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

2019

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

Mr. Zhao Li Sheng
Mr. Chan Hon Wan

REGISTERED OFFICE

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Cayman Islands

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The Landmark
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Hong Kong

AUDITOR

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STOCK CODE

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WEBSITE ADDRESS

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Financial Highlights

	For the year ended 31 December		Changes
	2019	2018	Increase/
	RMB'000	RMB'000	(Decrease)
Financial Highlights			
Revenue	**977,928**	1,078,843	(9.4)%
Cost of sales	**(710,525)**	(767,346)	(7.4)%
Gross profit	**267,403**	311,497	(14.2)%
Profit before taxation	**69,809**	70,380	(0.8)%
Profit for the year	**50,271**	51,759	(2.9)%
Profit attributable to owners of the Company	**43,427**	41,005	5.9%
Basic earnings per share (RMB cents)	**7.00**	6.60	6.1%
Proposed final dividends per share (HK cents)	**2.34**	2.25	4.0%

	As at 31 December		Changes Increase/
	2019	2018	(Decrease)
Liquidity and Asset-liability Ratio			
Current ratio [(1)]	**1.27**	1.23	3.3%
Quick ratio [(2)]	**0.92**	0.94	(2.1)%
Asset-liability ratio [(3)]	**16.7%**	26.0%	(9.3)% 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 Kingworld Medicines Group Limited (the "**Company**") and its subsidiaries (together, the "**Group**"), I would like to express my sincere gratitude to all shareholders (the "**Shareholders**") and stakeholders for your continuing attention, support and encouragement to the Group. For the Group, the year ended 31 December 2019 (the "**Year Under Review**") was a challenging year. Nevertheless, with the continuing endeavours and constant efforts of all our staff, we strived to create a powerful driving force to foster the development of our various lines of businesses which have consequently reached their new heights.

MARKET OVERVIEW

The year of 2019 marked the 70th anniversary of the founding of the People's Republic of China (the "**PRC**" or "**China**"). For the Chinese with all ethnic groups and Chinese domestic and overseas compatriots, shared the joy and happiness and saluted the greatness of our mother country. Over the past 70 years, the Chinese nation has since then embarked on the path of realising national rejuvenation, and the Chinese, with perseverance and strenuous efforts, had made great achievements that are the marvel of the world.

Chairman's Statement

On the other hand, in 2019, taking a glance at the global market as well as those in China, Hong Kong and Macao, a series of changes have been caused amid intensifying world trade protectionism. The Sino-US trade negotiations, which had been going back and forth for more than a year since 2018, has seen complex changes and uncertainties, and has put the exports of China under pressure and affecting its domestic economic growth to a certain extent. With the global economic slowdown and obstacles for domestic and international economic development, and increase in the factors causing internal and external instabilities, the imbalance and inadequacy of domestic development remains prominent. The gross domestic product ("**GDP**") in China is expected to increase by 6% in the fourth-quarter of 2019, or a year-on-year increase of 6.1%, thus achieving the GDP growth target of 6% to 6.5%. The future economy will still be subject to the increasing downside pressure, the combination of internal systematic, cyclical and structural issues will cause insufficient demand which will continue for a long period. While a gradual economic downturn will be a prevalent trend, a dramatic drop however is unlikely to be caused and there is fairly limited room for economic growth fluctuations. In addition, given the social unrest in Hong Kong in the second half of 2019, the socioeconomic environment has further affected the retail industry. Meanwhile, the coronavirus disease outbreak in China at the end of 2019 caused more uncertainties in the economic development in China.

In recent years, the pharmaceutical industry in China has undergone large-scale reform and various relevant policies were introduced. On 28 November 2019, the National Healthcare Security Administration announced the 2019 approved list of medicines eligible for reimbursement under the government-backed medical insurance plans. Before that, the government has carried out two rounds of centralised quantity-specific procurement of medicines, which resulted in an unexpected price reduction. Consequently, a shadow was cast over the earning prospects of some pharmaceutical enterprises.

Since the Shenzhen Special Economic Zone has been an important platform for the reform and opening up of the country and one of the key strategic cities in the Guangdong-Hong Kong-Macao Greater Bay Area, according to the "Guideline on supporting Shenzhen in building a pilot demonstration area of socialism with Chinese characteristics" issued by the State Council of the PRC, it is expected that Shenzhen will be built into a modern and international innovative city by 2025. With Shenzhen becoming a benchmarking global city, the Group, which is rooted in Shenzhen, will enjoy more room for development and have a stronger foundation to become a world-leading and well-known omni-channel supply chain company serving greater health products.

DEVELOPMENT ACHIEVEMENTS

In February 2019, the State Council of the PRC promulgated the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area (the "**Plan**") aimed at promoting closer cooperation in quality medical and health resources. This includes supporting the co-operation between the medical and health sectors in Hong Kong and Macao, establishing sole-proprietorships, jointly-owned or cooperative medical institutions in the nine Pearl River Delta cities and developing regional medical cooperation and medical centers. In the aspect of enhancing the collaboration in the area of Chinese medicine, the Plan states the government's supports to the State Key Laboratory of Quality Research in Chinese Medicine in Macao and the Government Chinese Medicine Testing Institute of the HKSAR to develop a set of globally recognised Chinese medicine product quality standards together with scientific research institutions in the PRC to help promote the standardisation and internationalisation of Chinese medicine. The Plan also supports the collaboration of Traditional Chinese Medicine Science and Technology Industrial Park between Guangdong and Macao to develop a public service platform for the overseas registration of Chinese pharmaceutical products, thereby promoting healthcare industries, providing quality medical and healthcare services overseas and taking forward the development of Chinese medicine overseas. The Plan benefits the Group in promoting the development of the international Chinese medicine facilities in Shenzhen and Hong Kong. Such development assists China in gaining autonomy, authority, pricing rights and control in the development of Chinese medicine, as well as promotes the development of the Chinese medicine industry in Hong Kong, and calls for a "Healthy China, Healthy Greater Bay Area, Healthy Shenzhen and Healthy Kingworld".

The year of 2019 is the 25th anniversary of the founding of the Group. Since I set up my business 25 years ago, I was determined that I could either be a good doctor or a provider of good medicine. I strongly believed that good health of the people is the prosperity of our country. With such a dream in mind, I was dedicated to making every effort to realise this magnificent blueprint of revitalisation. I am committed to the corporate mission of "to serve the community and to benefit the world (效力世人，澤潤蒼生)" and to develop the Group into a renowned corporation that represents high-quality products around the world by continuously providing consumers with high-quality healthcare products and taking care of the health of the people.

As a pioneer in introducing various major and niche time-honoured brands from overseas to China, the Group has seized the opportunity to act as the agent of branded pharmaceutical products which it has leveraged its competitive advantages to achieve steady development. The Group was ranked among the Shenzhen Top 500 Enterprises in 2018 and 2019, respectively, and was awarded the title of "Shenzhen Time-honored Brand" in 2019. The Group is the agent and distributor of more than 60 types of pharmaceutical and health products to cater for the needs of different consumers. Some of the Group's high-quality pharmaceutical products have become well-known in China. At the end of 2019, China was affected by the COVID-19 outbreak, which created tense atmosphere in the community. The "Pu Ji Kang Gan Granules (普濟抗感顆粒)" distributed by the Group is a product made from many years of experience in treatment of respiratory tract infections by Professor Qu Jinglai and Professor Gao Xue who were previously engaged in the front-line clinical treatment during the Severe Acute Respiratory Syndrome (SARS). The "Pu Ji Kang Gan Granules (普濟抗感顆粒)" can be applied to upper respiratory tract infections and other diseases having similar symptoms as flu or acute tonsillitis and is with apparent efficacy and limited side effects and can also be used as a preventive against infections. Going forward, the Group will continue to adhere to its corporate mission of "to serve the community and to benefit the world (效力世人，澤潤蒼生)", and will continue to source health products for consumers for their home and emergency needs. Apart from pharmaceutical and healthcare products, the products will also include anti-epidemic items for households, such as face masks, disinfection supplies and hygiene products.

The board of directors of the Company, has implemented a share award scheme in August 2019. The purposes of the scheme are to recognise the contributions made by certain participants and to provide incentives in retaining the participants for the continual operation and development of the Group and to attract suitable personnel for future development of the Group.

The Group has fully implemented the "deep-rooted, optimised and refined" operation and sales management strategy and continued to optimise the product channel structure by penetrating into the county markets in order to strengthen the terminal coverage, intensify cooperation with regional chains and enhance and solidify the collaboration with the third terminal and medical service organisations. Moreover, the Group has paid close attention to the development trends and strived to nurture development opportunities in medical e-commerce by strengthening cooperation with the mainstream medical e-commerce merchants such as JD.com, Alibaba Health and Dingdang Medicine Express. By launching a series of large-scale marketing activities and brand promotion programmes via the new media, the Group has not only succeeded in nurturing the new generation of consumer groups but also has maintained customer loyalty. In this way, not only has the Group injected a new spark of fashion for its product brands, but also has highlighted the good quality of products which will attract more customers. Looking ahead, the Group will adopt the strategy of distribution channels for its pharmaceutical products which involves opening of new distribution channels by focusing on the third- and fourth-tier cities and rural villages in China. By doing so, the Group will further exploit the market gaps, raise product distribution in the Over-the-Counter ("**OTC**") market, third-party terminals and medical institutions and generate higher profits.

In addition, the Group will continue to optimise the organisational structure of its operations and sales networks, focusing on the corporate training of management personnel and promotion of new employees. The Group aims to increase market coverage and improve the sales volume by improving professional competence, sense of responsibility and performance of its frontline staff in sales regions through the restructuring of mid-level sales personnel in each sales area and provision of more performance evaluation and training to mid-level management of manager grade or above. On the other hand, the Group welcomes experienced personnel with good industry knowledge and extensive management experience to join the Group to strengthen the overall business operations and strategic planning and sales and market management. By imposing stringent operating cost control and exploring new business opportunities, the Group aims to generate higher profits and optimise sales management risk. In particular, the Group will reinforce its effective management of account receivables, tighten the policy of "payment before delivery" towards the downstream distributors in order to maintain sufficient working capital for the Group.

The Group has been committed to expanding its scope of operations to cover the upstream manufacturers and developing new products for catering to consumer demands in the new era through collaboration with higher education institutions. The Group targets to develop products with its own intellectual property for fostering the Group's sustainable development and enriching its product portfolio, thereby enhancing its core competitiveness. For the Year Under Review, the Group and the Hong Kong University of Science and Technology ("**HKUST**") has made breakthroughs in the research and development of new products based on Chinese medicines and probiotics. With the testing results reaching the expectations, a prosperous market is foreseeable upon the successful completion of the interim and final product trials.

During the 21st century, we have witnessed the innovative development and practical application of blockchain technology as a new generation of information technology which has extended to the fields of digital finance, the Internet-of-Things, intelligent manufacturing, supply chain management and digital asset trading. To conform to the tread of the times, for the purpose of strengthening the management of sales performance, the Group has officially launched the Market Sales Traceability Management system (the "**SMART System**") equipped with the product sales and marketing traceability function in 2019. The SMART System is a sales management system based on a direct connection data which offers comprehensive analysis regarding the customers, products, regions and personnel through real-time sales data, through which the Group is enabled to formulate a more precise marketing strategy to enhance the operational competitiveness while satisfying the country's tracking and safety monitoring of pharmaceutical products and food.

FUTURE OUTLOOK

The Group will be celebrating the 10th anniversary of its listing in 2020. In 2020, the Group will continue to introduce new products, optimise its product structure, expedite the implementation of projects under negotiations and enrich its product portfolio. On the other hand, for the purpose of strengthening the development of the Group's upstream and downstream supply chain systems in the greater health industry, the capital operating team of the Group will continue to facilitate the Group's business in the greater health services sector by actively identifying production enterprises and upstream manufacturers with the greater health concept and potential product market, especially those domestic pharmaceutical enterprises with the Good Manufacturing Practices ("**GMP**") certification.

In addition, the Group will utilise scientific big data analysis in its "SMART System" to promote different businesses and formulate comprehensive marketing plan and arrangement of its product portfolio to meet consumers' needs and respond to the changes in the competitive landscape. In the future, based on the actual situation, the Group will concentrate its resources on developing its product portfolio that generate higher profit and long-term stable income. The Group will boost sales and enhance product core competitiveness by ascertaining target consumers' needs, opening up market gaps, exploring new development opportunities and utilising new marketing strategies and plans.

In 2020, we will continue to advance the expansion and deployment on upstream business, research and development, as well as expedite the launching of Chinese medicines with probiotics. Meanwhile, the introduction of new products will be accelerated by speeding up the collaborative projects in relation to probiotics with the HKUST, which aims to utilise HKUST's research and development capabilities and the Group's analysis and assessment of future market trends to develop Chinese medicines with probiotics and anti-inflammatory properties. This cooperation will enable the Group to deepen product lines and accommodate the various demands of a broader spectrum of consumers. In addition, the Group is negotiating with a French national brand regarding their cooperation in the Hong Kong and Macao markets. The launching of "Jianfu Capsules (鳳寶牌健婦膠囊)" in both the Hong Kong and Macao markets as well as Mainland China will be accelerated to give new impetus to the Group's development.

In the year ahead, the Group will conduct an independent internal audit for the OTC channels, e-commerce channels and the Hong Kong and Macao markets respectively in accordance with the characteristics of different channels, so as to enhance market penetration rate and strengthen profitability of these channels. Different channels will be managed and evaluated by respective experienced professional managers to develop a respective operating frameworks for business divisions, so as to construct a pipeline of steady coordinated development between three business segments. Furthermore, the Group will take advantage of Macao's development policies by actively deploying business in Macao. The Group will position Hong Kong and Macao as the places to test and promote new products of the Group.

In the future, the Group will continue to actively promote the implementation of the Shenzhen-Hong Kong Chinese Pharmaceutical Demonstration Platform, aiming to strengthen the development of the Chinese pharmaceutical industry in the Greater Bay Area. Construction of the Hong Kong Chinese Pharmaceutical Demonstration Platform is an important tool for implementing the instruction of Xi Jinping, President of the PRC, on reviving the Chinese pharmaceutical industry. This direction is also an important vehicle in facilitating the integrated development of the Chinese pharmaceutical industry in Shenzhen, Hong Kong and Macao and hastening the integration of the Chinese pharmaceutical industry in Hong Kong and Macao with that in the Mainland, as set out in the Plan. It will also be a measure that can boost the modernisation and internationalisation of Chinese medicines and develop Shenzhen to become a bridgehead for pharmaceutical industry-related cooperation along the "Belt and Road".

In conclusion, the domestic and global economic environment are complex and challenging. Meanwhile, the COVID-19 outbreak will have short-term effect on the macroeconomic environment in the first half of 2020, but we are of the view that such risks are within our control. The Group is optimistic about its long-term development. In 2020, we will be facing both opportunities and risks. Nevertheless, despite the potential turbulence in the macroeconomic environment, the Group considers the current situation as a good opportunity to further its business development. In 2020, the Group will further build a sound foundation by focusing on an orderly and effective reinforcement of the competitiveness of its core products, and conducting cost control in order to maintain profitability, enhancing financial risk management to maintain sufficient cash flow, so as to protect the return on investment of the Shareholders and other stakeholders. At the same time, the Group will expand its development in the greater health industry in order to develop the Company to become a domestic leading and world-renowned enterprise with a well-established upstream and downstream supply chain for the greater health products and services industry.

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 2020, and the company will maintain its strategic focus, plan ahead, make precise judgements and continue to strive to create greater value for the Shareholders and investors.

Mr. Zhao Li Sheng
Chairman of the Board

Hong Kong, 15 April 2020

Management Discussion and Analysis

MARKET AND INDUSTRY REVIEW

1. *Complex domestic and global economic environment*

In the second half of 2019, as the global trade frictions intensified, manufacturing production and international investment showed signs of decline, and business confidence were affected. The trend of global economic slowdown becomes more pronounced. The global economy is facing potential financial volatility arising from looser monetary policies around the world as well as the financial turmoil arising from the weakness of certain emerging markets. The economic environment, in China and abroad, has become more complex and challenging, which the decline in external demand combined with weak domestic demand resulting the domestic economy to face downward pressure. To respond to the complex and challenging economic environment and global economy in 2019, China has adopted macroeconomic control policies including: (i) introducing additional proactive fiscal policies, (ii) maintaining appropriate counter-cyclical adjustments to monetary policies, (iii) accelerating the transformation and upgrade of industrial structure, (iv) formulating stable real estate regulatory policies, and (v) developing sound counter-cyclical regulatory mechanisms.

2. *Increasing downward pressure on Chinese economy*

In 2019, China's GDP was approximately RMB99,086.5 billion, representing a year-on-year increase of 6.1%. The domestic consumer price index increased by 2.9% year-on-year; disposable income per capita was approximately RMB30,733, representing a year-on-year increase of 8.9%. The disposable income per capita of urban residents was approximately RMB42,359, representing a year-on-year of 7.9%, whereas that of rural residents was approximately RMB14,389, representing an increase of 10.1%, reflecting the consistently faster growth of disposable income per capita of rural residents than that of urban residents.

Generally speaking, the Chinese economy remained steady and maintained stable development momentum in 2019. Meanwhile, in view of the slowing down of the global economy and trade, the domestic economy would still face downward pressure due to the increasing sources of volatility and risk factors as well as structural, institutional and cyclical problems in China. Looking at 2020, the downward pressure faced by the domestic economy will be compounded by the unsuccessful trade negotiations between China and the United States of America (the "**US**"), the fundamentals of the Chinese economy are expected to weaken and the consumer market sentiment to turn conservative.

3. *The Group supports the establishment of a Healthy Greater Bay Area and plans to promote the development of the International Chinese Medicine in Shenzhen and Hong Kong in the future*

In February 2019, the State Council of the PRC promulgated the Plan, aimed at promoting closer cooperation in quality medical and health resources and supporting the establishment of sole-proprietorship, jointly-owned or cooperative medical institutions and development of regional medical joint ventures and medical centers in nine Pearl River Delta cities by healthcare service providers based in Hong Kong and Macao. Regarding collaboration between practitioners of Chinese medicine, the Central Government encourages the State Key Laboratory of Quality Research in Chinese Medicines in Macao and the Government Chinese Medicine Testing Institute of the HKSAR to develop a set of globally recognised Chinese medicine product quality standards together with scientific research institutions in the PRC to help promote the standardisation and internationalisation of Chinese medicine. The government also supports the collaboration of the Chinese Medicine Science and Technology Industrial Park between Guangdong and Macao to develop a public services platform for the overseas registration of Chinese pharmaceutical products for promoting the healthcare industry and providing quality healthcare services. The Plan benefits the Group in promoting the development of international Chinese medicine facilities in Shenzhen and Hong Kong. Such development assists China in gaining autonomy, authority, pricing rights and control in the development of Chinese medicine, as well as promotes the development of the Chinese medicine industry in Hong Kong and call for a "Healthy China, Healthy Greater Bay Area, Healthy Shenzhen, Healthy Kingworld".

4. *Distribution of a wider range of products, Pu Ji Kang Gan Granules and Fengbao Jianfu Capsules meet market demand*

As a pioneer in introducing quality branded products from overseas, the Group is the agent and distributor of more than 60 types of pharmaceutical and healthcare products to cater to different needs of consumers. Since the COVID-19 outbreak in Mainland China starting at the end of 2019, confirmed infected cases have continued to increase creating tense atmosphere in the community. The nation has stepped up efforts in all aspects to emphasise the treatment of the COVID-19. Reportedly, the Chinese medicines have achieved significant results in treating and preventing the COVID-19. Consequently, a new interest in Chinese medicine has begun among the public. The Group's "Pu Ji Kang Gan Granules" is a product made from many years of experience treating upper respiratory tract infections by Professor Qu Jinglai and Professor Gao Xue who were previously engaged in the front-line clinical treatment during the Severe Acute Respiratory Syndrome (SARS). The medicine can be applied to upper respiratory tract infection and other diseases having similar symptoms as flu or acute tonsillitis, and is with apparent efficacy and limited side effects and can also be used as a preventive against infections. Moreover, the infertility has increased year by year in China due to pollution, increasing stress at work and postpone of childbearing by women. The implementation of the two-child policy stimulates fertility demand, and thus results growth in the reproduction market. The Group's 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 HP0 that can regulate and assist ovulation and increase the probability of pregnancy in a natural and safe manner. The experiment conducted by the HKUST 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 in Shanghai, Wuhan, Hainan and Liaoning and was popular at maternity hospitals. Looking forward, with the continuous expansion of marketing for infertility products and enhancement of the brand power, the Group expects "Fengbao Jianfu Capsules" will become more popular among doctors and consumers.

BUSINESS REVIEW

The Group has been committed to developing a well-established upstream and downstream supply chain system for the greater health products and services industry for the past 25 years. Currently, it has a business footprint covers more than 34 provinces and cities in China. From 2009 to 2014, the Group was among the Top 100 Import Enterprises of Pharmaceutical and Healthcare Products for six consecutive years and was named as one of the Top 5 Sales Enterprises of Chinese Patent Medicines in terms of sales in 2013. The Group was rewarded as the Guangdong Province Enterprise of Observing Contract and Valuing Credit for five consecutive years, and was also ranked among Shenzhen Top 500 Enterprises in 2018 and 2019 and continued to be recognised as a "Shenzhen Time-honoured Brand" in 2019.

The Group is a globally leading and well-known omni-channel enterprise with a complete supply chain in the greater health products and services industry in China. It also 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 services enterprise integrated with logistics, product and information.

Management Discussion and Analysis

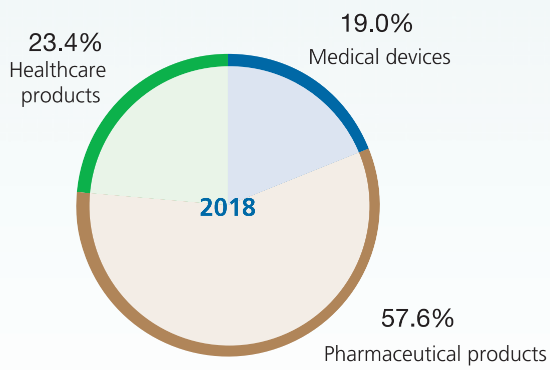
The three major business segments of the Group in the greater health services industry are:

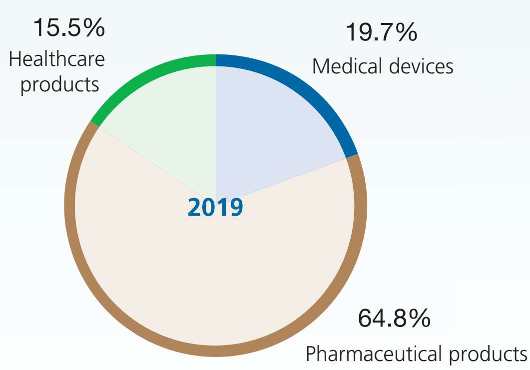
Pharmaceutical products segment: acting as an agent and distributor of high-quality and well-known pharmaceutical products from overseas, including the Nin Jiom (京都念慈菴) product series and the Taiko Seirogan (喇叭牌正露丸);

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 product series of medicated oils for external use; and

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 RMB633,700,000, representing a slight increase of 2.0% as compared to the same period last year and accounting for 64.8% of the Group's total revenue. Revenue from the healthcare products segment was approximately RMB151,114,000, representing a decrease of 40.2% as compared to the same period last year and accounting for 15.5% of the Group's total revenue. Revenue from the medical devices segment amounted to approximately RMB193,114,000, representing a decrease of 5.8% as compared to the same period last year and accounting for 19.7% of the Group's total revenue.





HIGHLIGHTS OF PHARMACEUTICAL PRODUCTS SEGMENTS

Nin Jiom product series

For the Year Under Review, the Group continued to optimise the structure of its distribution channel for its star product, the Nin Jiom product series. By leveraging its brand appeal and product reputation, the Group has expanded the market into lower-tier cities and enhanced terminal coverage for the products as well as the cooperation with regional pharmacy chains for the Nin Jiom product series, so that more consumers can enjoy the benefits of the Nin Jiom products. However, affected by the macroeconomic factors of the market in 2019, for the Year Under Review, revenue generated from the sales of Nin Jiom Chuan Bei Pei Pa Koa (京都念慈菴蜜煉川貝枇杷膏) decreased by 14.3% to approximately RMB485,700,000 as compared to the same period last year; revenue generated from the sales of Nin Jiom Herbal Candies increased by 5.9% to approximately RMB39,000,000 as compared to the same period last year.

According to the 2019 China Pharmaceutical Enterprises Cooperation and Development Organisation Summit, "Nin Jiom" ranked 18th in the "Brand & Value Ranking" in the industry, with a brand value of RMB3.989 billion. During the Year Under Review, the Group actively coordinated with Nin Jiom and conducted various large-scale promotional events and new media brand promotional activities which aims at cultivating younger consumer group, consolidating the loyalty of customers and injecting a contemporary sense into the brand. Promotional events mainly included launching promotional carnivals under the theme of "Protect Our Lungs" and flash-crowd events at pharmacies across a number of cities in China.

Metro advertisement of Nin Jiom in Wuxi

Point-of-sale promotional event of Nin Jiom at pharmacy chain

Taiko Seirogan

Taiko Seirogan (喇叭牌正露丸) from Japan is another core product of the Group's pharmaceutical segment. During the Year Under Review, the Group implemented orderly marketing activities and maintained price stability for Taiko Seirogan. The Group, through full-scale distribution and market perpetration and product display in key areas, had enhanced its relationship with its partners. The Group, through different product deployment activities, had expanded its market coverage, enhanced staff training and the consumer education. As for branding promotion, the Group placed large billboard advertisements in high-traffic areas such as alongside busy roads in cities, trains, magazine and bus advertising campaigns as well as the advertising campaigns at high-speed train stations. In addition, the Group launched promotional events with various cooperative companies and online merchandising platforms, mainly including JD.com, Alibaba Health, and Dingdang Medicine Express in order to facilitate integration of online and offline channels. For the Year Under Review, Taiko Seirogan recorded approximately RMB93,800,000 of revenue from sales, representing an increase of 39.1% as compared to the same period last year.

Training on product knowledge provided by Taiko Seirogan for salespersons of Guangdong Holy Sky Pharmaceutical Group Medical Co., Ltd

Training on product knowledge provided by Taiko Seirogan for Guangzhou Hua An Drug Store Ltd.

HIGHLIGHTS OF HEALTHCARE PRODUCTS SEGMENT

Culturelle probiotics product series

In 2019, China was affected by macroeconomic factors and the segmentation of consumer market in China has become complicated. There was keen competition among numerous probiotics products in the domestic market. The Culturelle (康萃樂) probiotics product had been out of stock for more than one year in the Chinese market due to formula adjustment and there were various factors to be resolved for the newly formulated product. As such, the Group fully reviewed the business scope of its mainstream products so as to focus its efforts on those more profitable and mature products. After evaluating different factors, the Group adjusted its marketing strategy correspondingly and invested the core sales resources for the development of the Culturelle probiotics product in Hong Kong and Macao markets in 2019.

However, Hong Kong's economic growth was affected by the global economic slowdown and the Sino-US trade frictions in 2019. Moreover, the Hong Kong economy was seriously affected by the local social unrest since June 2019. Such deterioration has severely hindered a severe downward faced by the inbound tourism and the retail industry in Hong Kong. The sales of Culturelle probiotics product was also affected in the second half of 2019. For the Year Under Review, the total revenue of Culturelle Probiotics product series in Hong Kong and Macao markets decreased by 16.4% as compared to the same period last year.

Advertisement of Culturelle probiotics on bus body

Large billboard advertisement of Culturelle probiotics on the MTR station

Lifeline Care maternal and infant fish oil nutrient product series

Lifeline Care maternal and infant fish oil nutrient product series from Norway is another star healthcare product brand of the Group. During the Year Under Review, the Group formulated comprehensive promotion strategies for Lifeline Care maternal and infant fish oil, which mainly included establishing strategic cooperation with cross-border e-commerce platforms and maternal and infant public accounts, to reach a wider group of target audience. As for the word-of-mouth communication, the Group captured the trend of promotion platform by cooperating with key opinion leaders (KOL) to raise hot topics on different promotion platforms like Xiaohongshu (小紅書) and Kaola.com. Meanwhile, through recommendations from professional doctors, maternal and infant experts and celebrities, consumers' trust in our brand was greatly enhanced. Lifeline care maternal and infant fish oil nutrient product series gained well-deserved reputation towards its brand and products, which resulted in a significant increase in sales volume. For the Year Under Review, the sales revenue of Lifeline Care maternal and infant fish oil grew significantly by 78.5% as compared to the same period last year.

Lifeline Care fish oil product sponsored the charitable activity for "Campaign for Knowledge on the Immune System of Children in China"

Lifeline Care fish oil product conducted promotion on "MamiBuy" platform, which allows users to share their experience of using the product

Product series of medicated oils for external use

The Group is an agent and distributor of various renowned medicated oil products for external use, including the Mentholatum (曼秀雷敦) series, its own brand, Kingworld Imada Red Flower Oil (金活依馬打正紅花油) as well as Hoe Hin White Flower Embrocation (和興白花油). During the Year Under Review, through product deployment activities, concentrated display activities in prioritised key cities and staff training and customer education activities, the Mentholatum series increased its market share. As for brand promotion of the Mentholatum series, the Group placed large billboard advertisements in high-traffic areas such as alongside busy road in cities and participated in the large-scale promotion activities "In the Workplace," held at office buildings. In addition, the Mentholatum series kept strengthening its close cooperation with online pharma retail while conducting KOL advertorials through TikTok and Xiaohongshu to create a trendy and caring brand image. As for the promotion for Hoe Hin White Flower Embrocation, the Group actively launched marketing activities during shopping festivals on e-commerce platforms and offered gift-with-purchase activities for consumers during major festivals to improve terminal sales and brand influence. The Group has also entered into cooperation agreements with terminal retail store customers with respect to Hoe Hin White Flower Embrocation for the entire year in order to further enhance the competitiveness of these products in terminal retail stores.

For the Year Under Review, Kingworld Imada Red Flower Oil has made breakthrough in channel, terminal sales as well as brand promotion development. In terms of developing channels, the Group strived to strengthen the cooperation with downstream enterprises, so as to enlarge the market coverage of this product. As for terminals sales, the Group enlarged the deployment of products in terminal retail stores to increase market coverage. As for brand promotion, the Group proactively supported a variety of sports events, such as Shenzhen Guangming Town International Half Marathon, Shenzhen's Mofang 100km Hike, Shanxi Youyu Marathon and Shenzhen Longgang City Orienteering Race. In addition, the Group continued to distribute product trial packs and offer massage service of Kingworld Imada Red Flower Oil to the residents in various communities and launched several charitable activities of "Quality Goods Welcome Your Trial" to relieve the fatigue of more than 10,000 hiking fans and residents in various communities. Through the experience of the consumers and services rendered to consumers, both the product recognition and purchase confidence were enhanced. During the Chinese New Year in 2019, the Group sponsored the weather forecast broadcast by the News Channel of CCTV-13 to publicise and add "oil" to promote people's health and well-being. For the Year Under Review, the sales revenue of the Kingworld Imada Red Flower Oil increased by 24.5% as compared to the same period last year.

The "Quality goods welcome your trial" charitable activities launched by Kingworld Imada Red Flower Oil to serve more than 10,000 people

Shelf display of Hoe Hin White Flower Embrocation in pharmacy chain store

Mentholatum product display in pharmacy store

Kingworld Imada Red Flower Oil sponsored the weather forecast broadcast by the News Channel of CCTV-13

Highlights of Medical Devices Segment

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, manufacturing and production integrated within one entity. Dong Di Xin was awarded with the title of Guangdong Province Quality and Credit AAA Grade Enterprise for three consecutive years. In the context of both continuing China-US trade frictions and the slowing of global economy, there was a great downward pressure on Chinese export. In 2019, Dong Di Xin recorded a slight decrease in sales and profit, due to the increase in the US tariffs and exchange rate fluctuation. For the Year Under Review, revenue from Dong Di Xin amounted to approximately RMB193,114,000, representing a decrease of 5.8% as compared to the same period last year.

MANAGEMENT REVIEW

1. Implement "SMART system" to enhance precise and efficient marketing management and control

Xi Jinping, President of the PRC, proposed that the country will drive the development of blockchain technology as an important breakthrough in driving core and autonomous innovation. In the 21st century, global scientific and technological innovation has entered into an era of unprecedented intensive activities. We have witnessed the innovative development and practical application of blockchain technology as a new generation of information technology which has extended to the fields of digital finance, the Internet of Things, intelligent manufacturing, supply chain management and digital assets transactions. To conform to the trend of times and strengthen the management of sales and marketing performance, in 2019, the Group officially launched the "SMART System" equipped with product sales and marketing traceability function.

As a data-linked sales management system, the "SMART System" can thoroughly analyse real time customers, products, regions and personnel date streams to enable the Group to better understand customer needs, discover potential market and product, develop reasonable sales plan, procurement and inventory, manage activates as well as optimise workflow. By securely collecting the stream of channel data, the Group has access to useful active first-hand sales data, which in turn help boost the Group's work efficiency and business management standard. The "SMART System" uses scientific Big Data analysis to ascertain target consumers' needs, explore niche markets and explore new markets, that the Group may formulate more precise and profitable marketing strategy. At the same time, the system can meet the requirements for traceability and safety monitoring of pharmaceutical products and food in China. It can help the Group to systematically manage the monitoring processes of the pharmaceutical and healthcare product businesses, forming an integrated monitoring platform to achieve the objectives of traceability of product source, physical flow, quality investigation and accountability so that strong protection can be provided for customers.

2. *Optimise the management structure and control of marketing management risk*

The Group has fully implemented a "deep-rooted, optimised and refined" operation and sales management strategy. In 2019, the Group continued to optimise the organisational structure of its operations and sales systems, focusing on redeployment and structural adjustment of mid-level sales personnel in each sales area and providing a wider scope of performance evaluation for managers and mid-level management. At the same time, by improving professional competence, sense of responsibility and performance of front-line employees in sales regions, the market coverage of products has been expanded. On the other hand, the Group welcomes experienced personnel with extensive management experience to join the Group to strengthen the overall business operations and strategic planning and sales and market management. Meanwhile, by reinforcing effective management of account receivables and tightening the policy of "payment before delivery" towards downstream distributors, the Group would maintain sufficient working capital.

3. *Focus on downward penetration to foster channel sales and retain customer loyalty*

In 2019, the State Council announced the guidelines on the promotion of integrated urban-rural development, which stated that the urbanisation in China will be mature in 2035. The market expects that the present urbanisation rate of around 60% in China will increase to 70% and 75% by 2035, and this, in turn, implies that around 100 to 200 million people will be moving from the rural areas to towns and cities in the future. Increasing urbanisation can continuously generate consumption potential and effectively boost investment. In view of the uneven and incomplete development of urbanisation in the second-and third-tier cities, the Group has proactively refined its target markets. For the Year Under Review, the Group continued to define the target markets for its pharmaceutical distribution business and capture more accurate and comprehensive market information. Such information enables the Group to deploy its resources and formulate customised plans for proactive down-market penetration to different channels, strengthen channels management, explore market niches and expand the product coverage to meet the consumption needs of domestic consumers while further improving channel marketing and customer loyalty. For the Year Under Review, the distribution network of the Group has increased from 200,000 to 210,000 OTC retail pharmacies, an increase of 5% as compared to the same period last year.

4. *Implement the Hong Kong Chinese Pharmaceutical Demonstration Platform through capital operation*

During the Year Under Review, various investment projects of the Group delivered stable and positive results. Such projects included the 15% equity interest in Dong Hua Tong Investments Limited (東華通投資有限公司) in 2015, the stake indirectly held in Miquel Alimentació (西班牙米蓋爾公司) (a Spanish company engaged in food distribution and wholesale and supply chain management) and Manassen Foods Australia (a major food company), as well as the 2,302,000 shares of Chuangmei Pharmaceutical Co., Ltd. (02289.HK) the Group subscribed for in 2015. The Group has continued to receive steady dividends from these two investments.

On 24 June 2015, the Group formed a partnership agreement with a general partner through its wholly-owned subsidiary, Kingworld Medicines Health Management Limited ("**Kingworld Medicines Health Management**"), and Kingworld Medicines Health Management subscribed for the partnership interests of SINOPHARM HEALTHCARE FUND L.P. In November 2017, SINOPHARM HEALTHCARE FUND L.P. invested in Semma Therapeutics Inc. In September 2019, such investment was realised and generated ample investment revenue for the Group. With Kingworld Medicines Health Management acting as the limited partner of SINOPHARM HEALTHCARE FUND L.P., the Group received investment revenue corresponding to the proportion of its share of the fund on 6 December 2019.

Moreover, on 2 January 2018, Shenzhen Kingworld Medicine Company Limited, a wholly-owned subsidiary of the Group, invested in the "Shenzhen Zhiyuan Healthcare Technology Innovation Center" (深圳至元健康科技創新中心), a greater health services project in the Lok Ma Chau Loop, on the Hong Kong border. Shenzhen Zhiyuan Healthcare Technology Innovation Center and the Group are the two main initiators. The two partners together, among others, also initiated development of a Hong Kong Chinese Pharmaceutical Demonstration Platform and an agreement was entered into on 12 April 2019. The parties concerned intended to use the advantageous Chinese pharmaceutical resources of Hong Kong, complemented by their industrial strength in Shenzhen to develop the Hong Kong Chinese Pharmaceutical Demonstration Platform, opening a channel for Chinese pharmaceutical products from Hong Kong to enter the mainland market. Through the platform, partners can pursue in-depth cooperation on such aspects as where to deploy resources, how to comply with policy requirements as well as commercial trade and logistics, paving the way for the smooth penetration of quality centuries-old Chinese medicine brands to enter the mainland market and deliver them to thousands of households through Kingworld's sales network across the country, thereby continuously providing customers with quality healthcare products and taking care of the health of the Chinese.

Construction of the Hong Kong Chinese Pharmaceutical Demonstration Platform is an important tool for implementing the instruction of Xi Jinping, President of the PRC, on reviving the Chinese pharmaceutical industry. This direction is also an important vehicle in facilitating the integrated development of the Chinese pharmaceutical industry in Shenzhen, Hong Kong and Macao and expediting integration of the Chinese pharmaceutical industries in Hong Kong and Macao with that in the Mainland China, as set out in the Outline of the Development Plan for the Greater Bay Area. It will also be a measure that can boost the modernisation and internationalisation of Chinese medicines and develop Shenzhen develop to become a bridgehead for pharmaceutical industry-related cooperation along the "Belt and Road".

5. *Diversified training to enhance staff competitiveness*

The implementation of "deep-rooted, optimised and refined" management strategy was the key initiative of the Group in 2019. The Group requested all its marketing personnel to be thoroughly perform their day-to-day basic responsibilities, fully exploit the Company's big-data-based "SMART System" to search for suitable regional market gaps of each product, rationally deploy business and manpower, integrate business and corporate resources of the Company and carefully cultivate each market gaps. To enhance the core competitiveness and achieve objectives, the Group's Human Resources Center and Kingworld Business School organised various training courses covering different subjects and targets during the Year Under Review, which mainly included (i) sales skills trainings to staff from different sales regions and sharing of outstanding cases; (ii) promptly replicating key talent training projects by cultivating a part-time internal trainer team; (iii) organising training programmes for new employees to enhance their understanding of the corporate structure, procedures and corporate culture, and boost their product knowledge as well as operational and management knowledge; (iv) organising the Kingworld talent training project in cooperation with the Food & Drug Vocational College in Guangzhou (廣州食品藥品學院), aiming to cultivate a reserve of talent for the sales system; and (v) reserving management projects for improving management's business negotiation skills in reserve management and identifying sales growth potential to nurturing future key personnel. During the Year Under Review, the Group organised more than 15 training sessions, and lively and diversified staff activities covering online and offline programmes. Outdoor activities helped employees gain physical strength while indoor activities helped foster exchanges and enhance relationships among employees, conducive to boosting the Kingworld culture. In March 2019, a staff gymnasium was built in the Shenzhen headquarters building to encourage Kingworld's employees to actively care for their health and respond to the call for a "Healthy China, Healthy Bay Area, Healthy Shenzhen, and Healthy Kingworld."

During the Year Under Review, the Kingworld Art Space "Mind Comforting Hall Living Space (舒心堂•生空間)" was opened at the Group's headquarters in Shenzhen. The famous contemporary Buddhist monk and painter, the Buddhist Master Xinde (心德法師), was invited to the opening ceremony and the exhibition of the series of Buddha and Buddhist icons inherited from the Chinese Han Dynasty, namely "The Buddha and Buddha Image Exhibition", which showcased the culture of healthy body and mind as well as the culture of mercy and wisdom to foster the cultural development of employees' physical and mental health, strengthen the positive relationship between the physical and mental health and improve their work efficiency. This exhibition was the first art exhibition held after the establishment of the "Mind Comforting Hall • Living Space" highly regarded for its aesthetic appeal and research value.

The Group collaborated with the Food & Drug Vocational College in Guangzhou to cultivate a reserve of talent for the sales system


Lantern making competition in Lantern Festival

Team building activities for Kingworld Mountain Climbing and Exhibition Visit

Training on improving reserve management

The grand opening of "Mind Comforting Hall • Living Space"

Opening of the Kingworld gymnasium to promote "Healthy China, Healthy Greater Bay Area, Healthy Shenzhen, Healthy Kingworld"

HONOURS

For the Year Under Review, the Group received the following honours and awards:

- In January 2019, the Group's Culturelle probiotics product series from the United States and Lifeline Care maternal and infant fish oil product series from Norway 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 March 2019, the Group was presented "The Key Logistics Company of Shenzhen" plaque by the Transport Commission of Shenzhen Municipality

- In March 2019, the Group was awarded the "Marketing Innovation Award" at the 3rd Super Brand Conference

- In April 2019, Ms. Chan Lok San, the executive Director of the Company, was invited to be the Honorary Chairman of the Second Council of Greater Health Association of the EDP Alumni Association of Lingnan College at Sun Yat-Sen University

- In April 2019, Mr. Zhao Li Sheng, the Chairman of the Board, was awarded as the "Leader of the Shenzhen Health Industry 2018" at the Shenzhen Health Industry Annual Meeting 2018

- In April 2019, the Group was awarded the "Certificate of Quality Management Standards for Operation of Pharmaceutical Products" issued by the Shenzhen Food and Drug Administration

- In May 2019, the Group was once again awarded the "Certificate of Excellence" by the Hong Kong Investor Relations Association at the 5th Hong Kong Investor Relations Awards

- In June 2019, the Group was once again awarded the honourable title of "Guangdong Province Enterprise of Observing Contracts and Valuing Credit 2018" by the Guangdong Provincial Administration for Industry and Commerce

- In July 2019, the Group ranked the 325th on the "2019 Shenzhen Top 500 Enterprises" list in the "2019 Shenzhen Top 500 Enterprise Development Report" issued by the Shenzhen Enterprise Confederation and Shenzhen Entrepreneur Association

- In August 2019, the "Nin Jiom" brand for which the Group acted as a distributor ranked 18th in the "Brand & Value Rankings" with a brand value of more than RMB3.989 billion

- In August 2019, the "Nin Jiom" for which the Group acted as a distributor won two grand awards, namely the "Most Popular Cough Relief Brand Products" and the "Top 10 Marketing Cases for the Great Health Industry 2019"

- In September 2019, the Group ranked 25th in the corporate category of "2018 Shenzhen Charity Donation List"; and the "Kingworld Care for Health Foundation" ranked 78th on the social organisation donation income list

- In October 2019, Nin Jiom Chuan Bei Pei Pa Koa was once again named as the Most Recommended Brand (Cough Product Category) by Salespersons in Pharmacies of China for 2018-2019

- In November 2019, the Group was accredited as a "Shenzhen Time-honoured Brand" by the Federation of Industry & Commerce of Shenzhen, Shenzhen Media Group, Shenzhen Newspaper Group and Shenzhen Commercial News Agency

- In November 2019, Mr. Zhao Li Sheng, the Chairman of the Board, was presented with the honourable title of "2019 Global Outstanding CSR Leadership Award – Special Award" at the Global Outstanding CSR Summit and Awards 2019 held in Cambodia

- In December 2019, the Group was included in the Top 100 list of the "Third Shenzhen Top 100 Quality Enterprises" selected by the Shenzhen Enterprise Confederation, Shenzhen Entrepreneurs Association

- In December 2019, Mr. Zhao Li Sheng, the Chairman of the Board, was appointed as Honorary President of the Second Council by the Beijing Chaozhou Chamber of Commerce at the 2019 Beijing Chaozhou Chamber of Commerce Conference, which was co-organised by the Beijing Jingchao Public Welfare Foundation

- In December 2019, Mr. Zhao Li Sheng, the Chairman of the Board, was presented a letter of appointment as a monitor of the party, political and police practice trends and clean governance under the Shenzhen Municipal Public Security Bureau


2018深圳500强企业
2018 TOP 500 ENTERPRISES IN SHENZHEN


赵利生


赵利生
2018年度

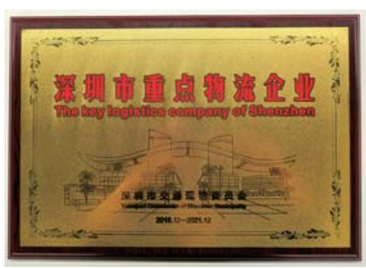

hkira
IR Awards
CERTIFICATE
of Excellence
Kingworld Medicines Group Limited
(1110.HK)
The HKIRA 5th Investor Relations Awards


深圳老字號
Shenzhen Time-Honored Brand
金活


营销创新奖


荣誉证书


名誉会长
Honorary President
赵利生
CCCB


深圳市重点物流企业
The key logistics company of Shenzhen


营销创新奖

FINANCIAL REVIEW

1. *Revenue*

Revenue of the Group for the Year Under Review was approximately RMB977,928,000, representing a decrease of approximately RMB100,915,000 or 9.4% from approximately RMB1,078,843,000 for the year ended 31 December 2018. The decrease was mainly a result of the decreased in revenue of the Nin Jiom products and 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 RMB710,525,000, representing a decrease of approximately RMB56,821,000 or 7.4% from approximately RMB767,346,000 for the year ended 31 December 2018. The decrease in cost of sales was in line with the decrease in revenue. Gross profit margin decreased from 28.9% for the year ended 31 December 2018 to 27.3% for the Year Under Review.

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

Other revenue, income and other net loss mainly included 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 RMB47,663,000, representing an increase of approximately RMB30,054,000 of 170.7% from approximately RMB17,609,000 for the year ended 31 December 2018. The increase was mainly due to the increase in promotional service income of approximately RMB12,261,000 and the decrease in exchange loss of approximately RMB5,520,000.

4. *Selling and distribution costs*

For the Year Under Review, selling and distribution costs amounted to approximately RMB112,283,000, representing a decrease of approximately RMB42,790,000 or 27.6% from approximately RMB155,073,000 for the year ended 31 December 2018. This decrease was primarily attributable to the decrease in advertising and promotional expenses of approximately RMB33,896,000.

5. *Administrative expenses*

For the Year Under Review, administrative expenses amounted to approximately RMB107,443,000, representing an increase of approximately RMB10,646,000 or 11.0% from approximately RMB96,797,000 for the year ended 31 December 2018. For the Year Under Review, rental expenses was approximately RMB2,223,000, administrative staff costs was approximately RMB12,946,000, legal and professional fees, which comprised mainly of financial reporting costs of the Company and legal advisory and consultancy fees, was approximately RMB6,085,000, and research and development expenses was approximately RMB15,072,000 (2018: rental expenses was approximately RMB2,679,000, administrative staff costs was approximately RMB11,520,000, legal and professional fees was approximately RMB7,651,000, and research and development expenses was approximately RMB13,872,000).

6. *Profit from operations*

For the Year Under Review, profit from operations for the Group amounted to approximately RMB76,744,000, representing an increase of approximately RMB7,898,000 or 11.5% from approximately RMB68,846,000 for the year ended 31 December 2018. The increase in profit from operations was mainly due to the decrease in selling and distribution costs and increase in promotional service income for the Year Under Review.

7. *Finance costs*

For the Year Under Review, finance costs amounted to approximately RMB15,484,000, representing a decrease of approximately RMB1,519,000 or 8.9% from approximately RMB17,003,000 for the year ended 31 December 2018. The decrease was mainly due to the decrease in bank loans.

8. *Profit before taxation*

For the Year Under Review, profit before taxation for the Group amounted to approximately RMB69,809,000, representing a decrease of approximately RMB571,000 or 0.8% from approximately RMB70,380,000 for the year ended 31 December 2018. The decrease in profit before taxation was mainly due to the decrease in share of profit of a joint venture of approximately RMB10,009,000.

9. *Income tax*

For the Year Under Review, income tax expenses for the Group amounted to approximately RMB19,538,000, representing an increase of approximately RMB917,000 or 4.9% from approximately RMB18,621,000 for the year ended 31 December 2018. This increase was mainly due to the decrease in the reversal of deferred tax. The effective tax rate for the Year Under Review was 28.0%, compared to 26.5% for the year ended 31 December 2018. The details are set out in Note 8 to the 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 RMB43,427,000, representing an increase of approximately RMB2,422,000 or 5.9% from approximately RMB41,005,000 for the year ended 31 December 2018. The increase in profit for the year attributable to owners of the Company was mainly due to the increase in profit from operation of approximately RMB7,898,000 and the decrease in non-controlling interests of approximately RMB3,910,000, which was partially off-set by the decrease in share of profit of a joint venture of approximately RMB10,009,000.

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 2019 amounted to RMB391,516,000, representing a decrease of approximately RMB25,266,000 from approximately RMB416,782,000 as at 31 December 2018. The decrease was mainly due to the decrease in trade and bills receivables of approximately RMB14,163,000 and trade deposits to related parties of approximately RMB16,739,000.

2. *Inventories*

As at 31 December 2019, inventories owned by the Group amounted to approximately RMB205,121,000, representing an increase of approximately RMB23,057,000 when compared with that of RMB182,064,000 as at 31 December 2018. The main reason for the increase in inventories was the increase in finished goods.

3. *Right-of-use assets/leasehold land held for own use under operating leases*

As at 1 January 2019, leasehold land held for own use under operating leases was re-classified as right-of-use assets of approximately RMB91,139,000 due to the adoption of HKFRS 16 (2018: approximately RMB91,139,000). As at 31 December 2019, right-of-use assets of the Group amounted to approximately RMB118,333,000.

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 2019, the net book value of property, plant and equipment owned by the Group amounted to approximately RMB59,303,000, representing a decrease of approximately RMB681,000 from approximately RMB59,984,000 as at 31 December 2018. The decrease in property, plant and equipment was mainly due to the depreciation 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 2019, trade and other payables of the Group amounted to approximately RMB273,412,000, representing an increase of approximately RMB53,701,000 from approximately RMB219,711,000 as at 31 December 2018. The increase was mainly due to the increase in trade payables of approximately RMB58,440,000, which was partially off-set by the decrease in value-added tax payables of approximately RMB10,811,000.

CASH FLOWS

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.

During the Year Under Review, the Group's cash and cash equivalents decreased by approximately RMB47,165,000, which mainly comprised the net cash inflow generated from operating activities with the amount of approximately RMB132,711,000, net cash outflow used in investing activities with the amount of approximately RMB7,684,000, net cash outflow used in financing activities with the amount of approximately RMB174,398,000 and the foreign exchange gain of approximately RMB2,206,000. Details of cash flows of the Group are set out in pages 83 and 84 of the Consolidated Statement of Cash Flows in this report.

CAPITAL STRUCTURE

1. *Indebtedness*

The total indebtedness of the Group, which will be due within one year as at 31 December 2019, was approximately RMB214,327,000 (2018: approximately RMB336,676,000). 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 2019, the Group's asset-liability ratio, calculated as the total bank borrowings divided by total assets multiplied by 100%, was approximately 16.7% (2018: approximately 26.0%). The decrease was mainly due to the decrease in bank borrowings.

3. *Gearing ratio*

As at 31 December 2019, the Group's gearing ratio, calculated as total debts divided by total equity, was appropriately 31.8% (2018: approximately 52.8%). The decrease was mainly due to the decrease in bank borrowings.

4. *Pledge of assets*

As at 31 December 2019, the Group had pledged investment properties, right-of-use assets and property, plant and equipment to certain banks in the amount of approximately RMB108,900,000, RMB58,287,000 and RMB20,984,000, respectively.

As at 31 December 2018, 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 RMB108,900,000, RMB59,652,000 and RMB22,076,000, respectively.

5. *Capital expenditures*

The capital expenditures of the Group primarily included purchases of plant, equipment, leasehold improvements and other costs for acquisition of right-of-use assets and land. The Group's capital expenditures amounted to approximately RMB20,288,000 and RMB11,864,000 for the years ended 31 December 2019 and 2018, 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 3.59% to 6.53%. 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 2019, the Group had cash and cash equivalents of approximately RMB113,495,000 (2018: approximately RMB160,660,000) which was mainly generated from operations of the Group.

CAPITAL COMMITMENT

As at 31 December 2019, the Group had capital commitment of approximately RMB171,827,000 (2018: approximately RMB173,362,000).

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

During the year ended 31 December 2019, 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 announcement of the Company dated 10 August 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 "**Retrial**"). According to the judgment for the Re-trial dated 19 June 2019 (the "**2019 Judgment**") handed down by the Court, the Court ordered (i) the Equity Transfer; and (ii) Dong Di Xin to provide relevant assistance for completing the Equity Transfer and dismissed the claims and counterclaims of the Substantial Shareholder. The Company has been informed that each of the Substantial Shareholder and Dong Di Xin has lodged an appeal (the "**2019 Appeal**") against the 2019 Judgment. As at the date of this report, no hearing date of the 2019 Appeal has been set. The Company confirmed that the Judgment and the 2019 Judgment did not and will not have any material adverse impact on the ordinary operations and financial positions of the Group. 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. To embark on a new journey of pursuing the dream of greater health in the 25th Anniversary of Kingworld

In 2019, Kingworld celebrated its 25th anniversary. In the past 25 years, the Group succeeded in grasping development opportunities from China's reform policies and marched into the pharmaceutical industry, starting its journey of pursuing the dream "to serve the community and to benefit the world (效力世人，澤潤蒼生)" and meeting peoples' needs for a quality and healthy lifestyle. In the past 25 years, the Group has brought in high-quality and efficacy products of more than 60 long-established and renowned overseas brands. These products, with the support of the Group's sales and marketing networks across the nation and Kingworld representatives taking them direct to local retail outlets, together with effective marketing, have served thousands of household consumers in China.

For the Group, its 25th anniversary marks a new beginning. The macro-economic situation, domestic and global, is more complex and volatile. The uncertainty of the Sino-US trade negotiations, the continual launch by the Chinese government of new policies related to the pharmaceutical industry, the logistics industry and retail industry have become increasingly concentrated, the survival pressure persist for small and medium enterprises, more diverse purchase channels and flattening of purchase behaviour has also been observed. To adapt to the changes in the business environment and with market, consumption and technology, the Group must adapt to the trend of integration of online and offline channels, grasp and apply the timely experiential marketing tactics, as well as strive to refine the overall marketing strategy and focus for each product. The Group will strive to seize opportunities presented by the favourable policies for the vigorous development of the Chinese medicine industry in China. The Group can do so by actively engaging in further cooperation with long-established traditional Chinese medicine manufacturers, enriching the product lines, seizing the opportunities to participate in investment in upstream manufacturers and promoting existing products to the third- and forth-tier cities to enhance the sales scale.

In addition, the Group plans to launch collaborative projects with the HKUST regarding probiotics. Collaborating with HKUST's research and development capability with the Group's analysis and expertise regarding the future market trends, for the development of Chinese medicines with probiotics and anti-inflammatory properties. Such cooperation will enable the Group to expand its product lines and accommodate various demands of a broader spectrum of consumers.

2. Adjust product structure appropriately to support expansion of greater health industry

In 2020, the Group will utilise the scientific big data analysis from the "SMART System" to accommodate to the changes in consumers' need and competitive landscape and formulate comprehensive marketing and distribution plans for each product portfolio of the Group. In the future, the Group will concentrate its resources, based on the actual situation, on its existing product portfolio by expanding the mainstream products which will generate a higher and stable income for the Group. In addition, the Group will conduct research and analysis on a small amount of non-mainstream products with slow growth rate in order to seek and maintain an optimised product structure. Apart from pharmaceutical and healthcare products, the Group aims to cover products including household anti-epidemic items, such as face masks, disinfection supplies and hygiene products.

Furthermore, the capital operating team of the Group will continue to facilitate the Group's business in the greater health services sector by actively identifying quality overseas brands, integrating production enterprises and overseas upstream manufacturers with operations with potential products in the greater health market. At the same time, the Group will look for collaborative partners among domestic GMP enterprises in order to strengthen the development of the Group's upstream and downstream supply chain systems in the greater health industry.

3. Continuous development of channels in lower-tier cities to increase market share

In the Sixth National Population Census, consumers from China's third-tier cities and lower accounted for more than 70% of the nation's total consumers and their GDP accounted for 59% of the nation's GDP. At the same time, the third-tier cities and lower contributed two-thirds of China's economic growth. According to the "Report on In-depth Analysis and Development Trend Forecast on the Chinese Movie Industry for 2017-2023"《2017-2023年中國電影行業深度分析及發展趨勢預測報告》by the Intelligence Research Group, areas such as income level, infrastructure conditions, population and industrial trend as well as the business environment of lower-tier cities have continued to improve in recent years. As the purchasing power of the population of the third- and fourth-tier cities increases, they will become the next main group for boosting consumption and consumption upgrade. Looking ahead, the Group will continue to develop channels in the lower-tier cities in China. Through scientific big data analysis from the "SMART System" together with its upstream and downstream integrated supply chain and logistics, the Group will further penetrate its channels, enlarge its product coverage to the third- and fourth-tier cities and explore untapped markets, so as to increase the Group's market share and profitability.

4. *Implementing employees' assessment and incentive system to enhance stable development of each business*

The Group will comply with the Group's performance management guideline of "the one who does more work gets more pay" to ensure employees to achieve annual sales targets. In the future, the Group will link the performance appraisal of all employees with the Company's sales performance, together with the actual market situation and sales system management. This is aimed at further strengthening the deployment management of different sales regions, raising the deployment rate of products and reducing untapped markets in the different sales regions. In the future, the Group will further optimise the performance indicators of salespersons in different sales regions as well as employees in all positions, so as to motivate employees in related positions, and to promote a stable development in each business and business performance by implementing "the one who does more work gets more pay".

5. *Strengthen risk management to foster stable and healthy operation of the Group*

In 2019, facing challenges and uncertainties brought by global trade protectionism, the Sino-US trade negotiations, the social unrest in Hong Kong as well as the recent COVID-19 outbreak, growth of the global economy in the first half of 2020 is expected to slow down and become conservative, while corporates and society shall "practice austerity". The Group will exercise a stronger grip on its finance, including closely monitoring and identifying various market risks in and outside the country, measuring, analysing and rating them, so as to make adjustment to relevant solutions and implement timely measures to prevent and control risk. The Group will adopt an even more prudent investment strategy and make sure it has sufficient cash in its reserves to support the smooth operation of its business. At the same time, the Group will exercise a stronger grip on internal administration and control expenses to lower operations cost while optimising its business so as to safeguard the investment returns of Shareholders and other stakeholders.

HUMAN RESOURCES AND TRAINING

As at 31 December 2019, the Group had a total of 1,013 employees, of whom 133 worked at the Group's headquarters in Shenzhen, and 469 were stationed in 34 regions mainly responsible for sales and marketing, and 471 worked at Dong Di Xin. Total staff cost for the Year Under Review amounted to approximately RMB127,134,000 (2018: approximately RMB119,438,000). The Group releases an annual sales guideline on a yearly basis, setting out the annual sales targets and formulating quarterly sales strategies to provide sales and marketing guidelines for all representative offices and their staff. The Group has a management team with extensive industry experience (including the sales directors and product managers), 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 to its employees.

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.

The Company has also implemented a share award scheme in August 2019 (the "**Share Award Scheme**") for the purpose of recognising the contributions made by certain participants and providing incentives in retaining the participants for the continual operation and development of the Group and attracting suitable personnel for future development of the Group. Details of the Share Award Scheme are set out in the paragraph headed "Share Award 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 2019 of HK2.34 cents per share to Shareholders whose names appear on the register of members of the Company on Friday, 5 June 2020, amounting to approximately HK$14,567,000, subject to the approval of the Shareholders at the Company's forthcoming annual general meeting to be held on Wednesday, 27 May 2020. 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 Tuesday, 30 June 2020.

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 61, 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 24 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 Medicine Company Limited ("**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 Organisations, 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 56, 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 23 years of experience in the pharmaceutical industry as well as over 13 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 53, 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 22 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 54, was appointed as an independent non-executive Director of the Company on 5 November 2010. He has approximately 29 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 51, was appointed as an independent non-executive Director of the Company on 5 November 2010. He has over 24 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). From August 2018 to October 2019, Mr. Wong was employed as 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). Since March 2020, Mr. Wong has worked in Megain Holding (Cayman) Co., Limited（美佳音控股有限公司）as a company secretary.

Mr. Zhang Jianbin (張建斌), aged 59, was appointed as an independent non-executive Director of the Company on 1 August 2013. Mr. Zhang has over 27 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 (organised 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 59, 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 34 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 54, 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 28 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 60, 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 17 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 49, is the sales controller (commerce) of SZ Kingworld. He is primarily responsible for the customer and sales management. Mr. Ceng has approximately 20 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. Zhang Dan (張丹), aged 55, 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 18 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 57, 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 26 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 57, is the corporate finance controller of SZ Kingworld and is responsible for managing the matters relating to the Listing. He has 24 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.

Corporate Governance Report

The Board strives to uphold the principles of corporate governance set out in the Corporate Governance Code (the "**CG Code**") 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 2019, 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.

As at November 2019, each of Mr. Duan Jidong and Mr. Wong Cheuk Lam had been serving as an independent non-executive Director of the Company for more than nine years. In the annual general meeting of the Company held on 27 May 2019, each of Mr. Duan Jidong and Mr. Wong Cheuk Lam was subject to separate resolution for approval by the Shareholders to be re-elected as an independent non-executive Director of the Company. Notwithstanding that Mr. Duan Jidong and Mr. Wong Cheuk Lam had been serving as independent non-executive Directors for more than nine years as at November 2019, (i) the Board had 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 had assessed and was satisfied of the independence of Mr. Duan Jidong and Mr. Wong Cheuk Lam; and (iii) the Board considered 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. In the annual general meeting of the Company held on 27 May 2019, the resolutions for re-electing each of Mr. Duan Jidong and Mr. Wong Cheuk Lam as an independent non-executive Director of the Company were approved by the Shareholders of the Company.

Pursuant to article 108 of 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 and every Director shall be subject to retirement by rotation at least once every three years. Accordingly, Mr. Zhou Xuhua being an executive Director and Mr. Zhang Jianbin being an independent non-executive Director, shall hold office until the forthcoming annual general meeting of the Company and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company. In considering the re-election of Mr. Zhang Jianbin, with the assistance and recommendation from the nomination committee of the Company, the Board has 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. Zhang Jianbin. The Board is of the view that his education, background and experience practice allow him to provide valuable and relevant insights and contribute to the diversity of the Board. The Board is also of the view that during his tenure as independent non-executive Director, Mr Zhang Jianbin has made positive contributions to the Group's development, strategy and performance with his independent advice and comments and his understanding of the business of the Group. The Board believes that Mr. Zhang Jianbin will bring his valuable experience to the Board for promoting the best interests of the Company and its Shareholders. Holding less than seven listed company directorship, Mr. Zhang Jianbin is able to devote sufficient time and attention to perform the duties as independent non-executive Directors. Alongside the other independent non-executive Directors, he will contribute to ensuring that the interests of all Shareholders are taken into account and that relevant issues are subject to objective and dispassionate consideration by the Board. The Company received written confirmation from Mr. Zhang Jianbin on his independence in accordance with the Listing Rules. In view of the aforesaid factors, the Board would recommend Mr. Zhang Jianbin for re-election at the forthcoming annual general meeting of the Company.

Accordingly, Mr. Zhou Xuhua and Mr. Zhang Jianbin 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 2018, the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2019 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, reviewed the consolidated financial statements for the year ended 31 December 2019, the results announcement, this annual report, the accounting principles and practices adopted by the Group, as well as the risk management and internal control systems of the Group for the Year Under Review, and agreed with the accounting treatments 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 independence of the 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 utilises 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 2019 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 and 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 (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 2019, the remuneration paid to the external auditors in Hong Kong and the PRC, for audit services totaled approximately RMB1,462,000 (equivalent to approximately HK$1,658,000).

For the year ended 31 December 2019, the total remuneration for the permissible non-audit services provided by the external auditors amounted to RMB417,000 (equivalent to approximately HK$473,000), mainly represents remuneration for interim review services.

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 2019, through reviews conducted by the Audit Committee and study results from the 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, 15 April 2020

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 2019 (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) manufacturing and sales of electrotherapeutic, physiotherapeutic devices and general medical examination devices. As at 31 December 2019, 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 2019 and the state of affairs of the Company and the Group as at that date are set out in the Financial Statements on pages 78 to 182.

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 2019 of HK2.34 cents per share to Shareholders whose names appear on the register of members of the Company on Friday, 5 June 2020, amounting to approximately HK$14,567,000, subject to the approval from the Company's forthcoming annual general meeting to be held on Wednesday, 27 May 2020. 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 Tuesday, 30 June 2020.

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 Thursday, 21 May 2020 to Wednesday, 27 May 2020 (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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 20 May 2020.

To qualify for the proposed final dividends

The register of members of the Company will be closed from Wednesday, 3 June 2020 to Friday, 5 June 2020 (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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Tuesday, 2 June 2020.

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 11 to 35. 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 183. 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 recognises 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 31 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 2018 Annual Report, the 2019 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, among other things, set aside the Judgment of the Court and ruled the case to be returned to the Court for the Retrial.

According to the 2019 Judgment, the Court ordered (i) the Equity Transfer; and (ii) Dong Di Xin to provide relevant assistance for completing the Equity Transfer and dismissed the claims and counterclaims of the Substantial Shareholder. The Company has been informed that each of the Substantial Shareholder and Dong Di Xin has lodged an appeal against the 2019 Judgment.

As at the date of this report, no hearing date of the 2019 Appeal has been set. 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.

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 2019, the Group had used up all the net proceeds of approximately RMB206,167,000, of which RMB41,233,000 had been applied for upgrading the transportation and delivery services to customers, RMB20,600,000 had been applied for expanding the product display booth scheme, approximately RMB20,600,000 was used as working capital and approximately RMB123,734,000 has been applied for acquisition of Dong Di Xin.

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 is as follows:

					Number of Share Options					
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)	Outstanding as at 1 January 2019	Granted during the Year	Cancelled during the Year	Lapsed during the Year	Outstanding as at 31 December 2019	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	208,000	–	–	(208,000)	–	–
		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	188,000	–	–	(188,000)	–	–
		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	188,000	–	–	(188,000)	–	–
		23 April 2018	23 April 2018 to 22 April 2024	1.26	416,000	–	–	–	416,000	0.0668%
Duan Jidong	Independent non-executive Director	1 June 2015	1 June 2015 to 31 May 2019	2.54	164,000	–	–	(164,000)	–	–
		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	164,000	–	–	(164,000)	–	–
		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	164,000	–	–	(164,000)	–	–
		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 2019	Granted during the Year	Cancelled during the Year	Lapsed during the Year	Outstanding as at 31 December 2019	Approximate percentage of the Company's total issued share capital
Sub-total of Share Options granted to Directors					**3,492,000**	**–**	**–**	**(1,076,000)**	**2,416,000**	**0.3881%**
57 Employees	Employees of the Group	1 June 2015	1 June 2015 to 31 May 2019	2.54	3,294,000	–	–	(3,294,000)	–	–
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%
Total					**26,778,000**	**–**	**–**	**(4,370,000)**	**22,408,000**	**3.5996%**

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.

SHARE AWARD SCHEME

The Company has adopted the Share Award Scheme on 27 August 2019 for the purpose of recognising the contributions made by certain participants and providing incentives in retaining the participants for the continual operation and development of the Group and attracting suitable personnel for future development of the Group. Details of the Share Award Scheme are set out in the announcement of the Company dated 27 August 2019 (the "**August Announcement**").

The Share Award Scheme shall be subject to the administration of the Board in accordance with the Award Scheme Rules (as defined in the August Announcement). The trustee (the "**Trustee**") shall hold the shares of the Company granted under the Share Award Scheme and any income derived from them in accordance with the terms of the trust deed entered into and among the Company and the Trustee. The total number of shares to be awarded under the Share Award Scheme shall not exceed 6,000,000 shares of the Company (subject to adjustment in the event of sub-division of shares, consolidation of shares or bonus issue in accordance with the Award Scheme Rules) unless otherwise determined by the resolution of the Board.

In September 2019, the Trustee purchased an aggregate of 6,000,000 shares of the Company from the market for the purpose of the Share Award Scheme. For details, please refer to the announcements of the Company dated 5 September 2019 and 12 September 2019, respectively. As at the date of this report, no shares of the Company have been awarded to any selected participants pursuant to the Share Award Scheme.

The Share Award Scheme not involving the issue of new shares of the Company or other securities of the Company and does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Listing Rules. However, where any grant of the Awarded Shares (as defined in the August Announcement) is proposed to be made to any person who is a connected person of the Company, the Company shall comply with the relevant provisions of the Listing Rules.

BORROWINGS

Details of the Group's bank borrowings as at 31 December 2019 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, 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 2019, 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 30 to the Financial Statements.

RESERVES

Details of change in reserves of the Group and the Company are set out on page 82 of the Consolidated Statement of Changes in Equity and Note 30 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 2019, the aggregate amount of reserves available for distribution to owners of the Company was approximately RMB157,777,000 (2018: approximately RMB71,918,000). After the end of the Year Under Review, the Directors proposed a final dividend of HK2.34 cents (equivalent to RMB2.09 cents) (2018: HK2.25 cents, equivalent to RMB1.98 cents) per share amounting to approximately RMB13,010,000 (2018: approximately RMB12,326,000). 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 RMB6,429,000 (2018: approximately RMB6,269,000).

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 2019, there were no changes in fair value of investment properties. Details of the Group's investment properties for the year ended 31 December 2019 are set out in Note 14 of the Financial Statements and on page 184 of this report.

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 2019 are set out in Note 15 to the Financial Statements.

DIRECTORS

The Directors of the Company during the year ended 31 December 2019 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 36 to 40 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 Directors (2018: 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 2019 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	1,628
Ms. Chan Lok San	1,382
Mr. Zhou Xuhua	1,203

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 2019 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 2019 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	300
Mr. Wong Cheuk Lam	300
Mr. Zhang Jianbin	300

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 2019, 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 2019, 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	17,104,000	2.75%
	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	314,916,250	50.59%
	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 17,104,000 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 405,660,250 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) 17,104,000 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 17,104,000 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, Ms. 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 2019	Granted during the Year	Cancelled during the Year	Lapsed during the Year	Outstanding as at 31 December 2019	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	208,000	–	–	(208,000)	–	–
	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	188,000	–	–	(188,000)	–	–
	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	188,000	–	–	(188,000)	–	–
	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	164,000	–	–	(164,000)	–	–
	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	164,000	–	–	(164,000)	–	–
	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	164,000	–	–	(164,000)	–	–
	23 April 2018	23 April 2018 to 22 April 2024	1.26	372,000	–	–	–	372,000	0.0597%
Total				**3,492,000**	**–**	**–**	**(1,076,000)**	**2,416,000**	0.3881%

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 2019, 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 2019, 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 2019, 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	17,104,000	2.75%
	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	314,916,250	50.59%
	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 17,104,000 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 405,660,250 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) 17,104,000 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 17,104,000 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$133,703,662.50.

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 1.64% interest in Sinopharm Healthcare Fund L.P..

6. The individual substantial shareholder notice filed by Wu Aimin indicated that he controlled 70% interest in Sun Hill Capital Investments Limited, indirectly controlled 100% interest in Sinopharm Capital Limited, and 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 2019, 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 2019 and during any time for the year ended 31 December 2019, 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 2019 and during any time for the year ended 31 December 2019, 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 2019 and during any time for the year ended 31 December 2019, 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 2019, 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 35 to the Financial Statements.

The recurring related party transactions set out in Note 35 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.

The related party transactions in respect of rental expenses and advertising expenses constitute connected transactions as defined in Chapter 14A of the Listing Rules. However, these transactions are exempt from reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As disclosed in the announcement of the Company dated 11 December 2018 (the "**Announcement**"), on 11 December 2018, (1) Kingworld Medicine Healthcare Limited ("**HK Kingworld**"), a wholly-owned subsidiary of the Company, entered into a master distribution agreement with Yuen Tai Pharmaceuticals Limited (遠大製藥廠有限公司) ("**Yuen Tai**") ("**2019 Yuen Tai Master Distribution Agreement**"); and (2) Shenzhen Kingworld Medicine Company Limited ("**SZ Kingworld**"), a wholly-owned subsidiary of the Company, entered into a master distribution agreement with Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited (深圳金活利生藥業有限公司) ("**SZ Kingworld Lifeshine**") ("**2019 SZ Kingworld Lifeshine Master Distribution Agreement**"), 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 ended 31 December 2019" shall have the same meanings as defined in the Announcement.

New Master Distribution Agreements for the year ended 31 December 2019

Transaction	Member of the Group	Connected person	Actual transaction amounts for the year ended 31 December 2019 RMB'000	Approximate annual cap for the year ended 31 December 2019 RMB'000
Purchase and distribution of Pharmaceutical and Healthcare Products from SZ Kingworld Lifeshine	SZ Kingworld	SZ Kingworld Lifeshine	15,427	20,400
Purchase and distribution of Pharmaceutical and Healthcare Products from Yuen Tai	HK Kingworld	Yuen Tai	–	3,233

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

2019 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 11 December 2018, SZ Kingworld Lifeshine and SZ Kingworld entered into the 2019 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 2019 and ended on 31 December 2019 (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 suppliers 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 balance of the purchase price shall be paid upon delivery of the products and the passing of the product inspection.

On 20 November 2019, in view of the prospective expiry of the 2019 SZ Kingworld Life Shine Master Distribution Agreement, SZ Kingworld Life Shine and SZ Kingworld entered into the 2020 SZ Kingworld Life Shine Master Distribution Agreement. For details, please refer to the circular of the Company dated 31 December 2019.

2019 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 11 December 2018, Yuen Tai and HK Kingworld entered into the 2019 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 2019 and ended on 31 December 2019 (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 suppliers 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 balance of the purchase price shall be paid upon delivery of the products and the passing of the product inspection.

On 20 November 2019, in view of the prospective expiry of the 2019 Yuen Tai Master Distribution Agreement, Yuen Tai and HK Kingworld entered into the 2020 Yuen Tai Master Distribution Agreement. For details, please refer to the circular of the Company dated 31 December 2019.

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 2019, the Group had pledged investment properties, right of use assets and property, plant and equipment to certain banks in the amount of approximately RMB108,900,000, RMB58,287,000 and RMB20,984,000, respectively. As at 31 December 2018, 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 RMB108,900,000, RMB59,652,000 and RMB22,076,000, 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 ranged from 3.59% to 6.53%. 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 2019, the Group had cash and cash equivalents of approximately RMB113,495,000 (2018: approximately RMB160,660,000) 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 22.0% of the Group's revenue, in which revenue from the largest customer of the Group accounted for approximately 6.6% of the total revenue of the Group. During the same period, total purchases of the Group's five largest suppliers accounted for approximately 88.0% of the Group's total purchase, in which purchase from the largest supplier of the Group accounted for approximately 64.3% 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 2019 are set out in Note 34 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

The COVID-19 outbreak since the end of 2019 has brought about additional uncertainties to the Group's operating environment and may have impact on the Group's operating and financial position. The Group has been closely monitoring the impact from the COVID-19 epidemic on the Group's businesses and has commenced to put in place various measures. Based on the information currently available, the Directors confirm that there has been no material adverse change in the financial or trading position of the Group up to the date of this report. However, the actual impacts may differ from these estimates as the situation continues to evolve and further information becomes available.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2019 have been audited by Crowe (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, 15 April 2020

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 78 to 182, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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 judgement, 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 32(b) and (i) to the consolidated financial statements) The Group has goodwill of approximately RMB90,693,000 and intangible assets of approximately RMB40,841,000 relating to Shenzhen Dong Di Xin Technology Company Limited acquired in 2015. Their respective recoverable amounts are 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 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 adequacy of the Group's disclosures in respect of goodwill and intangible assets made 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, 31(a)(iii) and 32(d) to the consolidated financial statements)

At 31 December 2019, trade and bills receivables amounted to approximately RMB280 million, net of allowance for doubtful debts of approximately RMB5.4 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. 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 adequacy of the Group's disclosures in respect of trade and bills receivables made in notes 22 and 31(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 judgement and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

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

We communicate with 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, 15 April 2020

Leung Chun Wa
Practising Certificate Number P04963

Consolidated Statement of Profit or Loss

For the year ended 31 December 2019
(Expressed in Renminbi)

	Note	2019 RMB'000	2018 RMB'000
Revenue	4	**977,928**	1,078,843
Cost of sales	7(c)	**(710,525)**	(767,346)
Gross profit		**267,403**	311,497
Valuation gain on investment properties	14	**–**	10,000
Other revenue, income and other net loss	6	**47,663**	17,609
Selling and distribution costs		**(112,283)**	(155,073)
Administrative expenses		**(107,443)**	(96,797)
Amortisation of intangible assets	19	**(18,831)**	(18,831)
Reversal of impairment losses on financial assets, net	7(c)	**235**	441
Profit from operations		**76,744**	68,846
Finance costs	7 (a)	**(15,484)**	(17,003)
Share of profit of a joint venture	18	**10,009**	19,512
Share of loss of an associate	17	**(1,460)**	(975)
Profit before taxation	7	**69,809**	70,380
Income tax	8	**(19,538)**	(18,621)
Profit for the year		**50,271**	51,759
Attributable to:			
Owners of the Company		**43,427**	41,005
Non-controlling interests		**6,844**	10,754
Profit for the year		**50,271**	51,759
Earnings per share	10		
Basic (RMB cents)		**7.00**	6.60
Diluted (RMB cents)		**7.00**	6.60

The notes on pages 85 to 182 form part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019
(Expressed in Renminbi)

	2019 RMB'000	2018 RMB'000
Profit for the year	**50,271**	51,759
Other comprehensive income/(loss) for the year (net of tax)		
Items that will not be reclassified to profit or loss:		
Fair value gain/(loss) on financial assets	**11,900**	(7,900)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside the PRC	**287**	(1,956)
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)
	12,187	(9,937)
Total comprehensive income for the year (net of tax)	**62,458**	41,822
Attributable to:		
Owners of the Company	**55,614**	31,104
Non-controlling interests	**6,844**	10,718
Total comprehensive income for the year	**62,458**	41,822

The notes on pages 85 to 182 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2019
(Expressed in Renminbi)

	Note	2019 RMB'000	2018 RMB'000
Non-current assets			
Right-of-use assets	13	**118,333**	–
Leasehold land held for own use under operating leases	13	–	91,139
Property, plant and equipment	13	**59,303**	59,984
Investment properties	14	**122,600**	122,600
Interest in a joint venture	18	**72,588**	62,579
Interest in associates	17	**2,566**	4,026
Goodwill	16	**90,693**	90,693
Intangible assets	19	**40,841**	59,672
Financial assets at fair value through profit or loss	23	**5,739**	5,549
Financial assets at fair value through other comprehensive income	20	**33,697**	24,190
		546,360	520,432
Current assets			
Inventories	21	**205,121**	182,064
Trade and other receivables	22	**391,516**	416,782
Financial assets at fair value through profit or loss	23	**15,325**	15,135
Pledged bank deposits	24	**8,549**	1,642
Cash and cash equivalents	24	**113,495**	160,660
		734,006	776,283
Current liabilities			
Contract liabilities	25	**72,342**	72,718
Trade and other payables	26	**273,412**	219,711
Bank loans	27	**214,327**	336,676
Lease liabilities	28	**9,115**	–
Tax payable	29(a)	**7,173**	4,123
		576,369	633,228
Net current assets		**157,637**	143,055
Total assets less current liabilities		**703,997**	663,487
Non-current liabilities			
Lease liabilities	28	**8,374**	–
Deferred tax liabilities	29(b)	**22,433**	25,257
		30,807	25,257
NET ASSETS		**673,190**	638,230

The notes on pages 85 to 182 form part of these consolidated financial statements.

At 31 December 2019
(Expressed in Renminbi)

	Note	2019 RMB'000	2018 RMB'000
CAPITAL AND RESERVES	30		
Share capital		**53,468**	53,468
Reserves		**549,875**	512,324
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**603,343**	565,792
NON-CONTROLLING INTERESTS		**69,847**	72,438
TOTAL EQUITY		**673,190**	638,230

Approved and authorised for issue by the board of directors on 15 April 2020.

Mr. Zhao Li Sheng
Director

Ms. Chan Lok San
Director

The notes on pages 85 to 182 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019
(Expressed in Renminbi)

	Attributable to owners of the Company										
	Share capital RMB'000 (note 30(a))	Share premium RMB'000 (note 30(b))	Statutory and discretionary reserves RMB'000 (note 30(c))	Contributed surplus RMB'000 (note 30(d))	Fair value reserve RMB'000 (note 30(e))	Exchange reserve RMB'000 (note 30(f))	Capital reserve RMB'000 (note 30(g))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total Equity RMB'000
At 1 January 2019	**53,468**	**152,700**	**44,108**	**29,068**	**(5,520)**	**(21,073)**	**8,454**	**304,587**	**565,792**	**72,438**	**638,230**
Changes in equity:											
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**43,427**	**43,427**	**6,844**	**50,271**
Other comprehensive income/(loss) for the year											
– Exchange difference arising from the translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**287**	**–**	**–**	**287**	**–**	**287**
– Fair value change on financial assets	**–**	**–**	**–**	**–**	**11,900**	**–**	**–**	**–**	**11,900**	**–**	**11,900**
Total other comprehensive income for the year	**–**	**–**	**–**	**–**	**11,900**	**287**	**–**	**–**	**12,187**	**–**	**12,187**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**11,900**	**287**	**–**	**43,427**	**55,614**	**6,844**	**62,458**
Dividends (note 9(b))	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(12,533)**	**(12,533)**	**–**	**(12,533)**
Distribution to non-controlling interests (note 15(f))	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(9,925)**	**(9,925)**
Shares purchased for the share award scheme	**–**	**–**	**–**	**–**	**–**	**–**	**(5,530)**	**–**	**(5,530)**	**–**	**(5,530)**
Contribution from non-controlling interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**490**	**490**
Appropriation of statutory and discretionary reserves	**–**	**–**	**518**	**–**	**–**	**–**	**–**	**(518)**	**–**	**–**	**–**
Transfer of reserve upon the expiry of share options	**–**	**–**	**–**	**–**	**–**	**–**	**(8,454)**	**8,454**	**–**	**–**	**–**
Transfer of reserve	**–**	**–**	**–**	**(29,068)**	**–**	**–**	**–**	**29,068**	**–**	**–**	**–**
At 31 December 2019	**53,468**	**152,700**	**44,626**	**–**	**6,380**	**(20,786)**	**(5,530)**	**372,485**	**603,343**	**69,847**	**673,190**
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

The notes on pages 85 to 182 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019
(Expressed in Renminbi)

	Note	**2019** **RMB'000**	2018 RMB'000
Operating activities			
Profit before taxation		**69,809**	70,380
Adjustments for:			
Depreciation of property, plant and equipments	7(c)	**8,996**	8,605
Amortisation of right-of use assets/leasehold land held for own use under operating leases	7(c)	**8,490**	1,365
Finance costs	7(a)	**15,484**	17,003
Bank interest income	6	**(668)**	(619)
Dividend received from financial assets at fair value through other comprehensive income	6	**(7,482)**	(1,448)
Dividend received from financial assets at fair value through profit or loss	6	**(624)**	(430)
Interest received from financial assets at fair value through other comprehensive income	6	**(1,027)**	(3,506)
Loss on disposal of property, plant and equipment	7(c)	**551**	36
Equity settled share-based transaction	7(c)	**–**	332
(Reversal of impairment losses on trade receivables)/ impairment losses on trade receivables	7(c)	**(170)**	135
Reversal of impairment losses on other receivables	7(c)	**(65)**	(576)
Change in fair value of financial assets at fair value through profit or loss		**(95)**	2,750
Amortisation of intangible assets	7(c)	**18,831**	18,831
Share of profit of a joint venture	18	**(10,009)**	(19,512)
Share of loss of an associate	17	**1,460**	975
Valuation gain on investment properties	14	**–**	(10,000)
Write-down of inventories	21	**1,576**	2,957
Changes in working capital			
Increase in inventories		**(24,633)**	(36,140)
Decrease / (increase) in trade and other receivables		**25,181**	(23,266)
Increase in deposits for letters of credit		**(6,907)**	(892)
(Decrease) / increase in contract liabilities		**(376)**	2,915
Increase in trade and other payables		**53,701**	57,400
Cash generated from operations		**152,023**	87,295
Income tax paid		**(19,312)**	(24,910)
Net cash generated from operating activities		**132,711**	62,385

The notes on pages 85 to 182 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019
(Expressed in Renminbi)

	Note	2019 RMB'000	2018 RMB'000
Investing activities			
Payment for the purchase of property, plant and equipment		**(8,795)**	(11,864)
Payment for the additional right-of-use assets		**(11,493)**	–
Payment for the acquisition of financial assets at fair value through other comprehensive income		**(726,700)**	(1,114,350)
Proceeds from disposal of property, plant and equipment		**–**	4
Proceeds from disposal of financial assets at fair value through other comprehensive income		**726,700**	1,122,800
Receipts from financial assets at fair value through other comprehensive income		**2,803**	–
Interest received from financial assets at fair value through other comprehensive income	6	**1,027**	3,506
Bank interest received	6	**668**	619
Dividends received from financial assets at fair value through other comprehensive income	6	**7,482**	1,448
Dividends received from financial assets at fair value through profit or loss	6	**624**	430
Dividend received from a joint venture		**–**	19,800
Contributions to associates		**–**	(5,001)
Net cash generated (used in)/from investing activities		**(7,684)**	17,392
Financing activities			
Proceeds from new bank loans	24(b)	**216,620**	647,238
Repayment of bank loans	24(b)	**(341,742)**	(733,710)
Capital element of lease rentals paid	24(b)	**(6,294)**	–
Interest element of lease rentals paid	24(b)	**(1,232)**	–
Interest on bank loans paid	7(a)	**(14,252)**	(17,003)
Payments for shares purchased for the share award scheme		**(5,530)**	–
Dividend paid to owners of the Company	9(b)	**(12,533)**	(18,751)
Dividends paid to non-controlling interests	24(b)	**(9,925)**	(36,821)
Contribution from non-controlling interests		**490**	–
Net cash used in financing activities		**(174,398)**	(159,047)
Net decrease in cash and cash equivalents		**(49,371)**	(79,270)
Cash and cash equivalents at beginning of year		**160,660**	232,755
Effect of foreign exchange rate changes		**2,206**	7,175
Cash and cash equivalents at end of year	24	**113,495**	160,660

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Previously, cash payments under operating leases made by the Group as a lessee of approximately RMB7,602,000 were classified as operating activities in the consolidated cash flow statement. Under HKFRS 16, except for short-term lease payments, all other rentals paid on leases are now split into capital element and interest element (see note 24 (b)) and classified as financing cash outflows. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to HKFRS 16 are set out in note 3).

The notes on pages 85 to 182 form part of these consolidated financial statements.

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 2019 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(aa));

– financial instruments classified as financial assets at fair value through other comprehensive 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 32.

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 significant influence 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 31(f). These investments are subsequently accounted for as follows, depending on their classification.

i) *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)*

ii) *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).

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).

In the comparative period, when the Group held a property interest under an operating lease and used the property to earn rental income and/or for capital appreciation, the Group could elect on a property-by-property basis to classify and account for such interest as an investment property. Any such property interest which had been classified as an investment property was accounted for as if it were held under a finance lease (see note 2(h)), and the same accounting policies were applied to that interest as were applied to other investment properties leased under finance leases. Lease payments were accounted for as described in note 2(h).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

g) *Property, plant and equipment*

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(j)):

– right-of-use assets arising from leases over freehold or leasehold properties where the Group is not the registered owner of the property interest; and

– items of plant and equipment, including right-of-use assets arising from leases of underlying plant and equipment (see note 2(h)).

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:

– 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

– 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.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(r)).

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 disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation 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.

h) *Leased assets*

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

i) *As a lessee*

A) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) *Leased assets (Continued)*

i) *As a lessee (Continued)*

A) Policy applicable from 1 January 2019 *(Continued)*

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 2(g) and 2(j)(ii)), except for the following types of right-of-use assets:

– right-of-use assets that meet the definition of investment property are carried at fair value in accordance with note 2(f);

– right-of-use assets related to leasehold land and buildings where the Group is the registered owner of the leasehold interest are carried at fair value in accordance with note 2(g); and

– right-of-use assets related to interests in leasehold land where the interest in the land is held as inventory are carried at the lower of cost and net realisable value in accordance with note 2(i).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'other property, plant and equipment' and presents lease liabilities separately in the statement of financial position.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) Leased assets (Continued)

i) As a lessee (Continued)

B) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property was classified as investment property on a property-by-property basis and, if classified as investment property, was 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 could not be measured separately from the fair value of a building situated thereon at the inception of the lease, was accounted for as being held under a finance lease, unless the building was also clearly held under an operating lease. For these purposes, the inception of the lease was the time that the lease was first entered into by the Group, or taken over from the previous lessee.

Where the Group acquired the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets were recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, were recorded as obligations under finance leases. Amortisation was provided at rates which wrote-off the cost or valuation of the assets over the term of the relevant lease or, where it was likely the Group would obtain ownership of the asset, the life of the asset, as set out in note 2(g). Impairment losses were accounted for in accordance with the accounting policy as set out in note 2(j). Finance charges implicit in the lease payments were charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) *Leased assets (Continued)*

ii) *As a lessor*

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with note 2(t)(ii).

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described in note 2(h)(i), then the Group classifies the sub-lease as an operating lease.

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

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 (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)*

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 default events 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)

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 (as for distribution sales of pharmaceutical and healthcare products), or 120 (as for manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices) 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)

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)*

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.

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:

- right-of-use assets;
- 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 (ii)).

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)).

For a single contract with the customer, either a net contract asset or a net liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

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.

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

t) *Revenue and other income (Continued)*

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) *Dividend income*

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

- 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

v) i) *Business combinations (Continued)*

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

v) 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) Share award scheme

The Company operates a share award scheme for the purpose of providing incentives and rewards to eligible participants. An employee share trust is established and administered by an independent trustee and is funded by the Group's cash contributions. The considerations paid including any related transaction costs by the Company to purchase shares of the Company for the Scheme are deducted from equity as an employee share trust. The administrator of the employee share trust purchases the Company's shares in the open market as award shares to employees upon vesting. Upon vesting of the awarded shares, the corresponding amount in the shares held under share award scheme will be transferred to the relevant employees.

iv) 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

x) *Related parties (Continued)*

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).

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 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 of acquisition when they are available for use and over their estimated useful lives are as follows:

– Customer relationships	8 years
– Patents	5 years

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

y) Intangible assets (other than goodwill) (Continued)

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.

z) Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

aa) 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 new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, Leases, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives, and HK(SIC) 27, Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("**short-term leases**") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

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

HKFRS 16, Leases *(Continued)*

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

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

a. New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

b. Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 33(a). For an explanation of how the Group applies lessee accounting, see note 2(h)(i).

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 6%.

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

HKFRS 16, Leases (Continued)

b. Lessee accounting and transitional impact (Continued)

To ease the transition to HKFRS 16, the group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as disclosed in note 33(a) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 **RMB'000**
Operating lease commitments at 31 December 2018	21,339
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(4,091)
	17,248
Less: total future interest expenses	(1,445)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	15,803

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

HKFRS 16, Leases *(Continued)*

b. *Lessee accounting and transitional impact (Continued)*

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 RMB'000	Capitalisation of operating lease contracts RMB'000	Carrying amount at 1 January 2019 RMB'000
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Leasehold land hold for own use under operating lease	91,139	(91,139)	–
Right-of-use assets	–	106,942	106,942
Total non-current assets	520,432	15,803	536,235
Lease liabilities (current)	–	5,938	5,938
Current liabilities	633,228	5,938	639,166
Net current assets	143,055	(5,938)	137,117
Total assets less current liabilities	663,487	9,865	673,352
Lease liabilities (non-current)	–	9,865	9,865
Total non-current liabilities	25,257	9,865	35,122
Net assets	638,230	–	638,230

c. *Impact on the financial result, segment results and cash flows of the Group*

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liabilities, and the amortisation of the right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element (see note 24(b)). These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

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.

	2019 **RMB'000**	2018 RMB'000
Revenue from contracts with customers within the scope of HKFRS15		
Disaggregated by major products		
– pharmaceutical products	**633,700**	621,322
– healthcare products	**151,114**	252,600
– medical devices	**193,114**	204,921
	977,928	1,078,843
Timing of revenue recognition		
A point in time	**977,928**	1,078,843

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 2019 and 2018 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	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue from external customers	**102,180**	119,310	**789,102**	855,082	**193,114**	204,921	**1,084,396**	1,179,313
Inter-segment revenue	**8,180**	21,728	**2,654**	24,140	**–**	–	**10,834**	45,868
Reportable segment revenue	**110,360**	141,038	**791,756**	879,222	**193,114**	204,921	**1,095,230**	1,225,181
Reportable segment profit (adjusted EBITDA)	**215**	3,406	**47,797**	62,597	**35,841**	40,666	**83,853**	106,669
Interest income from bank deposits	**126**	85	**228**	372	**312**	162	**666**	619
Interest expense	**313**	–	**5,455**	6,557	**609**	–	**6,377**	6,557
Depreciation and amortisation for the year	**581**	314	**9,634**	7,100	**26,066**	21,387	**36,281**	28,801
Reportable segment assets	**265,528**	271,072	**768,477**	832,986	**192,502**	167,837	**1,226,507**	1,271,895
(including investment in joint venture)	**–**	–	**72,588**	62,579	**–**	–	**72,588**	62,579
Additions to non-current segment assets during the year	**2,284**	–	**15,152**	14,938	**7,344**	6,500	**24,780**	21,438
Reportable segment liabilities	**104,170**	33,711	**326,440**	367,116	**68,305**	51,876	**498,915**	452,703

5. SEGMENT REPORTING *(Continued)*

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

	2019 RMB'000	2018 RMB'000
Revenue		
Reportable segment revenue	**1,095,230**	1,225,181
Elimination of inter-segment revenue	**(10,834)**	(45,868)
Elimination of Group's share of revenue of joint venture	**(106,468)**	(100,470)
Consolidated revenue (note 4)	**977,928**	1,078,843

	2019 RMB'000	2018 RMB'000
Profit		
Reportable segment profit (adjusted EBITDA) derived from the Group's external customers and joint venture	**83,853**	106,669
Other income	**47,663**	17,609
Depreciation and amortisation	**(36,317)**	(28,801)
Finance costs	**(15,484)**	(17,003)
Unallocated head office and corporate expenses	**(9,906)**	(8,094)
Consolidated profit before taxation	**69,809**	70,380

5. SEGMENT REPORTING *(Continued)*

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

	2019 RMB'000	2018 RMB'000
Assets		
Reportable segment assets	**1,226,507**	1,271,895
Elimination of inter-segment receivables	**(3,820)**	(21,083)
	1,222,687	1,250,812
Non-current financial assets	**33,697**	24,190
Financial assets at fair value through profit or loss	**15,325**	15,135
Unallocated head office and corporate assets	**8,657**	6,578
Consolidated total assets	**1,280,366**	1,296,715

	2019 RMB'000	2018 RMB'000
Liabilities		
Reportable segment liabilities	**498,915**	452,703
Elimination of inter-segment payables	**(61,439)**	(15,626)
	437,476	437,077
Current tax liabilities	**7,173**	4,123
Deferred tax liabilities	**22,433**	25,257
Unallocated head office and corporate liabilities	**140,094**	192,028
Consolidated total liabilities	**607,176**	658,485

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 right-of-use assets, property, plant and equipment, investment properties, 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 right-of-use assets, 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**	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC	**875,748**	959,533	**411,945**	399,074
Hong Kong	**102,180**	119,310	**94,979**	91,619
	977,928	1,078,843	**506,924**	490,693

d) *Information about major customers*

None of the customers contributed 10% or more of the total revenue of the Group for both years.

6. OTHER REVENUE, INCOME AND OTHER NET LOSS

	2019 RMB'000	2018 RMB'000
Other revenue:		
Total interest income on financial assets not at fair value through profit or loss:		
Bank interest income	**668**	619
Interest income from financial assets at fair value through other comprehensive income	**1,027**	3,506
Gross rental income from investment properties	**2,911**	2,923
Dividend income from financial assets at fair value through other comprehensive income and through profit or loss	**8,106**	1,878
Promotional service income	**26,028**	13,767
	38,740	22,693
Government grants (note below)	**6,450**	4,294
Change in fair value of financial assets at fair value through profit or loss	**95**	(2,750)
Compensation received arising from cancellation of purchases orders and rental agreement	**2,390**	–
Exchange loss, net	**(2,185)**	(7,705)
Others	**2,173**	1,077
	47,663	17,609

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:

	2019 RMB'000	2018 RMB'000
a) Finance costs		
Total interest expense on financial liabilities not at fair value through profit or loss:		
– Interest on bank loans	**14,252**	17,003
– Interest on lease liabilities (note below)	**1,232**	–
	15,484	17,003

Note: The Group has initially applied HKFRS 16 since 1 January 2019, using the modified retrospective approach. Under this approach, the comparative information is not restated, as referred to in note 3.

7. PROFIT BEFORE TAXATION *(Continued)*

		2019 RMB'000	2018 RMB'000
b)	**Staff costs (including directors' and chief executive's remuneration)**		
	Salaries and other benefits	**115,812**	108,318
	Contributions to defined contribution retirement plan	**11,322**	11,120
		127,134	119,438
c)	**Other items**		
	Amortisation of intangible assets (note 19)	**18,831**	18,831
	Auditor's remuneration		
	– audit service	**1,462**	1,400
	– non-audit services	**417**	399
	Cost of inventories sold (note (i) below)	**710,525**	767,346
	Write-down of inventories (note 21)	**1,576**	2,957
	Depreciation of property, plant and equipment (note 13)	**8,996**	8,605
	Amortisation of leasehold land held for own use under operating leases (note 13)	**–**	1,365
	Amortisation of right-of-use assets (note (ii) below & note 13)	**8,490**	–
	(Reversal of impairment losses on trade receivables)/ impairment losses on trade receivables (note 22(c))	**(170)**	135
	Reversal of impairment losses on other receivables	**(65)**	(576)
	Loss on disposal of property, plant and equipment	**551**	36
	Total minimum lease payments for leases previously classified as operating leases under HKAS17 (note (ii) below)	**–**	7,602
	Short-term leases and leases of low-value assets	**2,638**	–
	Rental income from investment properties less direct outgoings of RMB312,000 (2018: RMB391,000)	**(2,598)**	(2,533)
	Research and development costs	**15,072**	13,872
	Equity-settled share-based payments – consultancy fees to quasi-employees	**–**	332

Note:

(i) Cost of inventories recognised as expenses includes approximately RMB35,469,000 (2018: RMB34,456,000) relating to staff costs, depreciation of property, plant and equipment and amortisation of right-of-use assets, which are included in the respective total amounts disclosed separately above.

(ii) The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the amortisation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 3.

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

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

	2019 RMB'000	2018 RMB'000
Hong Kong Profits Tax (note (ii) below)		
– Current year	**2,380**	5,383
PRC Enterprise Income Tax ("**EIT**") (note (iii) below)		
– Current year	**20,801**	13,622
– Over-provision in prior years	**(819)**	–
Deferred tax (note 29(b))		
– Origination and reversal of temporary differences	**(2,824)**	(384)
	19,538	18,621

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) On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of assessable profits of qualifying corporations will be taxed at 8.25%, and assessable profits above HK$2 million will be taxed at 16.5%. The assessable profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. The two-tiered profits tax rates regime is applicable to the Group for the years ended 31 December 2019 and 2018.

iii) The PRC Enterprise Income Tax charge of the Group during the years ended 31 December 2019 and 2018 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% (2018: 25%), except for Dong Di Xin, which is chargeable at a preferential income tax rate of 15% (2018: 15%).

iv) Under the New EIT Law and its implementation rules, dividends receivable by non-PRC resident enterprises from PRC resident enterprises are subject to withholding tax at a rate of 10% unless reduced by tax treaties or agreements. Under the Agreement between the Mainland China and Hong Kong Special Administration Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion, or Mainland China/HKSAR DTA, Hong Kong corporate tax residents which hold 25% or more of a PRC enterprise are entitled to a reduced dividend withholding tax rate of 5%. Pursuant to CaiShui [2008] No. 1 Notice on Certain Preferential Enterprise Income Tax Policies, undistributed profits generated prior to 1 January 2008 are exempted from such withholding tax. Accordingly, dividends receivable by the Group's investment holding company in Hong Kong from the PRC subsidiaries in respect of profits earned since 1 January 2008 will be subject to 5% withholding tax.

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:

	2019 **RMB'000**	2018 RMB'000
Profit before taxation	**69,809**	70,380
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdiction concerned	**15,710**	19,291
Tax effect of non-deductible expenses	**8,377**	7,014
Tax effect of non-taxable income	**(4,237)**	(9,463)
Tax effect of prior years' tax losses utilised	**(14)**	–
Tax effect of unrecognised temporary differences	**439**	302
Tax effect of unused tax losses not recognised	**117**	1,494
Over-provision in prior years	**(819)**	–
Tax concession	**(35)**	(17)
Actual tax expense	**19,538**	18,621

c) As at 31 December 2019, the undistributed profits of the Company's PRC subsidiaries amounted to approximately RMB281,092,000 (2018: RMB344,967,000) for which the potential deferred tax liabilities of approximately RMB14,055,000 (2018: RMB17,249,000) 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*

	2019 RMB'000	2018 RMB'000
Final dividend proposed after the end of the reporting period of HK2.34 cents (equivalent to RMB2.09 cents) (2018: HK2.25 cents (equivalent to RMB1.98 cents)) per ordinary share	**13,010**	12,326

The final dividend for the year ended 31 December 2019 proposed after the end of the reporting period is subject to approval by the Company's shareholders in its 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*

	2019 RMB'000	2018 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK2.25 cents (equivalent to approximately RMB2.01 cents) (2018: HK3.43 cents (equivalent to approximately RMB3.01 cents))	**12,533**	18,751

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:

	2019 **RMB'000**	2018 RMB'000
Earnings		
Profit for the year attributable to owners of the Company	**43,427**	41,005
Earnings for the purpose of basic earnings per share	**43,427**	41,005

	2019 **'000**	2018 '000
Number of shares		
Weighted average number of ordinary shares in issue	**622,500**	622,500
Effect of shares repurchased and held under share award scheme	**(1,878)**	–
Weighted average number of ordinary shares for the purpose of basic earnings per share	**620,622**	622,500

b) *Diluted earnings per share*

Diluted earnings per share for the years ended 31 December 2019 and 2018 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 2019 and 2018. 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	Total RMB'000
2019					
Executive directors:					
Zhao Li Sheng (chief executive officer)	**–**	**1,611**	**–**	**17**	**1,628**
Chan Lok San	**–**	**1,365**	**–**	**17**	**1,382**
Zhou Xuhua	**–**	**750**	**405**	**48**	**1,203**
Independent non-executive directors:					
Duan Jidong	**300**	**–**	**–**	**–**	**300**
Wong Cheuk Lam	**300**	**–**	**–**	**–**	**300**
Zhang Jianbin	**300**	**–**	**–**	**–**	**300**
	900	**3,726**	**405**	**82**	**5,113**
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

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

During the years ended 31 December 2019 and 2018, 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 directors (2018: 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:

	2019	2018
	RMB'000	RMB'000
Salaries and other emoluments	**1,698**	1,133
Retirement scheme contributions	**11**	32
	1,709	1,165

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

	2019	2018
Nil to HK$1,000,000	**2**	2

13. RIGHT-OF-USE ASSETS/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	Right-of-use assets RMB'000	Total RMB'000
Cost										
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
At 31 December 2018	24,259	13,148	25,014	22,529	11,272	2,271	98,493	93,869	–	192,362
Impact on initial application of HKFRS 16 (note c)	–	–	–	–	–	–	–	(93,869)	109,672	15,803
At 1 January 2019	24,259	13,148	25,014	22,529	11,272	2,271	98,493	–	109,672	208,165
Exchange adjustments	–	2	1	–	103	–	106	–	58	164
Additions	–	1,117	2,806	4,772	–	100	8,795	–	19,827	28,622
Transferal	–	2,371	–	–	–	(2,371)	–	–	–	–
Disposals	–	–	(234)	(1,413)	–	–	(1,647)	–	–	(1,647)
At 31 December 2019	24,259	16,638	27,587	25,888	11,375	–	105,747	–	129,557	235,304
Accumulated depreciation										
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
Impact on initial application of HKFRS 16	–	–	–	–	–	–	–	(2,730)	2,730	–
At 1 January 2019	2,182	6,397	12,663	9,132	8,135	–	38,509	–	2,730	41,239
Exchange adjustments	–	2	1	–	90	–	93	–	4	97
Charge for the year	1,091	1,996	3,127	2,032	750	–	8,996	–	8,490	17,486
Disposals	–	–	(212)	(942)	–	–	(1,154)	–	–	(1,154)
At 31 December 2019	3,273	8,395	15,579	10,222	8,975	–	46,444	–	11,224	57,668
Carrying amount										
At 31 December 2019	20,986	8,243	12,008	15,666	2,400	–	59,303	–	118,333	177,636
At 31 December 2018	22,077	6,751	12,351	13,397	3,137	2,271	59,984	91,139	–	151,123

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

Note:

(a) Right-of-use assets relating to leases (2018: 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 2019 and 2018.

Included in right-of-use assets is the land use rights for a piece of land held for development situated in the PRC with a carrying amount of approximately RMB101,268,000 (2018: RMB91,139,000). During the year ended 31 December 2019, the Group submitted application for modifying the scope of use of this land for which additional upfront payments of approximately RMB11,493,000 (2018: RMB306,000) were paid by the Group.

(b) As at 31 December 2019, certain right-of-use assets (2018: leasehold land held for own use under operating leases) and buildings held for own use with a total carrying amount of RMB79,271,000 (2018: RMB81,728,000) were pledged in favour of a bank for bank loans of the Group (note 27).

(c) The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17, as referred to in note 3.

14. INVESTMENT PROPERTIES

	RMB'000
Fair value	
At 1 January 2018	112,600
Fair value adjustment	10,000
At 31 December 2018 and 1 January 2019	122,600
Fair value adjustment	–
At 31 December 2019	122,600

a) The Group's investment properties were revalued as at 31 December 2019 and 2018 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.

14. INVESTMENT PROPERTIES *(Continued)*

c) At 31 December 2019, certain of the Group's investment properties with a total fair value of approximately RMB108,900,000 (2018: RMB108,900,000) were pledged in favour of the banks for the bank loans and banking facilities granted to the Group (note 27).

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 at 31 December 2019 RMB'000	Fair value measurements as at 31 December 2019 categorised into 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 2018 RMB'000	Fair value measurements as at 31 December 2018 categorised into 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

During the years ended 31 December 2019 and 2018, 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)	RMB40,541 - RMB47,619 per square meter (2018: RMB42,782 - RMB45,252)
	(ii)	Discounted cash flow	Risk-adjusted discount rate (i.e. market rental yield)	3.9%-4% (2018: 4%)
			Expected market rental growth	3.9%-4% (2018: 4%)
			Expected occupancy rate	100% (2018: 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:

	2019 **RMB'000**	2018 RMB'000
Investment properties – Commercial – Mainland China		
At 1 January	**122,600**	112,600
Net gain from a fair value adjustment recognised in valuation gains on investment properties in profit or loss	**–**	10,000
At 31 December	**122,600**	122,600

e) The Group leases out investment properties under operating leases. The leases run for a period for one to three years (2018: one to three years). None of the leases include contingent rentals.

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

	2019 **RMB'000**	2018 RMB'000
Within 1 year	**1,827**	2,760
After 1 year but within 5 years	**3,602**	801
	5,429	3,561

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 2019.

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 (note (c)) ("**Longde**")	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 and Longde, being subsidiaries of the Group which have material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

	Longde		**Dong Di Xin***	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
NCI Percentage	**10%**	10%	**45%**	45%
Current assets	**1,826**	1,054	**149,768**	144,390
Non-current assets	**42,981**	31,487	**32,339**	84,476
Current liabilities	**(2)**	–	**(67,289)**	(60,777)
Non-current liabilities	**–**	–	**(4,190)**	(9,269)
Net assets	**44,805**	32,541	**110,628**	158,820
Carrying amount of NCI	**4,480**	3,254	**49,783**	72,438
Revenue	**–**	–	**193,114**	204,921
Profit/(loss) for the year	**(189)**	(348)	**15,374**	23,586
Total comprehensive income/(loss)	**(189)**	(348)	**15,374**	22,505
Profit/(loss) allocated to NCI	**(19)**	(35)	**7,060**	10,824
Total comprehensive income/(loss) allocated to NCI	**(19)**	(35)	**7,060**	10,788
Dividend paid to NCI (note f)	**–**	–	**9,925**	26,819
Cash flows from operating activities	**(192)**	(284)	**89,267**	8,377
Cash flows from investing activities	**(11,490)**	(303)	**(6,925)**	20,174
Cash flows from financing activities	**–**	–	**(10,847)**	(43,608)

* 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

	2019 RMB'000	2018 RMB'000
Dividends declared and approved during the financial year:		
To non-controlling shareholders of Dong Di Xin		
– paid during the year	**7,883**	25,427
To non-controlling shareholders of a subsidiary of Dong Di Xin		
– paid during the year	**2,042**	1,394
	9,925	26,821

16. GOODWILL

	RMB'000
Cost	
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	90,693
Accumulated impairment losses	
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	–
Carrying amount	
At 31 December 2019	90,693
At 31 December 2018	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 Dong Di Xin as the identified cash-generating unit ("**CGU**") has been determined based on a value in use calculation. At 31 December 2019, 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 (2018: 5 years) approved by the management using the pre-tax discount rate of 19.6% (2018: 18.92%) 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 5% to 10.2% (2018: 3% to 4%) and budgeted gross margin of 44% to 46% (2018: 45.7%), 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 of the CGU has been assessed as being higher than its carrying amount. Accordingly, no impairment loss (2018: 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

	2019 RMB'000	2018 RMB'000
Share of net assets	**2,566**	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:

	2019 RMB'000	2018 RMB'000
Gross amounts of the associate	**2,565**	4,025
Current assets	**5,258**	8,251
Non-current assets	**–**	–
Current liabilities	**–**	–
Non-current liabilities	**–**	–
Equity	**5,258**	8,251
Revenue	**–**	–
Loss from continuing operations	**(2,995)**	(1,999)
Post-tax profit or loss from discontinued operations	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**(2,995)**	(1,999)
Dividend received from the associate	**–**	–
Reconciled to the group's interest in the associate		
Gross amounts of net assets of the associate	**5,258**	8,251
Group's effective interest	**48.78%**	48.78%
Group's share of net assets of the associate	**2,565**	4,025
Carrying amount in the consolidated financial statements	**2,565**	4,025
Loss shared by the Group	**1,460**	975

17. INTEREST IN ASSOCIATES *(Continued)*

Aggregate information of an associate that is individually not material:

	2019 RMB'000	2018 RMB'000
Aggregate carrying amount of individually immaterial associate in the consolidated financial statements	**1**	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

	2019 RMB'000	2018 RMB'000
Share of net assets	**72,588**	62,579

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 Group shares control with the joint venture partner over the operating and financial decision-making of the joint venture which has been 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:

	2019 RMB'000	2018 RMB'000
Gross amounts of Zhuhai Jinming		
Current assets	**77,695**	55,760
Non-current assets	**170,883**	164,056
Current liabilities	**(77,305)**	(69,496)
Non-current liabilities	**(26,097)**	(25,162)
Equity	**145,176**	125,158
Included in the above assets and liabilities:		
Cash and cash equivalents	**4,351**	2,253
Current financial liabilities (excluding trade and other payables)	**(33,069)**	(28,800)
Non-current financial liabilities (excluding deferred tax liabilities)	**(219)**	–
Revenue	**212,936**	200,940
Profit from continuing operations	**20,018**	39,024
Other comprehensive income	**–**	–
Total comprehensive income	**20,018**	39,024
Included in the above profit:		
Valuation gain on investment property	**2,863**	23,858
Depreciation	**(1,835)**	(512)
Interest income	**42**	31
Interest expense	**(2,125)**	(662)
Income tax expense	**(7,106)**	(12,538)
Reconciled to the Group's interest in Zhuhai Jinming		
Gross amounts of Zhuhai Jinming's net assets	**145,176**	125,158
Group's effective interest	**50%**	50%
Carrying amount in the consolidated financial statements	**72,588**	62,579
Profit shared by the Group	**10,009**	19,512
Other comprehensive income shared by the Group	**–**	–
Total comprehensive income shared by the Group	**10,009**	19,512

(Expressed in Renminbi)

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

The fair value of Zhuhai Jinming's investment properties as at 31 December 2019 and 2018 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 2019 and 2018 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% (2018: 6%)
		Expected market rental growth	6% (2018: 6%)
		Expected occupancy rate	100% (2018: 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 relationships (note a) RMB'000	Patents (note b) RMB'000	Total RMB'000
Cost			
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	104,727	28,700	133,427
Accumulated amortisation and impairment losses			
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
At 1 January 2019	51,273	22,482	73,755
Charge for the year	13,091	5,740	18,831
At 31 December 2019	64,364	28,222	92,586
Carrying amount			
At 31 December 2019	40,363	478	40,841
At 31 December 2018	53,454	6,218	59,672

Notes:

(a) The customer relationships have a finite useful life and are 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 Dong Di Xin as the identified cash-generating unit ("**CGU**") has been determined based on a value in use calculation. At 31 December 2019, the recoverable amount of the CGU, to which these intangible assets are 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 (2018: 5 years) approved by the management using the pre-tax discount rate of 19.6% (2018: 18.92%) 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 5% to 10.2% (2018: 3% to 4%) and budgeted gross margin of 44% to 46% (2018: 45.7%), 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 of the CGU has been assessed as being higher than its carrying amount. Accordingly, no impairment loss (2018: 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 COMPREHENSIVE INCOME

	Note	**2019** **RMB'000**	2018 RMB'000
Non-current			
Financial assets at fair value through other comprehensive income (non-recycling)			
– Unlisted Equity Investments, at fair value	(a) and (b)	**33,697**	24,190

Notes:

(a) The Group does not intend to dispose these unlisted equity investments in the near future.

(b) Included in unlisted equity investments measured at fair value at 31 December 2019 and 2018 are:

(i) investment in 5.99% interest in Sinopharm Healthcare Fund L. P. (the "**Fund**") which are designated as financial assets at fair value through other comprehensive income (non-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. 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 2019, an increase in fair value amounting to RMB11,706,259 has been recognised to other comprehensive income and amounting to RMB2,845,000 has been refunded from the Fund. As at 31 December 2019, the fair value of the investment is approximately HK$35.5 million (equivalent to RMB31.8 million) (2018: HK$25.6 million (equivalent to RMB22.5 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 5.99% 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) 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 2019, the fair value of the investment is approximately HK$1.8 million (equivalent to RMB1.6 million) (2018: HK$1.6 million (equivalent to RMB1.4 million)). The Group does not intend to dispose it in the near future.

(iii) Investment in an unlisted equity security which is designated as fair value through other comprehensive income and has no fixed maturity date or coupon rate. At the reporting period end, the directors of the Company assessed and determined its fair value to be approximately RMB300,000 (2018: RMB300,000) by reference to the entitlement to the net assets of the investee.

21. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials	**13,030**	15,827
Work in progress	**4,427**	4,183
Finished goods	**187,664**	162,054
	205,121	182,064

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2019 RMB'000	2018 RMB'000
Carrying amount of inventories sold	**710,525**	767,346
Write-down of inventories	**1,576**	2,957

22. TRADE AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade and bills receivables	**285,272**	299,605
Less: Allowance for doubtful debts (note (c) below)	**(5,405)**	(5,575)
	279,867	294,030
Other receivables	**37,923**	31,369
Other loan (note (e))	**46,825**	45,958
Amounts due from related parties (note (f) below & note 35(b))	**15**	1,020
Amount due from an associate (note (f) below & note 35(b))	**4,220**	4,140
Loans and receivables	**368,850**	376,517
Prepayments	**17,804**	18,956
Trade and other deposits	**2,336**	2,044
Trade deposits to related parties (note 35(b))	**2,526**	19,265
	391,516	416,782

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:

	2019	2018
	RMB'000	RMB'000
0-90 days	**248,333**	250,884
91-120 days	**18,070**	9,857
121-180 days	**8,038**	11,671
181-365 days	**2,706**	21,586
More than 1 year	**2,720**	32
	279,867	294,030

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 31(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:

	2019	2018
	RMB'000	RMB'000
At 1 January	**5,575**	5,440
Impairment losses recognised during the year (note 7(c))	**–**	135
Impairment losses reversed during the year (note 7(c))	**(170)**	–
At 31 December	**5,405**	5,575

As at 31 December 2019, trade and bills receivables amounting to RMB5,405,000 (2018: RMB5,575,000) were determined to be impaired according to the expected credit loss rates. Accordingly, allowances for doubtful debts of RMB5,405,000 (2018: RMB5,575,000) were recognised as at 31 December 2019. 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 2019				
	Lifetime ECL %	**Gross carrying amount RMB'000**	**Lifetime ECL RMB'000**	**Net carrying amount RMB'000**	**Credit impaired Yes/NO**
Not past due	**–%**	**227,955**	**–**	**227,955**	**No**
Past due					
0-90 days	**–%**	**40,617**	**–**	**40,617**	**No**
91-180 days	**0.89%**	**8,297**	**(74)**	**8,223**	**No**
181-365 days	**9.14%**	**3,381**	**(309)**	**3,072**	**No**
Credit impaired	**100%**	**5,022**	**(5,022)**	**–**	**Yes**
		285,272	**(5,405)**	**279,867**	

	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.

22. TRADE AND OTHER RECEIVABLES *(Continued)*

d) *Trade and bills receivables that are not impaired (Continued)*

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 carrying balances are still considered fully recoverable. The Group does not hold any collateral over these carrying balances.

e) The amount represents shareholders' loan of HK$52.3 million (equivalent to RMB46.8 million) (2018: HK$52.3 million (equivalent to RMB45.9 million)) to Dong Hua Tong Investments 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 Investments Limited at 31 December 2019 and the dividends received from Dong Hua Tong Investments Limited during the two years ended 31 December 2019 and 2018.

f) The balances with related parties and an associate are unsecured, interest free and repayable on demand.

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Note	2019 RMB'000	2018 RMB'000
Non-current			
Unlisted Equity Investments, at fair value	(a)	**5,739**	5,549
Current			
Listed securities			
– Chuangmei Pharmaceutical Co., Ltd. ("**Chuangmei**")	(b)	**15,325**	15,135

The above financial assets at 31 December 2019 and 2018 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 2019, the fair value of the investment is approximately RMB5.7 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 2019, 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 2019, 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

	2019 RMB'000	2018 RMB'000
Bank balances	**113,239**	160,344
Cash on hand	**256**	316
Cash and cash equivalents in the consolidated statement of cash flows and consolidated statement of financial position	**113,495**	160,660
Pledged bank deposits (note a)	**8,549**	1,642
Total cash and bank balances	**122,044**	162,302

Cash at bank earns interest at floating rates based on daily bank deposit rates.

a) As at 31 December 2019, the Group's pledged bank deposits for letter of credit with use restrictions amounted to RMB3,315,000 (2018: RMB1,642,000) (Note 26).

24. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS *(Continued)*

b) Reconciliation of liabilities arising from financing activities

	Dividend payable to NCI RMB'000	Accrued interest RMB'000	Lease liabilities RMB'000	Bank loans RMB'000	Total liabilities from financing activities RMB'000
At 31 December 2018	**–**	**–**	**–**	**336,676**	**336,676**
Impact on initial application of HKFRS 16 (note below)	**–**	**–**	**15,803**	**–**	**15,803**
At 1 January 2019	**–**	**–**	**15,803**	**336,676**	**352,479**
Interest recognised in profit or loss	**–**	**14,252**	**1,232**	**–**	**15,484**
Dividends declared and approved to non–controlling interests	**9,925**	**–**	**–**	**–**	**9,925**
Changes from financing cash flows					
– Proceeds from new bank loans	**–**	**–**	**–**	**216,620**	**216,620**
– Repayment of bank loans	**–**	**–**	**–**	**(341,742)**	**(341,742)**
– Capital element of lease rentals paid	**–**	**–**	**(6,294)**	**–**	**(6,294)**
– Dividends paid to non–controlling interests	**(9,925)**	**–**	**–**	**–**	**(9,925)**
Finance costs paid	**–**	**(13,981)**	**(1,232)**	**–**	**(15,213)**
Increase in lease liabilities from entering into new leases during the period	**–**	**–**	**7,982**	**–**	**7,982**
Exchange adjustments	**–**	**–**	**(2)**	**2,773**	**2,771**
At 31 December 2019	**–**	**271**	**17,489**	**214,327**	**232,087**
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

Note: (a) The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17, as referred to in note 3.

(b) Major non-cash transactions

During the year ended 31 December 2019, the Group entered into lease arrangements with a total present value of future lease payments at the inception of the leases of approximately RMB7,982,000, which were included in the right-of-use assets.

25. CONTRACT LIABILITIES

	2019 **RMB'000**	2018 RMB'000
Contract liabilities		
– Security deposits received	**58,701**	60,917
– Receipts in advance	**13,641**	11,801
	72,342	72,718

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	**2019** **RMB'000**	2018 RMB'000
Balance at 1 January	**72,718**	69,804
Increase in contract liabilities as a result of receiving deposits during the year	**35,657**	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	**(36,060)**	(4,822)
Exchange difference	**27**	55
Balance at 31 December	**72,342**	72,718

26. TRADE AND OTHER PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables (note (c))	**227,524**	169,084
Accruals	**7,219**	8,879
Other payables	**31,718**	28,436
Amount due to a joint venture (note (d))	**415**	–
Amount due to related parties (note (d))	**4,035**	–
Financial liabilities measured at amortised cost	**270,911**	206,399
Value–added tax payable	**2,501**	13,312
	273,412	219,711

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 2019, the pledged bank deposit amounted to RMB8,549,000 (2018: RMB1,642,000) was used for the issuance of letters of credit to the trade payables amounted to RMB3,315,000 (2018: RMB1,642,000).

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.

	2019 RMB'000	2018 RMB'000
0–90 days	**226,757**	168,678
91–180 days	**767**	406
	227,524	169,084

The credit terms granted by the suppliers were generally ranging from 45 days to 90 days.

d) The balances with a joint venture and related parties are unsecured, interest free and repayable on demand.

27. BANK LOANS

At 31 December 2019, the bank loans were repayable as follows:

	2019 RMB'000	2018 RMB'000
Within 1 year or on demand	**214,327**	336,676

At 31 December 2019, the bank loans were as follows:

	2019 RMB'000	2018 RMB'000
Bank loans		
– secured (note c)	**214,327**	336,676
– unsecured	**–**	–
Total bank loans	**214,327**	336,676

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:

	2019	2018
Effective interest rates:		
Fixed rate loans	**3.59%–6.53%**	3.96%–6.24%

c) The bank loans were secured by the following assets of the Group.

	2019 RMB'000	2018 RMB'000
Investment properties (note 14)	**108,900**	108,900
Property, plant and equipment (note 13)	**20,984**	22,076
Right-of-use assets/leasehold land held for own use under operating lease (note 13)	**58,287**	59,652

The Group's bank loans amounted to RMB54,020,000 as at 31 December 2019 were secured by Group's investment property. The Group's bank loans amounted to RMB160,307,000 as at 31 December 2019 were secured by Group's right-of-use assets and property, plant and equipment and/or 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. LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to HKFRS 16:

	31 December 2019		1 January 2019 (Note)		31 December 2018 (Note)	
	Present value of the minimum lease payments RMB'000	**Total minimum lease payments RMB'000**	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	Present value of the minimum lease payments $'000	Total minimum lease payments $'000
Within 1 year	**9,115**	**9,384**	5,938	6,105	–	–
After 1 year but within 2 years	**7,259**	**7,922**	5,115	5,583	–	–
After 2 years but within 5 years	**1,115**	**1,292**	4,750	5,560	–	–
After 5 years	**–**	**–**	–	–	–	–
	8,374	**9,214**	9,865	11,143	–	–
	17,489	**18,598**	15,803	17,248	–	–
Less: total future interest expenses		**(1,109)**		(1,445)		–
Present value of lease liabilities		**17,489**		15,803		–

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Comparative information as at 31 December 2018 has not been restated. Further details on the impact of the transition to HKFRS 16 are set out in note 3.

29. CURRENT AND DEFERRED TAX

a) Current taxation in the consolidated statement of financial position represents:

	2019 RMB'000	2018 RMB'000
At 1 January	**4,123**	10,028
Provision for the year		
– Hong Kong Profits Tax	**2,380**	5,383
– PRC Enterprise Income Tax	**19,982**	13,622
	22,362	19,005
Paid during the year	**(19,312)**	(24,910)
At 31 December	**7,173**	4,123

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	Total RMB'000
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
At 1 January 2019	**8,953**	**16,132**	**172**	**25,257**
(Credited)/charged to consolidated statement of profit or loss (8(a))	**(2,824)**	**–**	**–**	**(2,824)**
At 31 December 2019	**6,129**	**16,132**	**172**	**22,433**

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 2019 and 2018.

30. 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)	Exchange reserve RMB'000 (note f)	Capital reserve RMB'000 (note g)	Retained profits RMB'000	Total RMB'000
At 1 January 2019	**53,468**	**152,700**	**95,863**	**2,982**	**8,454**	**(176,645)**	**136,822**
Change in equity:							
Profit for the year	**–**	**–**	**–**	**–**	**–**	**89,938**	**89,938**
Other comprehensive income for the year	**–**	**–**	**–**	**3,912**	**–**	**–**	**3,912**
Total comprehensive income/ (loss) for the year	**–**	**–**	**–**	**3,912**	**–**	**89,938**	**93,850**
Shares repurchased for the share award scheme	**–**	**–**	**–**	**–**	**(5,530)**	**–**	**(5,530)**
Transfer of reserve upon the expiry of share options	**–**	**–**	**–**	**–**	**(8,454)**	**8,454**	**–**
Dividends (note 9)	**–**	**–**	**–**	**–**	**–**	**(12,533)**	**(12,533)**
Transfer of reserve	**–**	**–**	**(95,863)**	**–**	**–**	**95,863**	**–**
At 31 December 2019	**53,468**	**152,700**	**–**	**6,894**	**(5,530)**	**5,077**	**212,609**
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

30. 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 beginning and end of the year	10,000,000	1,000,000	877,900
Issued and fully paid:			
Ordinary shares of HK$0.1 each			
At beginning and end of the year	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.

30. 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) *Fair value reserve*

The fair value reserve comprises the cumulative net change in the fair value of equity investment designated at FVOCI under HKFRS 9 that are held at the end of the reporting period and is dealt with in accordance with the accounting policies in note 2(e).

f) *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).

g) *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), and costs of the Company's shares purchased for the share award scheme (note 37) less the fair value of share-based payments in respect of any of shares awarded to the employees which are vested at award date and recognised in accordance with the accounting policy as set out in note 2(w) (iii).

30. SHARE CAPITAL AND RESERVES *(Continued)*

h) 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 2019, the aggregate amount of reserves available for distribution to owners of the Company was RMB157,777,000 (2018: RMB71,918,000). After the end of the reporting period, the directors proposed a final dividend of HK2.34 cents (equivalent to RMB2.09 cents) (2018: HK2.25 cents (equivalent to RMB1.98 cents)) per share amounting to RMB13,010,000 (2018: RMB12,326,000) (note 9). The proposed final dividend has not been recognised as a liability at the end of the reporting period.

i) 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 has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group recognises right-of-use assets and corresponding lease liabilities for almost all leases previously accounted for as operating leases as from 1 January 2019. This caused an increase in the Group's total debit and hence the Group's adjusted net debt-to-capital ratio rose from 27.32% to 29.80% on 1 January 2019 when compared to its position as at 31 December 2018.

30. SHARE CAPITAL AND RESERVES *(Continued)*

i) *Capital management (Continued)*

The Group's net debt to equity ratio at 31 December 2019 and 2018 were as follows:

	31 December 2019 (Note) RMB'000	1 January 2019 (Note) RMB'000	31 December 2018 RMB'000
Current liabilities			
Bank loans	**214,327**	336,676	336,676
Lease liabilities	**9,115**	5,938	–
Non-current liabilities			
Lease liabilities	**8,374**	9,865	–
Total debt	**231,816**	352,479	336,676
Less: Cash and bank balances	**(122,044)**	(162,302)	(162,302)
Adjusted net debt	**109,772**	190,177	174,374
Total equity	**673,190**	638,230	638,230
Net debt to equity ratio	**16.31%**	29.80%	27.32%

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise liabilities relating to leases which were previously classified as operating leases under HKAS 17. Under this approach, the comparative information is not restated, as referred to in note 3).

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.

31. 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, trade and other receivables and payables, financial 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 2019 and 2018, 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 6.77% (2018: 14.49%) of the total trade and bills receivables due from the Group's largest debtor and 27.52% (2018: 39.67%) of the total trade and bills receivables due from the Group's five largest debtors as at 31 December 2019.

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.

31. 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	After 1 year but within 2 years RMB'000	After 2 years but within 5 years RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amount RMB'000
2019					
Non–derivative financial liabilities					
Trade payables	**227,524**	**–**	**–**	**227,524**	**227,524**
Accruals	**7,219**	**–**	**–**	**7,219**	**7,219**
Other payables (excluding value-added-tax payables)	**31,718**	**–**	**–**	**31,718**	**31,718**
Amount due to NCI	**415**	**–**	**–**	**415**	**415**
Amount due to related parties	**4,035**	**–**	**–**	**4,035**	**4,035**
Bank loans	**220,910**	**–**	**–**	**220,910**	**214,327**
Lease liabilities	**9,384**	**7,922**	**1,292**	**18,598**	**17,489**
	501,205	**7,922**	**1,292**	**510,419**	**502,727**
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

31. 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 lease liabilities, bank loans, bank balances and deposits at the end of the reporting period:

	2019		2018	
	Effective interest rates %	**RMB'000**	Effective interest rates %	RMB'000
Fixed rate borrowings:				
Lease liabilities	**6.00%**	**17,489**	–	–
Bank loans	**3.59%-6.53%**	**214,327**	3.96%–6.24%	336,676
Variable rate borrowings:				
Bank loans	**–**	**–**	–	–
Total borrowings		**231,816**		336,676
Net fixed rate borrowings as a percentage of total borrowings		**100%**		100%
Fixed rate pledged bank deposits		**8,549**		1,642
Variable rate bank balances		**113,495**		160,660

31. 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 2019, 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 RMB1,135,000 (2018: RMB1,607,000). 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 2018.

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.

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

d) Currency risk *(Continued)*

i) Exposure to currency risk

	2019 **RMB'000**	2018 RMB'000
Assets/(liabilities)		
Cash and cash equivalents		
US$	**46,423**	37,871
HK$	**83**	87
RMB	**203**	809
Euro	**9,335**	14,981
Trade and other receivables		
US$	**26,433**	52,831
Trade and other payables		
US$	**(9,040)**	(13,285)
HK$	**(188,205)**	(128,927)
Euro	**(136)**	–
NOK	**(3,197)**	–
Contract liabilities		
US$	**(9,345)**	–
Bank loans		
HK$	**(141,820)**	(286,895)
US$	**(22,508)**	–
Total assets		
US$	**72,856**	90,702
HK$	**83**	87
RMB	**203**	809
Euro	**9,335**	14,981
Total liabilities		
US$	**(40,893)**	(13,285)
HK$	**(330,025)**	(415,822)
Euro	**(136)**	–
NOK	**(3,197)**	–

31. 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 2019			
US$	**5%**	**2,065**	**–**
	(5%)	**(2,065)**	**–**
HK$	**5%**	**(16,497)**	**–**
	(5%)	**16,497**	**–**
RMB	**5%**	**10**	**–**
	(5%)	**(10)**	**–**
Euro	**5%**	**460**	**–**
	(5%)	**(460)**	**–**
NOK	**5%**	**(160)**	**–**
	(5%)	**160**	**–**
At 31 December 2018			
US$	5%	3,871	–
	(5%)	(3,871)	–
HK$	5%	(20,787)	–
	(5%)	20,787	–
RMB	5%	40	–
	(5%)	(40)	–
Euro	5%	749	
	(5%)	(749)	–

31. 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 2018.

e) Business risk

The Group has a certain concentration of business risk as 48.0% (2018: 50.6%) 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 hierarchy

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.

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

f) *Fair value (Continued)*

Fair value hierarchy (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 hierarchy. 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 at 31 December 2019	Fair value measurements as at 31 December 2019 categorised into			Fair value at 31 December 2018	Fair value measurements as at 31 December 2018 categorised into		
		Level 1	Level 2	Level 3		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	**33,397**	**–**	**31,768**	**1,629**	23,890	–	22,482	1,408
Financial assets at fair value through profit or loss								
– Unlisted equity investments	**5,739**	**–**	**–**	**5,739**	5,549	–	–	5,549
– Listed securities	**15,325**	**15,325**	**–**	**–**	15,135	15,135	–	–

During the years ended 31 December 2019 and 2018, 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)

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

f) *Fair value (Continued)*

Fair value hierarchy (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:

2019	**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	23.08%
		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	21.22%
		Discount for lack of marketability	22.00%

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%

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 investees, which take into consideration the fair value of the assets held by the investees.

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.

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

f) *Fair value (Continued)*

Fair value hierarchy (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 2019 and 31 December 2018.

	Financial assets at fair value through other comprehensive income		Financial assets at fair value through profit or loss	
	Bank wealth management products RMB'000	**Unlisted equity investments RMB'000**	**Unlisted equity investments RMB'000**	**Total RMB'000**
At 1 January 2018	25,783	1,381	4,775	31,939
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
At 1 January 2019	**–**	**1,408**	**5,549**	**6,957**
Fair value gain recognised in profit or loss	**–**	**–**	**190**	**190**
Fair value gain recognised in other comprehensive income	**–**	**194**	**–**	**194**
Exchange difference	**–**	**27**	**–**	**27**
At 31 December 2019	**–**	**1,629**	**5,739**	**7,368**

32. 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 and right-of-use assets are depreciated or amortised 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, right-of-use assets, intangible assets and goodwill (also see (i) below) 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.

32. 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) Provision for ECLs on trade and bills receivables

The Group uses a provision matrix to calculate ECLs for trade and bills receivables. The provision rates are based on days past due for groupings of the Group's customers,

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade and bills receivables is disclosed in note 22 to the consolidated financial statements.

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) PRC corporate income tax

The Group is subject to corporate income taxes in Mainland China. Due to the fact that certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimation and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision for income taxes to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the income tax and tax provision in the period in which the differences realise. Further details are given in notes 8 and 29 to the consolidated financial statements.

32. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

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.

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 2019 was RMB90,693,000 (2018: 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 37). 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.

32. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

k) Dong Di Xin Litigation

As at 31 December 2019, a claim has been filed by the former Chief Executive Officer of Dong Di Xin (the "**Plaintiff**") against the minority shareholder of Dong Di Xin (the "**Minority 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 judgement 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"**Judgement**") ordering: (1) the Minority Shareholder to transfer his 15% equity interest in Dong Di Xin to the Plaintiff (the "**Equity Transfer**"); (2) the Minority 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 Minority Shareholder and Dong Di Xin. On 30 July 2018, the Intermediate Court, among other things, set aside the Judgement of the Court and ruled the case to be returned to the Court for re–trial (the "**Re–trial**"). According to the judgement for the re-trial dated 19 June 2019 handed down by the Court ("**2019 Judgement**"), the Court ordered that (i) the Equity Transfer shall be effected; and (ii) Dong Di Xin shall provide relevant assistance for completing the Equity Transfer and dismissed the claims and counterclaims of the Minority Shareholder. The Company has been informed that each of the Minority Shareholder and Dong Di Xin has lodged an appeal against the 2019 Judgement.

As at the date of this report, no hearing date of the 2019 Appeal has been set.

The 2019 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.

l) Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("**IBR**") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

33. 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:

	2019 RMB'000	2018 RMB'000
Within one year	–	9,660
In the second to fifth year inclusive	–	11,679
	–	21,339

The Group is the lessee in respect of a number of properties held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 3). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 2(h), and the details regarding the Group's future lease payments are disclosed in note 28.

b) *Capital Commitments*

Capital commitments of the Group at the end of the reporting period are as follows:

	2019 RMB'000	2018 RMB'000
Contracted but not provided for in respect of		
– property, plant and equipment	–	42
Capital commitment for the investment in a fund	10,000	–
Capital commitment for the investments in associate	5,000	5,000
	15,000	5,042
Authorised but not contracted for	156,827	168,320
	171,827	173,362

Apart from the above, the Group did not have other significant capital commitment as at 31 December 2019 and 2018.

34. 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 (2018: HK$30,000). Contributions to the plan vest immediately.

The total expense recognised in profit or loss of RMB11,322,000 (2018: RMB11,120,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

35. 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.

35. 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	2019 RMB'000	2018 RMB'000
Purchases of goods			
SZ Kingworld Lifeshine	(i)	**15,427**	11,664
Yuen Tai	(i)	**–**	13
		15,427	11,677
Rental expenses			
SZ Industry	(i)	**257**	–
		257	–
Advertising expenses			
SZ Industry	(i)	**137**	75
		137	75

	Note	2019 RMB'000	2018 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
		2,526	19,265
Amount due from/(to) related parties			
Golden Morning International Limited	(iii)	**(695)**	20
Golden Land International Limited	(iii)	**(2,485)**	20
Kingworld Bright Future Limited	(iii)	**15**	14
Kingkok International Enterprises Limited	(iii)	**(45)**	966
SZ Kingworld Lifeshine	(iii)	**(810)**	–
Amount due from an associate (note 22)	(iv)	**4,220**	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 RMB4.2 million) (2018: US$600,000 (equivalent to RMB4.1 million)) 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 2019.

35. 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:

	2019 **RMB'000**	2018 RMB'000
Short–term employee benefits	**7,981**	7,116
Post employment benefits	**125**	226
	8,106	7,342

36. IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

The directors consider the immediate holding company of the Group as at 31 December 2019 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 2019 to be Zhao Li Sheng, an executive director of the Company.

37. EQUITY–SETTLED SHARE–BASED TRANSACTIONS

Share option schemes

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)

37. EQUITY–SETTLED SHARE–BASED TRANSACTIONS *(Continued)*

Share option schemes (Continued)

(a) The terms and conditions of the outstanding grants at 31 December 2019 and 2018 are as follows:

	Number of instruments 2019	Number of instruments 2018	Vesting conditions	Contractual life of options
Options granted to directors:				
– on 1 June 2015	**–**	1,884,000	One to three years from the date of grant	4 years
On 23 April 2018	**2,416,000**	2,416,000	One to three years from the date of grant	6 years
Options granted to employees:				
– on 1 June 2015	**–**	8,114,000	One to three years from the date of grant	4 years
– on 23 April 2018	**15,952,000**	18,780,000	One to three years from the date of grant	6 years
Options granted to other eligible participants as quasi–employees				
– on 1 June 2015	**–**	–	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	**18,368,000**	37,394,000		

(b) The number and weighted average exercise prices of share options are as follows:

	2019 Weighted average exercise price	**2019** Number of options	2018 Weighted average exercise price	2018 Number of options
Outstanding at the beginning of the period	**HK$1.81**	**37,394,000**	HK$2.54	16,349,000
Granted during the period	**–**	**–**	HK$1.26	22,408,000
Lapsed during the period	**HK$2.35**	**(19,026,000)**	HK$1.40	(1,363,000)
Outstanding at the end of the period	**HK$1.26**	**18,368,000**	HK$1.81	37,394,000
Exercisable at the end of the period	**–**	**–**	HK$2.54	9,998,000

The share options outstanding at 31 December 2019 had an exercise price of HK$1.26 (2018: HK$2.54 and HK$1.26) and a weighted average remaining contractual life of 2.2 years (2018: 3.2 years).

(Expressed in Renminbi)

37. EQUITY–SETTLED SHARE–BASED TRANSACTIONS *(Continued)*

Share option schemes (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. EQUITY–SETTLED SHARE–BASED TRANSACTIONS *(Continued)*

Share award scheme

The Company's share award scheme was adopted on 27 August 2019 for the purchase of rewarding directors and employees of the Company and its subsidiaries (the "**eligible employees**") with the shares of the Company. Pursuant to the share award scheme, existing shares of the Company will be purchased by the trustee from the market out of cash contributed by the Group and be held in trust for the eligible employees until such shares are vested with the eligible employees in accordance with the provisions of the share award scheme. The shares of the Company granted under the scheme and held by the trustee until vesting are referred to as the reward share units and each reward share unit shall represent one ordinary share of the Company.

During the year ended 31 December 2019, the trustee purchased 6,000,000 shares of the Company at a total cost (including related transaction costs) of approximately RMB5,530,000 which had been deducted from equity. None of these purchased shares of the Company was awarded to any of the eligible employees during the year ended 31 December 2019. At 31 December 2019, the trustee held 6,000,000 shares of the Company purchased but not yet awarded under the share award scheme.

38. COMPANY–LEVEL STATEMENT OF FINANCIAL POSITION

	2019 **RMB'000**	2018 RMB'000
Non–current assets		
Investments in subsidiaries	**246,081**	241,516
Right-of-use assets	**1,615**	–
	247,696	241,516
Current assets		
Other receivables	**1,835**	1,093
Amount due from a subsidiary	**361,725**	258,367
Cash and cash equivalents	**6,185**	6,452
	369,745	265,912
Current liabilities		
Other payables	**1,720**	1,459
Amounts due to subsidiaries	**263,750**	178,578
Bank loans	**137,799**	190,569
Lease liabilities	**738**	–
	404,007	370,606
Net current liabilities	**(34,262)**	(104,694)
Total assets less current liabilities	**213,434**	136,822
Non–current liabilities		
Lease liabilities	**825**	–
NET ASSETS	**212,609**	136,822
CAPITAL AND RESERVES		
Share capital	**53,468**	53,468
Reserves	**159,141**	83,354
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	**212,609**	136,822

(Expressed in Renminbi)

39. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, Insurance contracts, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, Definition of a business	1 January 2020
Amendments to HKAS 1 and HKAS 8, Definition of material	1 January 2020

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

40. EVENT AFTER THE REPORTING PERIOD

The COVID-19 outbreak since the end of 2019 has brought about additional uncertainties to the Group's operating environment and may have impact on the Group's operating and financial position. The Group has been closely monitoring the impact from the COVID-19 epidemic on the Group's businesses and has commenced to put in place various measures.

Based on the information currently available, the Directors confirm that there has been no material adverse change in the financial or trading position of the Group up to the date of the consolidated financial statements. However, the actual impacts may differ from these estimates as the situation continues to evolve and further information becomes available.

41. COMPARATIVE FIGURES

Certain comparative figures have been amended to conform with current year's presentation.

Financial Summary

The following table summarises the consolidated results of the Group for the five years ended 31 December:

	For the year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results					
Revenue	**977,928**	1,078,843	1,031,488	1,053,527	713,548
Profit before taxation	**69,809**	70,380	83,327	89,044	51,322
Income tax	**(19,538)**	(18,621)	(16,795)	(21,638)	(11,935)
Profit for the year	**50,271**	51,759	66,532	67,406	39,387
Attributable to:					
Owners of the Company	**43,427**	41,005	51,060	46,966	31,205

	As at 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Asset and Liabilities					
Total assets	**1,280,366**	1,296,715	1,332,398	1,393,739	1,089,331
Total liabilities	**607,176**	658,485	690,763	755,089	402,065
Equity attributable to owners of the Company	**603,343**	565,792	553,094	523,815	591,386
Non-controlling interests	**69,847**	72,438	88,541	114,835	95,880

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%