenzhen Nanshan District People's Court of Guangdong Province (廣東省深圳市南山區人民法院) (the"Judgment") ordering: (1) the Substantial Shareholder to transfer his 15% equity interest in Dong Di Xin to the Plaintiff (the "Equity Transfer"); (2) the Substantial Shareholder and Dong Di Xin to assist in all relevant procedures for completing the Equity Transfer; and (3) the litigation fee of RMB2,900 shall be borne by the Substantial Shareholder and Dong Di Xin. The Judgement will not have any material adverse impact on the Group's ordinary operations and financial positions as the Company will not bear any liability or any significant litigation fee being ordered to pay and there will be no dilutive effect on the Group's holding in the equity interest in Dong Di Xin. On 30 July 2018, the Intermediate Court, among other things, set aside the Judgment of the Court and ruled the case to be returned to the Court for re-trial (the "Re-trial"). As at the date of this report, the re-trial of the case has not been commenced, and the Company will make further announcement(s) to keep the shareholders of the Company and the public informed of any material progress on the Re-trial as and when appropriate according to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")

32. COMMITMENTS

a) *Commitments under operating lease*

The Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	2018	2017
	RMB'000	RMB'000
Within one year	**9,660**	8,866
In the second to fifth year inclusive	**11,679**	16,644
	21,339	25,510

The Group leases certain premises for use as its office and warehouse under operating leases arrangements. Leases for properties are negotiated for terms ranging from one to five years (2017: one to five years). None of the leases include contingent rentals.

b) *Capital Commitments*

Capital commitments of the Group at the end of the reporting period are as follows:

	2018	2017
	RMB'000	RMB'000
Contracted but not provided for in respect of		
– property, plant and equipment	**42**	2,525
Capital commitment for the investment in 5.52% equity interest in Sinopharm Healthcare Fund L.P. (note 20(b)(i))	**—**	16,268
Capital commitment for the investments in associate	**5,000**	—
	5,042	18,793
Authorised but not contracted for	**168,320**	150,000
	173,362	168,793

Apart from the above, the Group did not have other significant capital commitment as at 31 December 2018 and 2017.

33. EMPLOYEE RETIREMENT BENEFITS

The Group participates in a state-managed scheme. The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

Defined contribution retirement plan

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000 (2017: HK$30,000). Contributions to the plan vest immediately.

The total expense recognised in profit or loss of RMB11,120,000 (2017: RMB10,449,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

34. RELATED PARTY TRANSACTIONS

a) During the year, the directors are of the opinion that the following companies and parties are related parties of the Group:

Name of related parties	Relationship
Mr. Zhao Li Sheng ("Mr. Zhao")	The Company's director and the ultimate controlling party of the Group. Mr. Zhao is the sole shareholder of the ultimate holding company of the Company.
Ms. Chan Lok San ("Ms. Chan")	The Company's director and the wife of Mr. Zhao
Morning Gold Medicine Company Limited ("Morning Gold")	Wholly owned by both Mr. Zhao and Ms. Chan
Yuen Tai Pharmaceuticals Limited ("Yuen Tai")	Subsidiary of Morning Gold
深圳金活利生藥業有限公司 Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited ("SZ Kingworld Lifeshine")	Subsidiary of Morning Gold
深圳市金活實業有限公司 Shenzhen Kingworld Industry Company Limited ("SZ Industry")	Indirectly wholly owned by both Mr. Zhao and Ms. Chan
Golden Morning International Limited	Shareholder of Kingworld Medicines Group Limited
Golden Land International Limited	Shareholder of Kingworld Medicines Group Limited
Kingworld Bright Future Limited	Common director of Kingworld Medicines Group Limited
Kingkok International Enterprises Limited	Wholly owned by both Mr.Zhao and Ms.Chan
Ming VitaMed Enterprise III Limited	Associate of the Group

Notes:

i) The English names of the above PRC incorporated entities are for identification purpose only.

34. RELATED PARTY TRANSACTIONS *(Continued)*

b) Related party transactions and balances

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Note	**2018 RMB'000**	2017 RMB'000
Purchases of goods			
SZ Kingworld Lifeshine	(i)	**11,664**	9,187
Yuen Tai	(i)	**13**	3,174
		11,677	12,361
Rental expenses			
SZ Industry	(i)	**—**	479
		—	479
Advertising expenses			
SZ Industry	(i)	**75**	150
		75	150

	Note	**2018 RMB'000**	2017 RMB'000
Trade deposits included in trade and other receivables (note 22)			
Yuen Tai	(ii)	**2,526**	2,526
SZ Kingworld Lifeshine	(ii)	**16,739**	29,538
		19,265	32,064
Amount due from related parties (note 22)			
Golden Morning International Limited	(iii)	**20**	19
Golden Land International Limited	(iii)	**20**	19
Kingworld Bright Future Limited	(iii)	**14**	13
Kingkok International Enterprises Limited	(iii)	**966**	502
Amount due from an associate (note 17)	(iv)	**4,140**	—

Notes:

i) The transactions were based on the terms mutually agreed between the Group and the respective related parties. In the opinion of the Company's directors, these related parties transactions were conducted in the ordinary course of business.

ii) The amounts are unsecured and interest-free and will be set-off against the Group's purchases from the respective related parties in next twelve months after the end of the reporting period.

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

iv) The amount represents shareholders' loan of US$600,000 (equivalent to RMB4.1 million) (2017: nil) to Ming VitaMed Enterprise III Limited in which the Group held 24% interest as further detailed in note 17. The amount is unsecured, interest-free and repayable on demand. The directors of the Company considered that no impairment on the amount is necessary, taking into account of the financial position of Ming VitaMed Enterprise III Limited as at 31 December 2018.

34. RELATED PARTY TRANSACTIONS *(Continued)*

c) *Key management personnel remuneration:*

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 11, certain of the highest paid employees as disclosed in note 12, and the senior management of the Group is as follows:

	2018	2017
	RMB'000	RMB'000
Short-term employee benefits	**7,116**	7,374
Post employment benefits	**226**	228
Equity-settled share-based payment	**—**	2,453
	7,342	10,055

35. IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

The directors consider the immediate holding company of the Group as at 31 December 2018 to be Golden Land International Limited, a company incorporated in the BVI which does not produce financial statements available for public use, and the ultimate controlling party of the Group as at 31 December 2018 to be Zhao Li Sheng, an executive director of the Company.

36. EQUITY-SETTLED SHARE-BASED TRANSACTIONS

The Company has a share option scheme which was adopted on 5 November 2010 whereby the directors of the Company are authorised, at their discretion, to grant options to subscribe for shares in the Company to eligible participants ("Eligible Participants"), including directors, eligible employees, consultants, suppliers, customers, and shareholders of any member of the Group or associated company or any of their respective associates, who contributed to the success of the Group. The share option scheme shall be valid and effective for a period of ten years ending on 4 November 2021, after which no further options will be granted.

Options granted on 1 June 2015 to the directors, employees and consultants vest after one to three years from the date of grant and are then exercisable within a period of one year. Of the share option granted on 9 October 2015 to a consultant vest and exercisable from the date of grant after the market conditions are met.

Options granted on 23 April 2018 to the directors and employees vest after one to three years from the date of grant and are then exercisable within a period of one year.

Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

(Expressed in Renminbi)

36. EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(a) The terms and conditions of the grants are as follows:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
– on 1 June 2015	3,572,000	One to three years from the date of grant	4 years
On 23 April 2018	2,416,000	One to three years from the date of grant	6 years
Options granted to employees:			
– on 1 June 2015	13,236,000	One to three years from the date of grant	4 years
On 23 April 2018	19,992,000	One to three years from the date of grant	6 years
Options granted to other eligible participants as quasi-employees			
– on 1 June 2015	300,000	One year from the date of grant	2 years
– on 9 October 2015	6,200,000	After the market conditions are met	3 years
Total share options granted	45,716,000		

(b) The number and weighted average exercise prices of share options are as follows:

	2018		2017	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
Outstanding at the beginning of the period	**HK$2.54**	**22,840,000**	HK$2.54	22,840,000
Granted during the period	**HK$1.26**	**22,408,000**	—	—
Lapsed during the period	**HK$1.40**	**(1,363,000)**	HK$2.54	(6,491,000)
Outstanding at the end of the period	**HK$1.81**	**37,394,000**	HK$2.54	16,349,000
Exercisable at the end of the period	**HK$2.54**	**9,998,000**	HK$2.54	4,079,000

The share options outstanding at 31 December 2018 had an exercise price of HK$2.54 and HK$1.26 (2017: HK$2.54) and a weighted average remaining contractual life of 3.2 years (2017: 1.2 years).

(Expressed in Renminbi)

36. EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted on 1 June 2015 and 23 April 2018 is measured by reference to valuations performed by DTZ Debenham Tie Leung Limited and Hong Kong Appraisal Advisory Limited, respectively, independent professional valuer not connected to the Group, based on the Monte Carlo Method and Binomial Option Pricing Model. The contractual life of the share option is used as an input into this model.

Fair value of share options and assumptions

	On 1 June 2015				On 9 October 2015	On 23 April 2018		
Fair value at measurement date	HK$0.770 and HK$0.768	HK$0.781 and HK$0.782	HK$0.839 and HK$0.841	HK$0.768	HK$0.259 and HK$0.230	HK$0.506	HK$0.453	HK$0.425
Share price	HK$2.450	HK$2.450	HK$2.450	HK$2.450	HK$1.360	HK$1.190	HK$1.190	HK$1.190
Exercise price	HK$2.540	HK$2.540	HK$2.540	HK$2.540	HK$2.540	HK$1.260	HK$1.260	HK$1.260
Risk-free interest rate (based on Exchange Fund Notes)	0.438%	0.657%	0.876%	0.438%	0.606%	2.023%	2.023%	2.023%
Expected Life:	2 years	3 years	4 years	2 years	3 years	6 years	6 years	6 years
Expected volatility	63.07%	54.39%	52.13%	63.07%	59.49%	59.86%	59.86%	59.86%
Expected dividends Yield:	1.89%	2.25%	2.34%	1.89%	2.04%	3.73%	3.73%	3.73%
Early Exercise Behavior:	280% and 220%	280% and 220%	280% and 220%	220%	220%	280%	280%	220%
Valuation method used	Binomial Option Pricing Model	Binomial Option Pricing Model	Binomial Option Pricing Model	Binomial Option Pricing Model	Monte Carlo Method	Binomial Option Pricing Model	Binomial Option Pricing Model	Binomial Option Pricing Model

The expected volatility of the underlying security of the Share Options was determined with reference to the historical volatility of the Company, as extracted from Bloomberg Terminal; The expected dividend yields of the underlying security of the Share Options was determined by the historical dividend yield of the underlying security of the Company, as extracted from Bloomberg Terminal. Changes in the subjective input assumptions could materially affect the fair value estimate.

The fair value of the share options granted to the consultants are measured at fair values of options granted as these participants are providing services that are similar to those rendered by employees.

37. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	2018 RMB'000	2017 RMB'000
Non-current assets		
Investments in subsidiaries	**241,516**	216,957
Current assets		
Other receivables	**1,093**	502
Amount due from a subsidiary	**258,367**	245,923
Cash and cash equivalents	**6,452**	6,065
	265,912	252,490
Current liabilities		
Other payables	**1,459**	1,894
Amounts due to subsidiaries	**178,578**	80,289
Bank loans	**190,569**	234,052
	370,606	316,235
Net current liabilities	**(104,694)**	(63,745)
Total assets less current liabilities	**136,822**	153,212
Non-current liabilities		
Deferred tax liabilities	**—**	—
NET ASSETS	**136,822**	153,212
CAPITAL AND RESERVES		
Share capital	**53,468**	53,468
Reserves	**83,354**	99,744
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	**136,822**	153,212

(Expressed in Renminbi)

38. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HKFRS (IFRIC) — Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKFRS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019

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 2021

Expect for the new and amendments to HKFRSs and interpretations mentioned below, the directors anticipate that the application of all other new and amendments to HKFRSs and interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

38. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 *(Continued)*

HKFRS 16 Leases

As disclosed in note 2(h), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. The directors are currently assessing the impact of the adoption of HKFRS 16 on the Group's consolidated financial statements and do not anticipate that the application of HKFRS 16 will have a material impact on the Group's consolidated financial statements.

HK(IFRIC) — Int 23 Uncertainty over Income Tax Treatments

HK(IFRIC) — Int 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires an entity to determine whether uncertain tax positions are assessed separately or as a group; and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings.

The directors of the Company do not anticipate that the application of both interpretations will have a material impact on the Group's financial statements.

39. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to confirm with current year's presentation.

Financial Summary

The following table summarizes the consolidated results of the Group for the five years ended 31 December:

	For the year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results					
Revenue	**1,078,843**	1,031,488	1,053,527	713,548	660,323
Profit before taxation	**70,380**	83,327	89,044	51,322	48,667
Income tax	**(18,621)**	(16,795)	(21,638)	(11,935)	(10,802)
Profit for the year	**51,759**	66,532	67,406	39,387	37,865
Attributable to:					
Owners of the Company	**41,005**	51,060	46,966	31,205	37,865
Asset and Liabilities					
Total assets	**1,296,715**	1,332,398	1,393,739	1,089,331	1,019,489
Total liabilities	**658,485**	690,763	755,089	402,065	448,514
Equity attributable to owners of the Company	**565,792**	553,094	523,815	537,918	570,975

Particulars of Key Properties

Address	Use	Lease Term	Approximate gross floor area	Group's interest
Unit 801-804 and 901-904, Block A, Majialong Innovation Building, Daxin Road, Nanshan District, Shenzhen, Guangdong Province, the PRC	Commercial	Medium-term lease	5,631sqm	100%
A parcel of land, No. 6 Cuilong Road, Baolong Industrial City, Longgang District, Shenzhen, Guangdong Province, the PRC	Commercial	Medium-term lease	10,000sqm	90%
Part of the basement of Kingworld Department Store, Jiefang Road, Luohu District, Shenzhen, Guangdong Province, the PRC	Retail	Medium-term lease	956sqm	100%
Unit B on Level 9 West, Yong Xing Office Building, No. 22, Lane 376 Yan'an Road West, Jing'an District, Shanghai, the PRC	Commercial	Medium-term lease	204sqm	100%
Flat F on Level 21 and Flat E on Level 7, Weifu Building, Tai Bai Road, Luohu District, Shenzhen, Guangdong Province, the PRC	Residential	Medium-term lease	73sqm/ 100sqm	55%
The building erected on Lot No. 3-1-2, Qianshan Industrial Zone, Xiangzhou District, Zhuhai, Guangdong Province, the PRC	Commercial	Medium-term lease	26,197sqm	50%