

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



INTERIM REPORT

2020



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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

COMPANY SECRETARY

Mr. Chan Hon Wan

LEGAL ADVISORS TO THE COMPANY

King & Wood Mallesons

13th Floor, Gloucester Tower

The Landmark

15 Queen's Road Central

Central

Hong Kong

AUDITOR

Crowe (HK) CPA Limited

9th Floor

Leighton Centre

77 Leighton Road

Causeway Bay

Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Zhao Li Sheng

Mr. Chan Hon Wan

REGISTERED OFFICE

Ocorian Trust (Cayman) Limited

Clifton House

75 Fort Street

PO Box 1350

Grand Cayman KY1-1108

Cayman Islands

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Nanshan District, Shenzhen

Guangdong Province

The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 1906-1907

19th Floor

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Wanchai

Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Ocorian Trust (Cayman) Limited

Clifton House

75 Fort Street

PO Box 1350

Grand Cayman KY1-1108

Cayman Islands

Corporate Information

PRINCIPAL BANKS

China Construction Bank
Shenzhen Luohu Sub-branch
East Section
Financial Centre
South Hong Ling Road
Shenzhen
Guangdong Province
The PRC

Industrial Bank
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Nanyang Commercial Bank
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Hong Kong

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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Level 54, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

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. Zhang Jianbin
Mr. Wong Cheuk Lam

STOCK CODE

01110

WEBSITE ADDRESS

www.kingworld.com.cn

Financial Highlights

	Six months ended 30 June		
	2020	2019	% Changes
	(unaudited) RMB' 000	(unaudited) RMB' 000	Increase/ (Decrease)
Financial Highlights			
Revenue	292,948	519,042	(43.6)%
Cost of sales	(183,024)	(373,577)	(51.0)%
Gross profit	109,924	145,465	(24.4)%
Gross profit margin	37.5%	28.0%	9.5% points
Profit for the period	31,773	38,150	(16.7)%
Profit attributable to owners of the Company	9,850	32,885	(70.0)%
Basic earnings per share (RMB cents)	1.60	5.28	(69.7)%
Liquidity and Gearing			
	As at	As at	% Changes
	30 June	31 December	Increase/ (Decrease)
	2020	2019	
	(unaudited)	(audited)	
Current ratio ⁽¹⁾	1.23	1.27	(3.1)%
Quick ratio ⁽²⁾	0.86	0.92	(6.5)%
Asset-liability ratio ⁽³⁾	29.3%	16.7%	12.6% points

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 multiplied by 100%.

Management Discussion and Analysis

MARKET AND INDUSTRY REVIEW

With the sudden outbreak of the Pandemic in China at the end of December 2019, there were sporadic cases of confirmed infection in various provinces and cities early this year. In the first half of 2020, the Pandemic gradually spread across the world and many countries which are affected by the Pandemic have implemented infection prevention measures adopted by the Chinese government such as lockdowns and closure of borders, which led to a decrease in production and consumer expenditure as well as volatility in stock markets. Along with the significant reduction in trade activities in various countries, the global economy has plunged into the worst recession since World War II.

In the first half of 2020, China's gross domestic product ("GDP") was approximately RMB45,661.4 billion, representing a period-on-period decrease of 1.6%. In terms of GDP by quarters, the GDP decreased by 6.8% period-on-period in the first quarter and increased by 3.2% period-on-period in the second quarter. Among which, the added value of the service industry decreased by 5.2% period-on-period in the first quarter and increased by 1.9% period-on-period in the second quarter. In the first half of 2020, China's consumer price index increased by 3.8% period-on-period, which was 1.1% lower than that in the first quarter. The total retail sales of consumer goods was approximately RMB17,225.6 billion, representing a period-on-period decrease of 11.4%, which was 7.6% lower than that in the first quarter. In the second quarter of 2020, the total retail sales of consumer goods decreased by 3.9%, which was 15.1% lower than that in the first quarter. In the first half of 2020, most economic indicators were rebounding or decreasing at a slower pace. However, in terms of the cumulative pace in the first half of 2020, most of the economic indicators in respect of GDP, the service industry and consumption were falling. In the first half of 2020, as the Pandemic continuously spread and escalated across the world, normalised Pandemic prevention and control have brought severe challenges to China. The complex and changing domestic and international situation as well as natural disasters had caused disruption in the industry chain, supply chain and foreign trade exports in mainland China, which had adversely affected the recovery of economy of China.

According to the statistical information, the sales of medicines in the over-the-counter (the "OTC") markets and terminals, such as pharmacies and medical stores declined drastically in the first quarter of 2020. Since February 2020, due to restrictions on the flow of people and the suspension of sales of certain kinds of medicines, the average in-store sales per month plummeted. More than 50% period-on-period decrease was recorded in the peak of the Pandemic in China.

In the first half of 2020, affected by the Pandemic, the business of the Group in the pharmaceutical products and healthcare products segment in mainland China, Hong Kong and Macau had recorded a decrease in revenue. However, as the most notable symptoms of the Pandemic is fever, there has been a surge in demand for infrared body temperature monitor products, which have become essential products for businesses and households. In April 2020, leveraging on its years of experience and mature technology in research and development, manufacturing and production of infrared body temperature monitor products, Dong Di Xin, the Group's medical devices segment, was listed by the China Chamber of Commerce for Import and Export of Medicines and Health Products as one of the medical supplies manufacturers that has obtained foreign standard certification or registered licence to export infrared thermometers.

Under normalised Pandemic prevention and control, the general public has become more health consciousness. The awareness of healthy lifestyles has risen notably, and the demand for health-promoting products has increased significantly. In the first half of 2020, China's per capita expenditure on medical grade alcohol, masks and other medical and sanitary supplies increased by 3.3 times, and the per capita expenditure on washing and sanitary products increased by 19.9%. The Group assisted the country and the people in fighting against the Pandemic together by expanding its product portfolio to cover the distribution of medical masks that meet certain certification standards, thereby helping to alleviate the shortage of medical masks in the market.

Management Discussion and Analysis

On the other hand, as crises coexist with opportunities, the Pandemic has increased the public's health awareness and brought new opportunities to the Group's "Three Treasures of Pandemic Prevention" (防疫三寶), namely medical masks, infrared thermometers and Pu Ji Kang Gan Granules (普濟抗感顆粒). Since the outbreak of the Pandemic, Nin Jiom Chuan Bei Pei Pa Koa has been selected as a recommended pharmaceutical product for the treatment of the Pandemic in Wuhan Union Hospital and listed as a phlegm-reducing drug on the list of drugs for the prevention and treatment of the Pandemic recommended by the Shandong Provincial Pharmaceutical Retail Industry Association. Pu Ji Kang Gan Granules 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 for the Severe Acute Respiratory Syndrome (SARS). It can be applied to upper respiratory tract infections and other diseases having similar symptoms as flu such as acute tonsillitis. It has apparent efficacy and limited side effects and can also be used to prevent virus infections. The Group expects that Kingworld's "Three Treasures of Pandemic Prevention" will bring positive development to the Group.

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, the Group has business presence in more than 34 provinces and cities in China. The Group was named as one of the Top 100 Import Enterprises of Pharmaceutical and Healthcare Products for six consecutive years from 2009 to 2014 and one of the Top 5 Sales Enterprises of Chinese Patent Medicines in 2013. The Group was awarded as the Guangdong Province Enterprise of Observing Contract and Valuing Credit for six consecutive years, and was also ranked among Shenzhen's Top 500 Enterprises in 2018 and 2019 and continued to be recognised as a "Shenzhen Time-honoured Brand" in 2019.

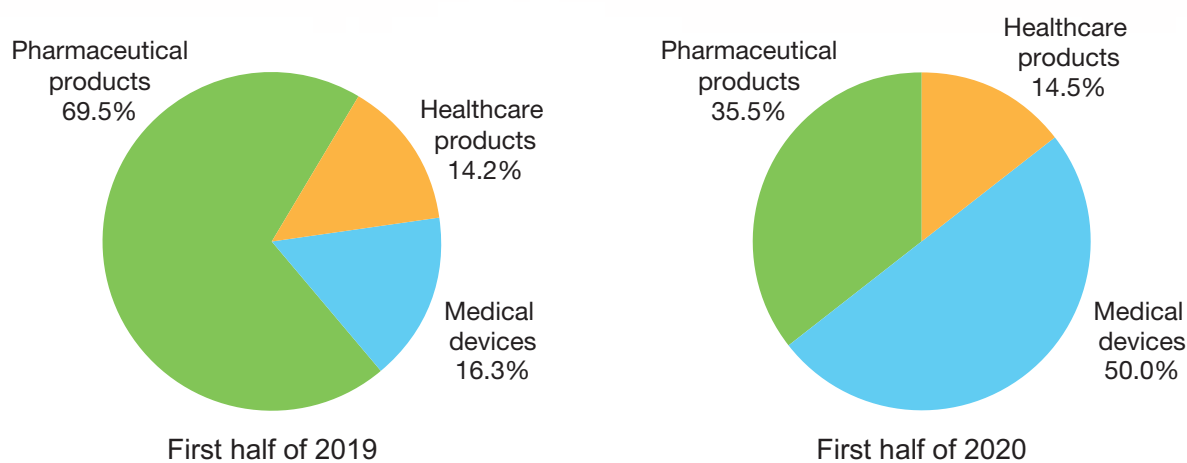
The Group is a leading and well-known omni-channel enterprise with a complete supply chain in the greater health products and services industry in China. It also provides high-end logistics management services, business-to-customer (B2C) trading services and data services to major leading pharmaceutical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

The three major business segments of the Group are:

- Pharmaceutical products segment: acting as an agent and distributor of high-quality and well-known pharmaceutical products from overseas, including the acclaimed 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 flagship Culturelle (康萃樂) probiotics product series, the Lifeline Care maternal and infant fish oil nutrient product series, the "CARMEX" lipstick 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 such as infrared thermometers and distributing medical supplies such as medical masks.

Management Discussion and Analysis

For the six months ended 30 June 2020 (the “Reporting Period”), revenue from the pharmaceutical products segment amounted to approximately RMB104,090,000, representing a period-on-period decrease of 71.1% and accounting for 35.5% of the Group’s total revenue; revenue from the healthcare products segment was approximately RMB42,492,000, representing a period-on-period decrease of 42.5% and accounting for 14.5% of the Group’s total revenue; and revenue from the medical devices segment amounted to approximately RMB146,366,000, representing a period-on-period increase of 72.6% and accounting for 50.0% of the Group’s total revenue.



During the Pandemic, owing to the lockdown of certain cities, the flow of people and logistics and transportation were affected. Distribution sales of the Group’s pharmaceutical products and healthcare products decreased over 60% in total in the first half of 2020. However, the decrease was partially offset by the significant growth in the sales of medical devices, which grew by more than 70% in the first half of 2020. It is due to the significant increase in the sales of infrared thermometers by Dong Di Xin, the medical devices segment of the Group. Thus, for the six months ended 30 June 2020, the Group’s profit for the Reporting Period still amounted to over RMB31.5 million. The overall gross profit margin increased by about 10 percentage points to 37.5%.

Looking forward, as the public’s awareness of Pandemic prevention increases, the general public hygiene will become the norm and the demand for Pandemic prevention products will continue to increase, which is positive to the prospects of Dong Di Xin. As the Pandemic stabilises and businesses resume their operations and production, the sales of pharmaceutical products and healthcare products of the Group is expected to resume to normal.

Highlights of Pharmaceutical Products Segment

Nin Jiom product series

Nin Jiom Chuan Bei Pei Pa Koa (京都念慈菴蜜煉川貝枇杷膏) (“Nin Jiom Pei Pa Koa”) is the best-selling flagship product of the Group. Since the outbreak of the Pandemic, Nin Jiom Pei Pa Koa has been selected as a recommended pharmaceutical product for the treatment of the Pandemic infections in Wuhan Union Hospital and listed as a phlegm-reducing drug in the list of drugs for the prevention and treatment of the Pandemic recommended by the Shandong Provincial Pharmaceutical Retail Industry Association.

Management Discussion and Analysis

However, in view of the changes in the situation of Pandemic prevention and control, the Chinese government has restricted the sales of flu and cough-reducing products, and pharmacies are no longer allowed to sell such products. The Chinese government also requires retail pharmacies to standardise and implement prevention and control measures such as environmental cleanliness, disinfection, ventilation, temperature monitoring, staff trainings on knowledge of prevention and control of infection, maintaining proper social distance between people, limiting the holding of mass promotional activities as far as possible, requiring real-name registration for consumers who buy antipyretic and cough-reducing medicines. Moreover, the implementation of the policy of changing the green health code to yellow health code after buying such products directly caused consumers not to buy drugs even if only suffering from common coughing. The 'Stay at Home' guidance issued by the Chinese government also led to a decrease in the number of customers visiting pharmacies. As most outdoor activities have been postponed or cancelled, brand exposure and sales have also been reduced. Meanwhile, consumers have developed the habit of wearing masks and washing hands frequently, which have reduced the chance of catching a flu and thereby reduced consumer demand, and resulted in a decrease in the Group's sales revenue. Due to the above reasons, during the Reporting Period, revenue from Nin Jiom Pei Pa Koa decreased significantly by 71.6% period-on-period to RMB72,851,000; and revenue from Nin Jiom Herbal Candies also decreased by 28.8% period-on-period to RMB14,131,000.

As the situation of Pandemic in China stabilises, work, production, business and markets in various regions have gradually resumed, and production and living have gradually returned to normal. The Chinese government has stepped up its efforts in promoting domestic demand and releasing consumption potential, so as to boost market recovery. The Group expects that the overall sales in the second half of 2020 will gradually stabilise.



Donation of Nin Jiom Pei Pa Koa to front-line Hainan traffic police



"Super live broadcast night" in collaboration with Jo-Jo Drugstores

Taiko Seirogan

The Pandemic also affected the sales of Taiko Seirogan to a certain extent. During the Reporting Period, the overall revenue of Taiko Seirogan decreased by 95.2% period-on-period to RMB3,117,000.

Although the sales of Taiko Seirogan was affected by the Pandemic, the Group continued to consolidate the foundation work and strengthened the distribution and channel penetration for Taiko Seirogan through online trainings provided to store staff and strengthened promotional activities with consumers through internet during the Reporting Period. The Group actively carried out online medicine marketing in micro business malls such as JD Pharmacy (京東大藥房), Ali Health Pharmacy (阿里健康大藥房), Dingdang Smart (叮嚀智慧), Neptunus (海王) and DaShenLin (大參林) to integrate online and offline marketing. Online promotion methods mainly include doctors' live broadcast, Baidu Q&As, advertorials of key opinion leaders ("KOLs") on Xiaohongshu and TikTok short videos. Offline promotion methods mainly include display of billboard advertisements on bustling streets of some cities, bus exterior advertisements, pillow cover and magazine advertisements on trains as well as advertisements in high-speed railway stations and border entry-exit gates.

Management Discussion and Analysis



Taiko Seirogan on JD Pharmacy



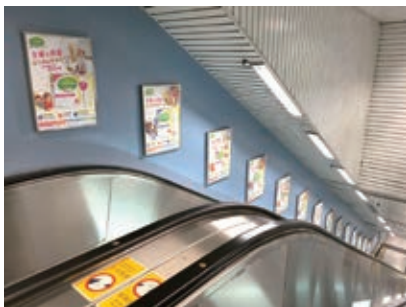
Taiko Seirogan on "Little Red Book"

Highlights of Healthcare Products Segment

Culturelle probiotics product series

In the first half of 2020, Hong Kong's overall economy and retail market had been affected by the Pandemic and social events. The sales of the Culturelle probiotics product series from the U.S., being the Group's flagship healthcare product, was also affected. During the Reporting Period, the overall revenue from the sale of Culturelle probiotics in the Hong Kong and Macau markets decreased by 69.9% period-on-period.

The Group expects that the retail market in Hong Kong and Macau will continue to be affected by the Pandemic during the year as consumers' willingness to spend decreases. However, the Group is still optimistic about the future development potential of the probiotics market. During the Reporting Period, the Group continued to actively promote the brand of Culturelle probiotics, including advertising in core MTR stations and major newspapers and cooperating with large personal care product chains such as Mannings and Sasa in product promotion and sales promotion activities, and will continue to participate in international infant and children's products expo.



Multiple billboards of Culturelle at Kowloon Tong MTR Station



Product demonstration and sales promotion activities of Culturelle in the Sasa chain



Vehicle body advertising of Culturelle



Game with prizes of Culturelle in Headline Daily

Management Discussion and Analysis

Lifeline Care maternal and infant fish oil nutrient product series

Lifeline Care (“LLC”) maternal and infant fish oil nutrient product series from Norway is a key healthcare product brand of the Group. During the Reporting Period, through the cooperation with a number of large-scale cross-border e-commerce platforms as well as recommendations by professional doctors, experts in the maternal and infant field and celebrities, and strengthening cooperation with KOLs for live broadcast promotions amid the Pandemic, the Group has recorded satisfactory revenue in LLC products in the first half of the year. In addition, the Group has explored a number of online marketing channels such as Tmall, Taobao masters, Kuaishou live broadcast, Nicomama and TikTok videos, and the Group also explored various offline promotion channels with its advertising exposure covering more than 600 spots with advertising screens and advertisements on 50,000 parcels. The Group has also made light box advertisements in Luohu business district in Shenzhen to improve its brand exposure. During the Reporting Period, LLC’s sales revenue significantly increased by 23.0% period-on-period.



Light box advertisements of Lifeline Care fish oil

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, and Kingworld Imada Red Flower Oil (金活依馬打正紅花油), its own brand. During the Reporting Period, the product series of medicated oils for external use was affected by the Pandemic, which led to a decline in sales. During the Pandemic, the Group participated in various public welfare activities, including donation of Mentholatum products to units fighting on the front line of the Pandemic. The Group also carried out online new retailing promotion and marketing activities through major e-commerce platforms, including holding live broadcasts and acquisition of new users, so as to promote online and offline integration. In addition, the Group gained exposure through KOLs on Xiaohongshu, advertorials on Weibo and WeChat as well as short videos on Bilibili and TikTok, so that more consumers can learn about the efficacy and uses of Compound Mentholatum Ointment (曼秀雷敦複方薄荷膏) and Mentholatum Nasal Inhaler (鼻吸).



Mentholatum on the Group’s WeChat



Mentholatum on Ali Health Pharmacy

Management Discussion and Analysis

As the Chinese government has normalised anti-Pandemic measures and recommended maintaining proper social distance between people, many large-scale events and gatherings have been cancelled or postponed, while tourism and business travel have been reduced. The Group has always actively supported various types of sports events. Due to the outbreak of the Pandemic, all major sports events were postponed or cancelled during the Reporting Period, which led to the significant reduction in offline promotion and exposure of Kingworld Imada Red Flower Oil (“Red Flower Oil”). To precisely capture the out-of-stock timing of competing products and overcome the difficulties brought by the Pandemic, the Group has strengthened the cooperation with the distributors and product deployment in terminal retail stores. In addition, the Group established various WeChat groups for online staff training regarding the products of the Group. The Group has established incentive schemes for salespeople and partners. In terms of branding, the Group has re-positioned and revised the promotion strategy of Red Flower Oil, using platforms such as TikTok and Xiaohongshu to increase the online exposure of Red Flower Oil. Meanwhile, through live broadcast platforms of major pharmacies, the Group explained the efficacy of Red Flower Oil to consumers, so as to drive consumers’ consumption. On the other hand, the Group actively participated in anti-Pandemic charity work, mainly including the donation of Red Flower Oil to the frontline workers of the Shenzhen Metro and the cooperation with the Haikou Municipal Committee of the Communist Youth League to send Kingworld Healthcare Packages (金活關愛健康包) to the families of medical staff in Haikou who assisted in fighting against the Pandemic in Wuhan. Benefited from the increase in sales driven by effective promotions, during the Reporting Period, the revenue from the sale of Kingworld Imada Red Flower Oil increased significantly by 65.7% period-on-period.



Marine forecast advertisement of Kingworld Imada Red Flower Oil on CCTV



The Group donated Kingworld Imada Red Flower Oil to an elderly home in Zhanjiang

CARMEX Lipstick series

CARMEX is a globally renowned brand for its lipstick series, with 145 lipsticks sold every minute worldwide. Prior to the Pandemic, CARMEX lipstick series were mainly sold via offline high-end healthcare stores such as Watson’s, cosmetics stores and convenience stores. Due to decreased customers flow at offline stores as affected by the Pandemic, sales were drastically affected. Thus, the Group agilely turned to the online platform and cooperated with KOLs to hold live broadcasts to boost online sales. During the Reporting Period, two successful live broadcasts were led by leading KOLs, the Group reported encouraging sales and an online flagship shop for CARMEX brand was established, which further strengthened the brand image and grasped online sales opportunity. As a result, sales revenue from CARMEX lipstick series rose significantly by 210.9% period-on-period during the Reporting Period.

Management Discussion and Analysis

Highlights of Medical Devices Segment

The Pandemic has resulted in a rapid increase in the demand for medical devices in various countries. As China is the world's largest producer of masks and medical devices, Premier Mr. Li Keqiang put forward explicit requirements to increase the production of medical supplies while ensuring their quality. At the same time, the regulations regarding the export of certain medical supplies in China have been tightened and only companies that are listed on the Name List of Medical Devices and Supplies Companies with Certification/Authorisation from other Countries (取得國外標準認證或註冊的醫療物資生產企業清單) may export certain medical supplies.

Dong Di Xin, the medical devices segment of the Group, is a medical devices manufacturer that has obtained various certifications and licences for the medical devices it manufactures and/or exports, including the certification issued by the U.S. Food and Drug Administration (FDA), the CE0197 marking, and ISO13485 certification for its infrared thermometers. During the Pandemic, according to the No. 12 announcement in 2020 jointly issued by the Ministry of Commerce, General Administration of Customs and State Administration for Market Regulation, anti-Pandemic products can only be sold and/or exported if their manufacturers are listed on the list by the China Chamber of Commerce for Import and Export of Medicines and Health Products (the "Export White List") starting from 26 April 2020. Dong Di Xin, leveraging its superior production quality and comprehensive quality system, has become the fourth infrared thermometer manufacturer in China to be included on the Export White List. It indicates that Dong Di Xin is not only qualified to export to the U.S. and Europe during the Pandemic, but also able to handle bulk overseas purchase orders and deliver timely. With more than twenty years' of experience in designing and manufacturing various high-end infrared thermometer products, Dong Di Xin is highly recognised for its product quality by various European and American brands. It successfully expanded sales to over 60 countries and regions. In particular, its infrared thermometers are sold in the second largest chain pharmacies in the U.S. During the Pandemic, infrared thermometers have become an essential item for household and business units and order for infrared thermometers increased significantly. During the Reporting Period, benefited from the large increase in overseas orders, Dong Di Xin's revenue amounted to approximately RMB146,366,000, representing a period-on-period increase of 72.6%.

The screenshot shows the website of the China Chamber of Commerce for Import and Export of Medicines and Health Products (COCM HPIE). The search results are as follows:

企业名称 (中文)	企业名称 (英文)	产品类别	统一社会信用代码	国外注册认证情况
深圳市东迪欣科技有限公司	Shenzhen Dongdixin Technology Co., Ltd.	红外体温计	91440300715275040J	美国FDA
深圳市东迪欣科技有限公司	Shenzhen Dongdixin Technology Co., Ltd.	红外体温计	91440300715275040J	欧盟CE

Name List of Medical Devices and Supplies Companies with Certification/Authorisation from other Countries

Management Discussion and Analysis

01/02 Smart Health Mobile Monitor	15/16 Pro Thermo TH1009
03/04 iCare Genius Thermo TH1009N-C	17/17 Advance Thermo TH1002A/D
05/06 iCare Basic Thermo TH1009B	18/18 Basic Thermo TH1003A
07/08 Non-Contact Basic TH1009N	19/19 4-In-1 Thermo TH2001
09/10 Non-Contact Plus TH110N	20/20 Genius Pulse Thermo TH1050
11/12 Plus Thermo TH110A	21/21 Ear Thermo TH1009A
13/14 Elite Thermo TH110	22/22 Color Thermo KHB105B

Smart Health Mobile Monitor



✓ The thermometers can quickly and accurately check the body temperature. The data can be instantly transferred to the smart phone so that end user can conveniently monitor the temperature

01 | CARETALK



✓ Wireless App-controlled Tens Device for fast, drug free pain relief

www.e-caretalk.com | 02

Management Discussion and Analysis

Non-Contact Basic TH1009N

NON CONTACT FOREHEAD
ROOM TEMPERATURE
MILK TEMPERATURE
FEVER ALARM
INFRARED SENSORS
BACKLIGHT
SWITCHABLE
MEMORY
FAST MEASUREMENT

- ✓ Take the temperature of the baby or child without any physical contact
- ✓ Very hygienic with no risk of cross-contamination
- ✓ Get fast and precise temperature reading by placing the thermometer on the forehead up to 5 cm away
- ✓ Position reminder for accurate checking

07 | CARETALK®

www.e-caretalk.com | 08

Pro Thermo TH1009

FOREHEAD
EAR SCAN
ROOM TEMPERATURE
MILK TEMPERATURE
FEVER ALARM
CLEANING REMINDER
BACKLIGHT
SWITCHABLE
MEMORY
FAST MEASUREMENT
CLOCK
CALENDAR

- ✓ Slim looking and smart design
- ✓ Easy to operate and user friendly
- ✓ Combination of forehead and ear scan
- ✓ Cleaning reminder ensure accurate reading

15 | CARETALK®

www.e-caretalk.com | 16

Infrared thermometers manufactured by Dong Di Xin

Management Discussion and Analysis

MANAGEMENT REVIEW

Distribution of medical masks

Since the outbreak of the Pandemic, Chinese people have made concerted efforts in fighting against the Pandemic. The Group has upheld its corporate philosophy of “serving the community and benefiting the world” (效力世人·潤澤蒼生). In response to the shortage of medical masks as a result of the Pandemic, the Group has further enriched its product portfolio to cover the distribution of medical masks that meet certain certification standards, thereby helping to alleviate the shortage of medical masks and generate positive income for the Group in the long run. As at the date of this report, the medical masks produced by Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited* (深圳金活利生藥業有限公司), a connected party of the Group, has obtained or is applying for 22 types of qualifications. Kingworld Lifeshine was officially listed on the Name List of Medical Devices and Supplies Companies with Certification/Authorisation from other Countries (取得國外標準認證或註冊的醫療物資生產企業清單) on 4 August 2020, and its medical masks have obtained the domestic certification for exporting to Europe. During the Pandemic, the Group has enhanced the promotion of medical masks in domestic pharmacy chain stores. Currently, the medical masks distributed by the Group (“Kingworld Lifeshine medical masks”) have already established strong presence in domestic chain stores and pharmacies in China.

产品资质和检验报告汇总



- | | |
|---------------------|---|
| 一、营业执照复印件 | 十三、ISO10993国内超敏反应试验 |
| 二、医疗器械生产许可证正本 | 十四、CE ISO10993 In Vitro Cytotoxicity Test |
| 三、医疗器械生产产品登记表 | 十五、CE ISO10993 Skin Irritation Test |
| 四、医疗器械注册证 | 十六、CE ISO10993 Skin Sensitization Test |
| 五、医疗器械产品技术要求 | 十七、CE14683一次性使用医用口罩检测报告 |
| 六、CE符合性声明 | 十八、一次性使用医用口罩注册检验报告 |
| 七、CE欧代注册证明 | 十九、一次性使用医用口罩十只挂式包装检验报告 |
| 八、CE欧盟当地注册凭证 | 二十、一次性使用医用口罩十只枕式包装检验报告 |
| 九、CE欧代协议 | 二十一、质量管理体系认证 GB/T19001-2016/ISO9001:2015 (正在申请) |
| 十、CE中英文说明书 | 二十二、医疗器械质量管理体系认证 YY/T0287-2017/ISO13485:2016 (正在申请) |
| 十一、ISO10993国内细胞毒性试验 | |
| 十二、ISO10993国内动物刺激试验 | |

* For identification purpose only

Management Discussion and Analysis

**热烈祝贺深圳金活利生药业
医用口罩入选商务部出口白名单**

中国医药保健品进出口商会
MEDICAL FACEMASK
BFE≥95%
医用口罩
95%

医疗器械注册证编号：粤械注准20202140446

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**KINGWORLD MEDICINES GROUP
金活医药集团**
股票代码：01110.HK



Management Discussion and Analysis



Kingworld Lifeshine medical masks in chain stores and pharmacies in China

Management Discussion and Analysis

Working together in fighting against the Pandemic

The Group operates with integrity and meticulously manages its business. As a leading and well-known omni-channel enterprise with a complete supply chain in the greater health products and services industry, the Group actively contributes to society and is committed to shouldering its corporate responsibilities. During the Pandemic, the Group walked side by side with everyone and strived to implement Pandemic prevention measures to protect its employees, mainly including attaching great importance to the cleaning and disinfection of office spaces, measuring employees' body temperature before entering the office, providing Pandemic prevention and disinfection supplies in the office, requiring employees to wear masks during work, providing employees with masks and immune-enhancing healthcare products, and requiring employees to take turns to have meals and maintain social distance. On the other hand, the Group has actively supported the government's anti-Pandemic work. The Group has donated medical supplies, cash and anti-infective drugs worth over RMB1 million to the frontline staff in fighting against the Pandemic through various channels, and 400,000 disposable medical masks to the China Overseas Friendship Association to assist overseas patriotic Chinese associations, vowing to fight against the abrupt Pandemic together with the people of China.

金活医药向中华海外联谊会捐赠40万只医用口罩助力海外侨胞同心战役

在全球疫情依然严峻的形势下，中华海外联谊会常务理事、深圳海外联谊会副会长、金活医药集团董事局主席赵利生心系海外侨胞安危，向中华海外联谊会捐赠了40万只一次性医用口罩，用以帮助海外侨胞同心战役。受中华海外联谊会委托，由深圳海外联谊会向福建、广西海联会转交，分发给海外华侨华人和华侨社团。

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金活医药集团
KINGWORLD MEDICINES GROUP
股票代码：03110.HK

Management Discussion and Analysis



Reorganisation of marketing structure

The Pandemic has resulted in a difficult business environment in many countries over the world, and the Group's business in mainland China, Hong Kong and Macau have faced severe challenges. In the first half of 2020, in face of the rapid changes in the economic environment, the Group reorganised its operational structure, revised and optimised performance appraisal targets for middle and senior managers, improved the Company's incentive and restraint mechanism, effectively mobilising the enthusiasm and creativity of its marketing and sales staff, and strengthening the Company's distribution philosophy of "the one who does more work gets more pay", so as to strive to achieve the Company's annual operating targets. Meanwhile, the Group intensely explored markets in regions with relatively weaker results, promoted the end penetration of sales, consolidated regional distribution management, made full use of the SMART system to facilitate the systematisation of market and sales data management, and actively promoted the coverage of end products in various regions to keep the prices of its product standard and stable.

Enhance Management effectiveness

During the Reporting Period, the Group has focused on internal management to enhance its various business management systems and processes by making use of its internal management systems, so as to improve the operating efficiency of each section and reduce unnecessary expenses in order to make the management precise and standardised to reduce the management cost, creating a more competitive marketing platform for future development.

Management Discussion and Analysis

Enrich Product structure

With the advent of the aging society, there is great development potential in the chronic disease drugs market. With the implementation of national hierarchical medical system and 4+7 policy in China, some major cardiovascular drugs manufacturers are looking for opportunities in the OTC market. The Group has over 20 years of experience in the OTC market and is expected to have many collaboration opportunities in the future. During the Reporting Period, the Group has been actively seeking product collaboration in chronic disease management, health management, and nutritional and healthcare products.

Diversified investment arrangement

During the Reporting Period, the investment projects of the Group maintained steady development and generated favourable returns. Such investment projects included the 15% equity interest investment in Dong Hua Tong Investments Limited (東華通投資有限公司) in 2015, the indirect investment 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 subscription of 2,302,000 public-offered shares of Chuangmei Pharmaceutical Co., Ltd. (02289.HK) in 2015. The Group has continued to receive favourable dividend returns from these two investment projects.

On the other hand, the Group actively sought high-quality project investment opportunities, including the participation in BYD Semiconductor Co., Ltd.'s project to introduce strategic investors through Shenzhen Guoxin South No. 3 Investment Partnership (Limited Partnership) (深圳國新南方三號投資合夥企業(有限合夥)) and Shenzhen AVIC Kaisheng Auto Semiconductor Investment Partnership (Limited Partnership) (深圳中航凱晟汽車半導體投資合夥企業(有限合夥)) by Shenzhen Kingworld Medicine Company Limited ("Shenzhen Kingworld"), a wholly-owned subsidiary of the Group, at the beginning of 2020. Such investment will bring favourable investment returns to the Group in the future.

HONOURS

During the Reporting Period, the Group received the following honours and awards:

- In January 2020, the Group was included in the list of "Shenzhen Top Brands" at the 17th "Shenzhen Top Brand" accreditation conference
- In January 2020, at the commendation ceremony of the sixth meeting of the sixth session of the Shenzhen Political Consultative Conference, Mr. Zhao Li Sheng, the Chairman of the board of directors (the "Board") of the Company and a member of the Shenzhen Municipal Committee of the Chinese People's Political Consultative Conference (CPPCC), was awarded the honour of "Excellent Member" of the CPPCC in 2019
- In May 2020, Shenzhen Dong Di Xin Technology Company Limited, the holding Company of the Group, was included in the latest "Name List of Medical Devices and Supplies Companies with Certification/Authorisation from other Countries (取得國外標準認證或註冊的醫療物資生產企業清單)" issued by the China Chamber of Commerce for Import and Export of Medicines and Health Products
- In May 2020, at the first meeting of the first session of the Shenzhen Business Environment Optimisation Advisory and Supervisory Committee (深圳市優化營商環境諮詢監督委員會) held by the Shenzhen Development and Reform Commission, Mr. Zhao Li Sheng, the Chairman of the Board, was officially appointed as a member of the first session of the Shenzhen Business Environment Optimisation Advisory and Supervisory Committee

Management Discussion and Analysis

- In June 2020, the Group was awarded the honourable title of “Guangdong Province Enterprise of Observing Contract and Valuing Credit 2019” by the Shenzhen Municipal Market and Quality Supervision and Administration Commission for the sixth consecutive year



Management Discussion and Analysis

FINANCIAL REVIEW

1. *Revenue*

Revenue of the Group for the six months ended 30 June 2020 amounted to approximately RMB292,948,000, representing a decrease of approximately RMB226,094,000 or 43.6% compared to approximately RMB519,042,000 for the six months ended 30 June 2019. The decrease was mainly as a result of the decrease in revenue from the sales of Nin Jiom Chuan Bei Pei Pa Koa and Culturelle probiotics product series. The decrease was mainly due to the negative impacts from the Pandemic, which drove down the demand for the pharmaceutical products and healthcare products of the Group as the movement of people and goods was restricted. Such decrease was partially offset by the increase in sales of medical devices, including infrared thermometer, manufactured by Dong Di Xin. These Pandemic preventive products were in great demand during the Reporting Period.

2. *Cost of sales*

For the six months ended 30 June 2020, cost of sales of the Group amounted to approximately RMB183,024,000, decreased by approximately RMB190,553,000 or 51.0% when compared to approximately RMB373,577,000 for the six months ended 30 June 2019. The decrease in cost of sales was mainly due to the decrease in revenue and the change of product mix. Gross profit margin increased from 28.0% for the six months ended 30 June 2019 to 37.5% for the six months ended 30 June 2020 as a result of the increase in proportion of revenue from products with relatively higher margin, in particular the medical device products from Dong Di Xin, during the Reporting Period.

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

Other revenue, income and other net gains mainly included rental income, interest income, promotion service income, commission income, investment gain and exchange loss. For the six months ended 30 June 2020, other revenue, income and other net gains amounted to approximately RMB40,910,000, increased by approximately RMB22,580,000 or 123.2% when compared to approximately RMB18,330,000 for the six months ended 30 June 2019. This increase was mainly due to the increase in promotion service income during the Reporting Period.

4. *Selling and distribution costs*

For the six months ended 30 June 2020, selling and distribution costs amounted to approximately RMB42,700,000, decreased by approximately RMB11,983,000 or 21.9% when compared to approximately RMB54,683,000 for the six months ended 30 June 2019. This decrease was mainly due to the decrease in advertising and promotion expenses from approximately RMB17,324,000 for the six months ended 30 June 2019 to approximately RMB11,185,000 for the Reporting Period and the decrease in bonus costs from RMB6,827,000 for the six months ended 30 June 2019 to RMB5,933,000 for the Reporting Period.

5. *Administrative expenses*

For the six months ended 30 June 2020, administrative expenses amounted to approximately RMB46,919,000, increased by approximately RMB698,000 or 1.5% when compared to approximately RMB46,221,000 for the six months ended 30 June 2019. This increase was mainly due to the increase in provision for obsolete inventories during the Reporting Period.

Management Discussion and Analysis

6. Profit from operations

For the six months ended 30 June 2020, profit from operations for the Group amounted to approximately RMB49,328,000, decreased by approximately RMB3,912,000 or 7.3% when compared to approximately RMB53,240,000 for the six months ended 30 June 2019. The decrease in profit from operations was mainly due to the decrease in gross profit, which partially offset by the increase in other revenue, income and other net gains, and the decrease in selling and distribution costs for the Reporting Period.

7. Finance costs

For the six months ended 30 June 2020, finance costs amounted to approximately RMB7,183,000, decreased by approximately RMB1,617,000 or 18.4% when compared to approximately RMB8,800,000 for the six months ended 30 June 2019. The decrease in finance costs was mainly due to the decrease in interest charged on bank loans as a result of a decrease in interest rate of lendings.

8. Profit before taxation

For the six months ended 30 June 2020, profit before taxation for the Group amounted to approximately RMB45,318,000, decreased by approximately RMB5,192,000 or 10.3% when compared to approximately RMB50,510,000 for the six months ended 30 June 2019. The decrease in profit before taxation was mainly due to the decrease in profit from operations and share of profit of a joint venture.

9. Income tax

For the six months ended 30 June 2020, income tax for the Group amounted to approximately RMB13,545,000, increased by approximately RMB1,185,000 or 9.6% when compared to approximately RMB12,360,000 for the six months ended 30 June 2019. The effective tax rate during the Reporting Period was 29.9%, compared to 24.5% for the six months ended 30 June 2019. Details of income tax are set forth in Note (9) to the condensed consolidated financial statements.

10. Profit for the period

As a result of the foregoing, for the six months ended 30 June 2020, profit for the period of the Group amounted to approximately RMB31,773,000, decreased by approximately RMB6,377,000 or 16.7% when compared to approximately RMB38,150,000 for the six months ended 30 June 2019.

11. Profit for the period attributable to owners of the Company

For the six months ended 30 June 2020, profit for the period attributable to owners of the Company amounted to approximately RMB9,850,000, decreased by approximately RMB23,035,000 or 70.0% when compared to approximately RMB32,885,000 for the six months ended 30 June 2019. The decrease was mainly due to the fact that profit for the period of approximately RMB31,773,000 was mainly derived from our 55% owned subsidiary, Dong Di Xin.

Management Discussion and Analysis

12. Liquidity and capital resources

The Group has met its working capital needs mainly through cash generated from operations and various short-to-long term bank borrowings. During the Reporting Period, the effective interest rate for fixed rate loans ranged from 2.70% to 5.88%. Taking into account the cash flow generated from operations and the 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 twelve months from the date of publication of this report.

As at 30 June 2020, the Group had cash and cash equivalents of RMB263,324,000 mainly generated from operations of the Group.

13. Cash flows

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

During the Reporting Period, the Group's cash and cash equivalents increased by approximately RMB149,829,000, which mainly comprised the net cash inflow from operating activities with the amount of approximately RMB31,336,000, net cash outflow used in investing activities with the amount of approximately RMB11,981,000, net cash inflow from financing activities with the amount of approximately RMB126,429,000, and the net positive effect of foreign exchange of approximately RMB4,045,000. The net cash inflow from financing activities was mainly net proceeds from new bank borrowings.

14. Capital structure

Indebtedness

The total amount of the borrowings of the Group which will be due within one to three years as at 30 June 2020 was approximately RMB393,970,000. During the Reporting Period, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

Asset-liability ratio

As at 30 June 2020, the Group's asset-liability ratio calculated as the total bank borrowings divided by total assets multiplied by 100% was 29.3% (as at 31 December 2019: 16.7%). The increase in asset-liability ratio was mainly due to the increase in bank borrowings.

Pledge of assets

As at 30 June 2020, the Group had pledged investment properties, leasehold land held for own use under operating leases and property, plant and equipment to certain banks in the amount of approximately RMB108,900,000, RMB57,605,000 and RMB20,439,000, respectively (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).

Management Discussion and Analysis

Capital expenditure

The capital expenditures of the Group primarily included purchase of plant and equipment and leasehold improvements. The Group's capital expenditures amounted to approximately RMB3,175,000 and RMB4,090,000 for the Reporting Period and the six months ended 30 June 2019, respectively.

Foreign exchange risk

The principal business of the Group has used RMB, HK\$, Euro and US\$ as the functional and operational currencies. The Group faces foreign exchange risk arising from RMB, HK\$, Euro and US\$. The Group has no major risks in changes in other currency exchange rates.

15. Contingent liabilities, legal and potential proceedings

As at 30 June 2020, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings. As disclosed in the 2018 annual report of the Company (the "2018 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 and the appeal 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 "Intermediate Court") against the judgment (the "Judgment") handed down by Shenzhen Nanshan District People's Court of Guangdong Province (廣東省深圳市南山區人民法院) (the "Court") ordering: (1) the Substantial Shareholder to transfer his 15% equity interest in Dong Di Xin to the Plaintiff (the "Equity Transfer"); (2) the Substantial Shareholder and Dong Di Xin to assist in all relevant procedures for completing the Equity Transfer; and (3) the litigation fee of RMB2,900 shall be borne by the Substantial Shareholder and Dong Di Xin. As disclosed in the 2018 Annual Report, the Judgment will not have any material adverse impact on the Group's ordinary operations and financial positions as the Company will not bear any liability or any significant litigation fee being ordered to pay and there will be no dilutive effect on the Group's holding in the equity interest in Dong Di Xin. On 30 July 2018, the Intermediate Court, among other things, set aside the Judgment of the Court and ruled the case to be returned to the Court for re-trial (the "Re-trial"). 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. In relation to the appeal lodged by a substantial shareholder of Dong Di Xin who holds 30% of the equity interest in Dong Di Xin ("Dong Di Xin Shareholder A"), the People's Court of Shenzhen Qianhai Cooperation Zone (深圳前海合作區人民法院) (the "Qianhai Court") handed down a judgment (the "2020 Qianhai Judgment") on 6 May 2020. According to the 2020 Qianhai Judgment, the Qianhai Court dismissed the claims by Dong Di Xin Shareholder A and ordered that the litigation fee in relation to the appeal shall be borne by Dong Di Xin Shareholder A. The Company has been informed that Dong Di Xin Shareholder A has lodged an appeal against the 2020 Qianhai Judgment ("2020 Qianhai Judgment Appeal").

As at the date of this report, no hearing date of the 2019 Appeal or the 2020 Qianhai Judgment Appeal has been set. The Company confirmed that the Judgment, the 2019 Judgment and the 2020 Qianhai Judgment did not and will not have any material adverse impact on the ordinary operations and financial positions of the Group. The Company will keep the shareholders of the Company and the public informed of any material progress on the case or if an appeal is lodged by way of further announcement(s) as and when appropriate according to the the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Management Discussion and Analysis

16. Major acquisitions and disposals

For the six months ended 30 June 2020, the Group did not make any material acquisition or disposal.

17. Going concern

Based on the current financial position and financing facilities available, 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.

FUTURE OUTLOOK

In 2020, the raging Pandemic has caused a severe blow to the economic activities and sentiment in various countries. In the second half of 2020, the complex and changing domestic and international situation, the normalised Pandemic prevention and control as well as natural disasters have all exerted great pressure to China’s economic recovery. Although there are many uncertainties in the second half of 2020, the Group remains steadfast in its determination to change and grow amid the Pandemic. In the second half of 2020, the Group will actively respond to the complex changes in the market, continue to focus on its organisational restructuring, channel sorting and optimisation of product structure, and exploring new sources of income and controlling costs to maximise profits.

Organisational restructuring

In response to the outbreak of the Pandemic, the Group decisively adopted a number of contingency measures, including reorganising its internal marketing structure and increasing the distribution of medical masks. In the second half of 2020, the Group will continue to control its operating costs and reserve sufficient working capital for emergencies. Meanwhile, the Group will continue to intensify its work in the optimisation of performance appraisal targets for all employees at the upper, middle and lower levels, further and effectively mobilise the enthusiasm and creativity of its marketing and sales staff, improve the Company’s incentive and restraint mechanism, and further sort out and simplify the procedural management of the Company’s internal system, so as to improve operational efficiency and strive to achieve its operating targets for each year.

Optimisation of product structure

In the second half of 2020, for the pharmaceutical products segment, the Group will make every effort to intensely review the markets in regions with relatively weaker results, promote the end penetration of sales, make use of the SMART system to facilitate the systematisation of market and sales data management, actively increase the coverage of end products in various regions, and also actively extend the cooperation with pharmaceutical e-commerce enterprises. For the Group’s flagship product, the Nin Jiom product series, the Group will make full use of its feature as an effective medication to nourish and moisturize lungs and therefore, in response to the new situation, it is ideal for enhancing health conditions and daily care. For the healthcare products segment, the Group will continue to develop its offline channels and gradually enter into more large-scale integrated e-commerce, pharmaceutical e-commerce and professional e-commerce platforms in the future and seize the opportunities of online KOL live broadcasts to increase sales volume. For the medical devices segment, during the Reporting Period, the Group obtained the “Medical Device Trading Permit (Type III)”, “Medical Device Registration Certificate” and “Medical Device Manufacturing Permit”. On the other hand, in August 2020, Kingworld Lifeshine medical masks, which are exclusively distributed by the Group, have been shortlisted on the Name List of Medical Devices and

Management Discussion and Analysis

Supplies Companies with Certification/Authorisation from other Countries. It marked the milestone for Kingworld Lifeshine medical masks as they obtained the domestic certification for export to Europe. Kingworld Lifeshine medical masks are fully qualified and have also obtained various important certifications, including medical device certificates, EU CE registration and the Ministry of Commerce's medical supplies export "white list". With these certifications, they are not only produced and sold domestically, but also win a "pass" to enter overseas markets to cater for their strong demand for pandemic prevention products. In the future, in addition to increasing the distribution of medical masks, the Group also plans to gradually expand other medical device categories (such as ventilators) to contribute to prevention and control of the Pandemic around the world.

Opening up new sources of income and controlling expenditure

The World Health Organization expects that the Pandemic may become an endemic disease. Even if a vaccine is available, it will still require "enormous efforts" to control the spread of the virus. In addition, the complex and changing political and diplomatic situation between China and the rest of the world has exerted heavy pressure on China's economic growth. In the face of challenges in the internal and external environment as well as public health, the Group maintains a wait-and-see attitude towards the general environment in the second half of 2020. In order to cope with market uncertainties under the Pandemic, internally, the Group will focus on controlling costs and increasing effectiveness, while also strive to destock and replenish liquidity to maintain the smooth operation of the Group; externally, the Group will actively expand the scope of channel distribution and enrich the product line of other medical device categories such as ventilators and actively strive for the country's policies on preferential tax and fee reduction so as to ensure the sound and stable operation of the Group and safeguard the investment returns of its shareholders and stakeholders.

HUMAN RESOURCES AND TRAINING

As at 30 June 2020, the Group had a total of 1,021 employees, of which 132 worked at the Group's headquarters in Shenzhen, and 407 were stationed in other 34 regions mainly responsible for sales and marketing, and 482 worked at Dong Di Xin. The Group releases an annual sales guideline on a yearly basis, setting out the annual sales targets and formulating quarterly sales strategies, so as to provide sales and marketing guidelines for all representative offices and their staff to observe. The Group has a management team with extensive industry experience (including sales directors and product managers). They are responsible for coordinating front-line sales and marketing teams to meet the annual sales targets.

During the Reporting Period, the Group adopted a people-oriented management approach and its staff were closely involved in the management and development of the Group. The Group has implemented a strict selection process for hiring its employees and a number of initiatives to enhance the work efficiency of its employees. The Group conducts periodic performance review on its employees, and revises their salaries and bonuses accordingly. In addition, the Group has arranged training programs for employees in various positions.

Other Information

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 30 June 2020, the interests and short positions of 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 of Hong Kong Limited (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) *Interests 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	19,072,000	3.06%
	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	316,884,250	50.91%
	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 19,072,000 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.

Other Information

2. Ms. Chan is deemed (by virtue of the SFO) to be interested in 407,628,250 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) 19,072,000 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 19,072,000 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 of the Company (the "Share Option Scheme").

(II) *Long positions in the underlying shares – share options under the 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 30 June 2020	Approximate percentage of the Company's total issued share capital
				Outstanding as at 1 January 2020	Granted during the Reporting Period	Cancelled during the Reporting Period	Lapsed during the Reporting Period		
Zhao Li Sheng (Note 1)	23 April 2018	23 April 2018 to 22 April 2024	1.26	468,000	—	—	—	468,000	0.0751%
Chan Lok San (Note 2)	23 April 2018	23 April 2018 to 22 April 2024	1.26	416,000	—	—	—	416,000	0.0668%
Zhou Xuhua	23 April 2018	23 April 2018 to 22 April 2024	1.26	416,000	—	—	—	416,000	0.0668%

Other Information

Name of Directors	Date of grant	Option Period (Note 3)	Exercise Price per Share (HK\$) (Note 4)	Number of Share Options				Outstanding as at 30 June 2020	Approximate percentage of the Company's total issued share capital
				Outstanding as at 1 January 2020	Granted during the Reporting Period	Cancelled during the Reporting Period	Lapsed during the Reporting Period		
Duan Jidong	23 April 2018	23 April 2018 to 22 April 2024	1.26	372,000	—	—	—	372,000	0.0597%
Zhang Jianbin	23 April 2018	23 April 2018 to 22 April 2024	1.26	372,000	—	—	—	372,000	0.0597%
Wong Cheuk Lam	23 April 2018	23 April 2018 to 22 April 2024	1.26	372,000	—	—	—	372,000	0.0597%
Total				2,416,000	—	—	—	2,416,000	0.3881%

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

Note 2: Ms. Chan (being the spouse of Mr. Zhao) 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 23 April 2018 was HK\$1.26.

(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 30 June 2020, 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 30 June 2020, 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.

Other Information

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

As at 30 June 2020, 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	19,072,000	3.06%
	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	316,884,250	50.91%
	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 19,072,000 shares which are beneficially owned by 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. 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.

Other Information

2. Ms. Chan is deemed (by virtue of the SFO) to be interested in 407,628,250 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) 19,072,000 shares are held by Mr. Zhao, 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 19,072,000 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 Limited dated 16 September 2014 (as supplemented by the supplemental agreements dated 7 November 2014 and 15 December 2014), Sinopharm Capital Limited 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 30 June 2020, 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.

SHARE OPTION SCHEME

The Company operates the Share Option Scheme for the purpose of providing incentives and rewards to eligible participants, including Directors, eligible employees, consultants, suppliers, customers, any shareholder of each member of the Group or associated company or any of their respective associates, who contribute 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 of the Company dated 12 November 2010 (the "Prospectus").

As at 30 June 2020, the Company had granted to certain eligible participants (the "Grantees"), a total of 18,368,000 share options to subscribe for a total of 18,368,000 ordinary shares of HK\$0.10 each in the capital of the Company under the Share Option Scheme which were accepted by such Grantees.

Other Information

A summary of share options granted under the Share Option Scheme of the Company as at 30 June 2020 is as follows:

Grantees	Position held with the Group and/or relationship with the Group	Date of grant	Option Period (Note 3)	Exercise Price per Share (HK\$) (Note 4)	Outstanding as at 1 January 2020	Number of Share Options			Outstanding as at 30 June 2020	Approximate percentage of the Company's total issued share capital
						Granted during the Reporting Period	Cancelled during the Reporting Period	Lapsed during the Reporting Period		
Zhao Li Sheng (Note 1)	Chairman/Executive Director	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	23 April 2018	23 April 2018 to 22 April 2024	1.26	416,000	—	—	—	416,000	0.0668%
Zhou Xuhua	Executive Director	23 April 2018	23 April 2018 to 22 April 2024	1.26	416,000	—	—	—	416,000	0.0668%
Duan Jidong	Independent non-executive Director	23 April 2018	23 April 2018 to 22 April 2024	1.26	372,000	—	—	—	372,000	0.0597%
Zhang Jianbin	Independent non-executive Director	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	23 April 2018	23 April 2018 to 22 April 2024	1.26	372,000	—	—	—	372,000	0.0597%
Sub-total of Share Options granted to Directors					2,416,000	—	—	—	2,416,000	0.3881%
77 Employees	Employees of the Group	23 April 2018	23 April 2018 to 22 April 2024	1.26	15,952,000	—	—	—	15,952,000	2.5626%
Total					18,368,000	—	—	—	18,368,000	2.9507%

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

Note 2: Ms. Chan (being the spouse of Mr. Zhao) 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 23 April 2018 was HK\$1.26.

Other Information

CAPITAL COMMITMENT

As at 30 June 2020, the Group had capital commitment of approximately RMB161,425,000 (as at 31 December 2019: approximately RMB171,827,000).

PUBLIC FLOAT

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

DIVIDENDS

Pursuant to a resolution passed by the shareholders of the Company on 27 May 2020, the Company declared a final dividend for the year ended 31 December 2019 amounting to approximately HK\$14,567,000 (equivalent to approximately RMB13,010,000) to the shareholders of the Company. The dividend was fully paid on 29 June 2020 by the internal cash resources of the Company.

The Board resolved not to recommend the payment of any interim dividend for the six months ended 30 June 2020 (2019: nil).

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

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

CORPORATE GOVERNANCE PRACTICES

The Board strives to uphold the principles of corporate governance set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the 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 Reporting Period, 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.

Other Information

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 (“Mr. Zhao”) 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 set out in Appendix 10 to the Listing Rules (the “Model Code”) as its own code governing securities transactions of the Directors. After having made specific enquiries with all Directors, all Directors have confirmed that they have complied with the required standards set out in the Model Code during the Reporting Period, except for Mr. Zhao, an executive Director, who entered into securities transactions of the Company on 3 April 2020 (which was prior to the publication of the announcement of the Company dated 15 April 2020 on the update on the annual results of the Company for the year ended 31 December 2019 (the “Incident”). On 30 March 2020, the Company published its unaudited annual results announcement for the year ended 31 December 2019 (the “2019 Results Announcement”). The publication of unaudited annual results announcement is an unprecedented and peculiar arrangement due to the Pandemic. As the 2019 Results Announcement was published on 30 March 2020, Mr. Zhao confirmed that he did not possess any inside information in relation to the Group when he dealt in the Company’s securities on 3 April 2020.

After the Incident, the company secretary of the Company sent reminder to all Directors that the blackout period would last till the publication of the audited financial results (or an announcement confirming that the released results have been agreed with auditors). The Company has reviewed its compliance controls procedures to ensure adequate procedures are in place and regulatory updates and reminders are brought to the attention of the directors of the Company.

Other Information

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 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 of the Group and to ensure the external auditor is 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. The Audit Committee currently comprises of three members, namely Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam. Mr. Wong Cheuk Lam, who has appropriate professional qualifications and experience in accounting matters, has been appointed as the chairman of the Audit Committee.

The financial information in this interim report has not been audited by the auditor of the Company. The Audit Committee has reviewed the unaudited condensed consolidated financial statements, the results announcement and this interim report of the Company for the six months ended 30 June 2020 with the management of the Group and agreed with the accounting treatments adopted by the Company, and was of the opinion that the preparation of the financial statements in this interim report complies with the applicable accounting standards and the requirements under the Listing Rules and adequate disclosures have been made.

EVENTS AFTER THE REPORTING PERIOD

There is no material event after the Reporting Period and up to the date of this report.

DISCLOSURE OF INFORMATION

The interim report for the six months ended 30 June 2020 will be duly dispatched to shareholders of the Company and published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.kingworld.com.cn>).

By order of the Board
Kingworld Medicines Group Limited
Zhao Li Sheng
Chairman

Hong Kong, 26 August 2020

Consolidated Statement of Profit or Loss

FOR THE SIX MONTHS ENDED 30 JUNE 2020 - UNAUDITED
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2020 (unaudited) RMB' 000	2019 (unaudited) RMB' 000
Revenue	4	292,948	519,042
Cost of sales		(183,024)	(373,577)
Gross profit		109,924	145,465
Other revenue, income and other net gains	7	40,910	18,330
Selling and distribution costs		(42,700)	(54,683)
Administrative expenses		(46,919)	(46,221)
Amortisation of intangible assets		(9,415)	(9,415)
Change in fair value of financial assets at fair value through profit or loss		(3,025)	(372)
Reversal of impairment loss on trade receivables/ (impairment losses on trade receivable)		319	(64)
Reversal of impairment loss on other receivables		234	200
Profit from operations		49,328	53,240
Finance costs	8(a)	(7,183)	(8,800)
Share of profit of a joint venture		3,174	6,069
Share of (loss)/profit of an associate		(1)	1
Profit before taxation	8	45,318	50,510
Income tax	9	(13,545)	(12,360)
Profit for the period		31,773	38,150
Attributable to:			
Owners of the Company		9,850	32,885
Non-controlling interests		21,923	5,265
Profit for the period		31,773	38,150
Earnings per share	11		
Basic (RMB cents)		1.60	5.28
Diluted (RMB cents)		1.60	5.28

The accompanying notes form part of these condensed consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE SIX MONTHS ENDED 30 JUNE 2020 - UNAUDITED
(Expressed in Renminbi)

	Six months ended 30 June	
	2020 (unaudited) RMB' 000	2019 (unaudited) RMB' 000
Profit for the period	31,773	38,155
Other comprehensive income/(loss) for the period		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside the PRC	1,306	2,005
	1,306	2,005
Total comprehensive income for the period (net of tax)	33,079	40,155
Attributable to:		
Owners of the Company	11,157	34,401
Non-controlling interests	21,922	5,754
Total comprehensive income for the period	33,079	40,155

The accompanying notes form part of these condensed consolidated financial statements.

Consolidated Statement of Financial Position

AS AT 30 JUNE 2020 - UNAUDITED
(Expressed in Renminbi)

	Note	30 June 2020 (unaudited) RMB' 000	31 December 2019 (audited) RMB' 000
Non-current assets			
Right-of-use assets	12(a)	114,355	118,333
Property, plant and equipment	12(b)	57,089	59,303
Investment properties	13	122,600	122,600
Interest in a joint venture		75,762	72,588
Interest in an associate		2,565	2,566
Goodwill		90,693	90,693
Intangible assets		31,426	40,841
Financial assets at fair value through profit or loss		5,739	5,739
Financial assets at fair value through other comprehensive income		44,345	33,697
		544,574	546,360
Current assets			
Inventories		240,491	205,121
Trade and other receivables	14	273,047	391,516
Financial assets at fair value through profit or loss		12,578	15,325
Pledged bank deposits		8,683	8,549
Cash and cash equivalents		263,324	113,495
		798,123	734,006
Current liabilities			
Contract liabilities		74,265	72,342
Trade and other payables	15	153,087	273,412
Bank loans		393,970	214,327
Lease liabilities		9,487	9,115
Tax payable		17,351	7,173
		648,160	576,369
Net current assets		149,963	157,637
Total assets less current liabilities		694,537	703,997
Non-current liabilities			
Lease liabilities		4,504	8,374
Deferred tax liabilities		21,021	22,433
		25,525	30,807
NET ASSETS		669,012	673,190
CAPITAL AND RESERVES			
Share capital	16	53,468	53,468
Reserves		547,745	549,875
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		601,213	603,343
NON-CONTROLLING INTERESTS		67,799	69,847
TOTAL EQUITY		669,012	673,190

The accompanying notes form part of these condensed consolidated financial statements.

Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2020 - UNAUDITED
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company										
	Share capital	Share premium	Statutory and		Fair value reserve	Exchange reserve	Capital reserve	Retained profits	Total	Non-Controlling interests	Total
			discretionary reserves	Contributed surplus							
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
At 1 January 2020	53,468	152,700	44,626	—	6,380	(20,786)	(5,530)	372,485	603,343	69,847	673,190
Changes in equity for the six months ended 30 June 2020											
Profit for the period	—	—	—	—	—	—	—	9,850	9,850	21,923	31,773
Other comprehensive (loss)/income for the period	—	—	—	—	—	1,307	—	—	1,307	(1)	1,306
Total comprehensive (loss)/income for the period	—	—	—	—	—	1,307	—	9,850	11,157	21,922	33,079
Dividends (note 10(b))	—	—	—	—	—	—	—	(13,287)	(13,287)	—	(13,287)
Distribution to non-controlling interests	—	—	—	—	—	—	—	—	—	(23,970)	(23,970)
At 30 June 2020 (unaudited)	53,468	152,700	44,626	—	6,380	(19,479)	(5,530)	369,048	601,213	67,799	669,012
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 for the six months ended 30 June 2019											
Profit for the period	—	—	—	—	—	—	—	32,885	32,885	5,265	38,150
Other comprehensive income for the period	—	—	—	—	—	1,516	—	—	1,516	489	2,005
Total comprehensive income for the period	—	—	—	—	—	1,516	—	32,885	34,401	5,754	40,155
Appropriation of statutory and discretionary reserves	—	—	1,507	—	—	—	—	(1,507)	—	—	—
Dividends (note 10(b))	—	—	—	—	—	—	—	(12,310)	(12,310)	—	(12,310)
At 30 June 2019 (unaudited)	53,468	152,700	45,615	29,068	(5,520)	(19,557)	8,454	323,655	587,883	78,192	666,075

The accompanying notes form part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Cash Flows

FOR THE SIX MONTHS ENDED 30 JUNE 2020 - UNAUDITED
(Expressed in Renminbi)

	Six months ended 30 June	
	2020 (unaudited) RMB' 000	2019 (unaudited) RMB' 000
Operating activities		
Cash generated from operations	36,111	97,802
Income tax paid	(4,775)	(7,433)
Net cash generated from operating activities	31,336	90,369
Investing activities		
Dividend received from financial assets at fair value through other comprehensive income	942	740
Purchase of property, plant and equipment	(3,175)	(4,090)
Proceeds from disposal of property, plant and equipment	14	–
Bank interest received	37	90
Interest received from financial assets at fair value through other comprehensive income	201	955
Payment for the acquisition of financial assets at fair value through other comprehensive income	(162,000)	(450,500)
Proceeds from disposal of financial assets at fair value through other comprehensive income	152,000	450,500
Net cash used in investing activities	(11,981)	(2,305)
Financing activities		
Net proceeds from bank loans raised	360,362	118,708
Dividend paid to owners of the Company	(13,287)	(12,310)
Dividend paid to non-controlling interests	(23,970)	–
Capital element of lease rentals paid	(5,322)	(2,426)
Interest element of lease rentals paid	(466)	(1,020)
Repayment of bank loans	(184,171)	(188,198)
Finance cost paid	(6,717)	(7,780)
Net cash generated from/(used in) financing activities	126,429	(93,026)
Net increase/(decrease) in cash and cash equivalents	145,784	(4,962)
Cash and cash equivalents at 1 January	113,495	160,660
Effect of foreign exchange rate changes	4,045	1,919
Cash and cash equivalents at 30 June	263,324	157,617

The accompanying notes form part of these condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2020 - UNAUDITED
(Expressed in Renminbi unless otherwise indicated)

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 Island on 10 July 2008. The Company is an investment holding company whereas its subsidiaries (together with the Company, the “Group”) are principally engaged in (i) distribution sales of branded imported pharmaceutical and healthcare products, and (ii) manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices in the People’s Republic of China (the “PRC”) and Hong Kong.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are set out in note 3.

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 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 adopted Hong Kong dollars (“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 its presentation currency.

The preparation of condensed consolidated financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This condensed consolidated financial statements contain selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. The condensed consolidated financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs.

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties, financial instruments classified as financial assets at fair value through other comprehensive income, trading securities and financial assets at fair value through profit or loss, which are measured at fair value.

The condensed consolidated financial statements are unaudited, but have been reviewed by the Company’s audit committee.

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2020 - UNAUDITED
(Expressed in Renminbi unless otherwise indicated)

3. CHANGES IN ACCOUNTING POLICIES

(a) *New HKFRSs and amendments to HKFRSs adopted by the Group*

In the current interim period, the Group adopted and applied, for the first time, the following amendments to HKFRSs issued by the HKICPA:

Amendments to HKFRS 3	Definition of a business
Amendments to HKAS 1 and HKAS 8	Definition of material

The application of the above revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

(b) *New standards, amendments to standards and interpretations issued but not yet effective for the accounting period beginning on 1 January 2020 and not early adopted by the Group*

HKFRS 17	Insurance Contracts ¹
Amendments to HKFRS 3	Reference to the Conceptual Framework ³ (Released on 29 June 2020)
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended use ³ (Released on 29 June 2020)
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ³ (Released on 29 June 2020)
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020 ³ (Released on 29 June 2020)

¹ Effective for annual periods beginning on or after 1 January 2021

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

³ Effective for annual periods beginning on or after 1 January 2022

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2020 - UNAUDITED
(Expressed in Renminbi unless otherwise indicated)

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 period.

	Six months ended 30 June	
	2020 (unaudited) RMB' 000	2019 (unaudited) RMB' 000
Sales of		
– pharmaceutical products	104,090	360,357
– healthcare products	42,492	73,906
– medical devices	146,366	84,779
	292,948	519,042
Timing of revenue recognition		
A point in time	292,948	519,042

5. SEGMENT INFORMATION

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 director, i.e., the chief operating decision-makers, 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.

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5. SEGMENT INFORMATION (Continued)

(a) Segment results, assets and liabilities

Information regarding the Group's reportable segments as provided to the chief operating decision-makers for the purposes of resource allocation and assessment of segment performance for the period is set out below.

For the six months ended 30 June	Distribution sales of pharmaceutical and healthcare products				Manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices		Total	
	Hong Kong		PRC		PRC			
	2020 (unaudited) RMB' 000	2019 (unaudited) RMB' 000	2020 (unaudited) RMB' 000	2019 (unaudited) RMB' 000	2020 (unaudited) RMB' 000	2019 (unaudited) RMB' 000	2020 (unaudited) RMB' 000	2019 (unaudited) RMB' 000
Revenue from external customers	24,780	53,232	121,801	381,031	146,367	84,779	292,948	519,042
Inter-segment revenue	2,767	1,910	1,981	417	—	—	4,748	2,327
Reportable segment revenue	27,547	55,142	123,782	381,448	146,367	84,779	297,696	521,369
Reportable segment profit/(loss) (adjusted EBITDA)	(11,645)	(3,085)	(8,731)	42,680	60,562	22,964	40,186	62,559
	30 June 2020 (unaudited) RMB' 000	31 December 2019 (audited) RMB' 000	30 June 2020 (unaudited) RMB' 000	31 December 2019 (audited) RMB' 000	30 June 2020 (unaudited) RMB' 000	31 December 2019 (audited) RMB' 000	30 June 2020 (unaudited) RMB' 000	31 December 2019 (audited) RMB' 000
Reportable segment assets	281,529	265,528	661,266	768,477	250,628	192,502	1,193,423	1,226,507
Reportable segment liabilities	108,688	104,170	324,362	326,440	113,672	68,305	546,722	498,915

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' emoluments and auditors' remuneration and other head office or corporate administration costs.

(b) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2020 (unaudited) RMB' 000	2019 (unaudited) RMB' 000
Reportable segment profit derived from Group's external customers and joint venture	40,186	62,559
Other income	40,910	18,330
Depreciation and amortisation	(20,676)	(17,735)
Change in fair value of financial assets at fair value through profit or loss	(3,025)	(372)
Finance costs	(7,183)	(8,800)
Unallocated head office and corporate expenses	(4,894)	(3,472)
Consolidated profit before taxation	45,318	50,510

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6. SEASONALITY OF OPERATIONS

The Group's business in distribution sale of pharmaceutical and healthcare products and manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices had no special seasonality factor.

7. OTHER REVENUE, INCOME AND OTHER NET GAINS

	Six months ended 30 June	
	2020 (unaudited) RMB' 000	2019 (unaudited) RMB' 000
Other revenue:		
Total interest income on financial assets not at fair value through profit or loss:		
Bank interest income	37	90
Interest income from financial assets at fair value through other comprehensive income	201	955
Gross rental income from investment properties	962	1,525
Dividend income from financial assets at fair value through other comprehensive income	942	740
Promotional service income	29,107	10,676
	31,249	13,986
Government grants (note below)	9,436	4,565
Gain on disposal of property, plant and equipment	8	–
Exchange loss, net	(3,749)	(1,727)
Others	3,966	1,506
	40,910	18,330

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.

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8. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2020 (unaudited) RMB' 000	2019 (unaudited) RMB' 000
a) Finance costs		
Total interest expense on financial liabilities not at fair value through profit or loss:		
Interest on bank loans	6,717	7,780
Interest on lease liabilities	466	1,020
Total finance costs	7,183	8,800
b) Other items		
Amortisation of intangible assets	9,415	9,415
Cost of inventories (note i)	183,024	373,577
Depreciation of property, plant and equipment	5,393	4,494
Amortisation of right-of-use assets	5,868	3,143
Amortisation of leasehold land held for own use under operating leases	–	683
Write-down of inventory	3,947	2,100
Reversal of impairment loss on other receivables (Reversal of impairment loss on trade receivables)/ impairment loss on trade receivables	(234)	(200)
(Gain)/loss on disposal of property, plant and equipment	(8)	176
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	–	3,592
Rental income from investment properties less direct outgoings of RMB165,000 (six months ended 30 June 2019: RMB213,000)	(797)	(1,312)
Research and development cost (note ii)	5,346	6,365

Notes:

- i) Cost of inventories includes approximately RMB20,743,000 (2019: RMB13,793,000) 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) Research and development cost includes approximately RMB777,000 (2019: RMB785,000) relating to depreciation of property, plant and equipment and amortisation of right-of-use assets, which are included in the respective total amounts disclosed separately above.

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9. INCOME TAX

	Six months ended 30 June	
	2020 (unaudited) RMB' 000	2019 (unaudited) RMB' 000
Hong Kong Profits Tax		
Current period	3,165	839
PRC Enterprise Income Tax		
Current period	11,792	12,564
Under-provision in prior years	–	369
	14,957	13,772
Deferred tax		
Origination and reversal of temporary differences	(1,412)	(1,412)
	13,545	12,360

Notes:

- 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 six months ended 30 June 2020 and 2019.
- iii) The PRC Enterprise Income Tax charge of the Group during the six months ended 30 June 2020 and 2019 represented mainly the PRC Enterprise Income Tax charge on the Group's PRC subsidiaries, Shenzhen Kingworld Medicine Company Limited ("SZ Kingworld"), and Shenzhen Dong Di Xin Technology Company Limited ("Dong Di Xin") are based on a statutory rate of 25% (six months ended 30 June 2019: 25%), except for Dong Di Xin, which is based on a preferential income tax rate of 15% (six months ended 30 June 2019: 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.

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10. DIVIDENDS

- a) The Company's directors do not recommend the payment of an interim dividend for the six months ended 30 June 2020 and 2019.
- b) Dividends payable to owners of the Company attributable to the previous financial year, approved and paid during the Reporting Period:

	Six months ended 30 June	
	2020 (unaudited) RMB'000	2019 (unaudited) RMB'000
Final dividend in respect of the previous financial year ended, approved and paid during the Reporting Period, of HK2.34 cents (equivalent to approximately RMB2.13 cents) (2019: HK2.25 cents (equivalent to approximately RMB1.98 cents))	13,287	12,310

11. 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:

- i) Profit attributable to owners of the Company

	Six months ended 30 June	
	2020 (unaudited) RMB'000	2019 (unaudited) RMB'000
Profit for the year attributable to owners of the Company	9,850	32,885
Earnings for the purpose of basic earnings per share	9,850	32,885

- ii) Weighted average number of ordinary shares

	Six months ended 30 June	
	2020 (unaudited)	2019 (unaudited)
Weighted average number of ordinary shares in issue	622,500,000	622,500,000
Effect of shares repurchased and held under share award scheme	(6,000,000)	–
Weighted average number of ordinary shares for the purpose of basic earnings per share	616,500,000	622,500,000

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11. EARNINGS PER SHARE *(Continued)*

(b) Diluted earnings per share

Diluted earnings per share for the six months ended 30 June 2020 and 2019 was the same as the basic earnings per share because that the exercise price of the share options granted was higher than the weighted average market price of the Company's shares during the six months ended 30 June 2020 and 2019. 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.

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

(a) Acquisitions and disposals of Right-of-use assets

During the six months ended 30 June 2020, the Group entered into a number of lease agreements for use of warehouses, plant and offices, and therefore recognised the additions to right-of-use assets of RMB1,825,000 (six months ended 30 June 2019: RMB2,633,000).

(b) Acquisitions and disposals of property, plant and equipment

During the six months ended 30 June 2020, the Group acquired items of plant and machinery with a cost of RMB3,175,000 (six months ended 30 June 2019: RMB4,090,000). Items of plant and machinery with a net book value of RMB6,000 were disposed of with proceeds of RMB14,000 during the six months ended 30 June 2020 (six months ended 30 June 2019: RMB176,000), resulting in a gain on disposal of RMB8,000 (six months ended 30 June 2019: loss on disposal of RMB176,000).

As at 30 June 2020, certain right-of-use assets and buildings held for own use with a total carrying amount of RMB78,044,000 (as at 31 December 2019: RMB79,271,000) were pledged to a bank for bank loans of the Group.

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13. INVESTMENT PROPERTIES

	RMB' 000
Fair value	
At 1 January 2019	122,600
Fair value adjustment	–
At 31 December 2019 (audited), 1 January 2020 and 30 June 2020 (unaudited)	122,600

- a) The Group's investment properties were revalued as at 31 December 2019 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 independent firms 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 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 annual reporting date.

The Group's investment properties were not revalued as at 30 June 2020 by independent valuers. The directors were aware of the changes in the conditions of the property market. However, they considered that the carrying amount of the Group's investment properties did not differ significantly from the fair values as at 31 December 2019 carried out by independent qualified professional valuers. Consequently, no change in fair value of investment properties has been recognised in the current period.

- b) The Group's investment properties are held under medium-term leases in the PRC.
- c) The Group's investment property with a carrying amount of RMB108,900,000 (as at 31 December 2019: RMB108,900,000) have been pledged to secure general banking facilities granted to the Group (Note 17).

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14. TRADE AND OTHER RECEIVABLES

As of the end of the Reporting Period, the ageing analysis of trade and bills receivables (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

	At 30 June 2020 (unaudited) RMB' 000	At 31 December 2019 (audited) RMB' 000
0-90 days	116,254	248,333
91-120 days	12,705	18,070
121-180 days	16,776	8,038
181-365 days	924	2,706
More than 1 year	1,242	2,720
Total trade and bills receivables, net of allowance for doubtful debts	147,901	279,867
Other receivables	43,544	37,923
Other loans	47,734	46,825
Amounts due from related parties	1,006	15
Amount due from an associate	4,300	4,220
Amount due from joint venture	3	–
Loans and receivables	244,488	368,850
Prepayments	19,684	17,804
Trade and other deposits	4,121	2,336
Trade deposits to related parties	1,374	2,526
Value-added tax receivable	3,380	–
	273,047	391,516

- a) The Group generally granted credit terms ranging from 30 days to 120 days to its customers.

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15. TRADE AND OTHER PAYABLES

The credit terms granted by the suppliers were generally 45 days to 90 days. Ageing analysis of trade payable is presented based on invoice date as of the end of the Reporting Period as follows:

	At 30 June 2020 (unaudited) RMB' 000	At 31 December 2019 (audited) RMB' 000
0-90 days	83,088	226,757
91-180 days	23,547	767
181-365 days	61	—
Over 365 days	39	—
Total trade payables	106,735	227,524
Accruals	4,841	7,219
Amount due to related parties	7,761	4,035
Amount due to a joint venture	—	415
Other payables	33,750	31,718
Financial liabilities measured at amortised cost	153,087	270,911
Value-added tax payable	—	2,501
	153,087	273,412

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16. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000	Amount equivalent to RMB'000
Authorised:			
Ordinary shares of HK\$0.1 each			
At 1 January 2019, 31 December 2019 (audited), 1 January 2020 and 30 June 2020 (unaudited)	10,000,000	1,000,000	877,900
Issued and fully paid:			
Ordinary shares of HK\$0.1 each			
At 1 January 2019, 31 December 2019 (audited), 1 January 2020 and 30 June 2020 (unaudited)	622,500	62,250	53,468

17. PLEDGE OF ASSETS

The Group's asset with the following carrying amount has been pledged to secure bank loan and banking facilities:

	Note	At 30 June 2020 (unaudited) RMB'000	At 31 December 2019 (audited) RMB'000
Investment property	13	108,900	108,900
Leasehold land held for own use under operating leases		57,605	58,287
Property, plant and equipment		20,439	20,984

The Group's bank loans amounted to RMB143,520,000 as at 30 June 2020 (as at 31 December 2019: RMB54,020,000) were secured by Group's investment property. The Group's bank loans amounted to RMB200,451,000 as at 30 June 2020 (as at 31 December 2019: RMB160,307,000) were secured by the Group's right-of-use assets, property, plant and equipment and bank deposits and/or guaranteed by Mr. Zhao Li Sheng, the ultimate controlling party and a director of the Company, and Ms. Chan Lok San, a director of the Company.

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18. FINANCIAL INSTRUMENTS

Fair value

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed 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.

	Fair value measurements as at 30 June 2020 categorised into				Fair value measurements as at 31 December 2019 categorised into			
	Fair value at 30 June 2020 RMB' 000 (unaudited)	Level 1 RMB' 000 (unaudited)	Level 2 RMB' 000 (unaudited)	Level 3 RMB' 000 (unaudited)	Fair value at 31 December 2019 RMB' 000 (audited)	Level 1 RMB' 000 (audited)	Level 2 RMB' 000 (audited)	Level 3 RMB' 000 (audited)
Recurring fair value measurements								
Assets:								
Financial assets at fair value through other comprehensive income (non-recycling)								
– Unlisted equity investments	44,045	–	32,385	11,660	33,397	–	31,768	1,629
Financial assets at fair value through profit or loss								
– Unlisted equity investments	5,739	–	–	5,739	5,739	–	–	5,739
– Listed securities	12,578	12,578	–	–	15,325	15,325	–	–

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18. FINANCIAL INSTRUMENTS (Continued)

Fair value (Continued)

Fair value hierarchy (Continued)

During the six months ended 30 June 2020 and the year ended 31 December 2019, 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.

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.

The fair value of available-for-sale financial assets, at fair value in Level 2 is calculated based on the quoted prices of equity instruments on which the Fund invested in.

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 six months ended 30 June 2020 and 2019.

	Financial assets at fair value through other comprehensive income		Financial assets at fair value through profit or loss	Total
	Unlisted equity investments	Bank wealth management products	Unlisted equity investments	
	RMB' 000	RMB' 000	RMB' 000	RMB' 000
At 1 January 2019	1,408	–	5,549	6,957
Proceeds from sales	–	(450,500)	–	(450,500)
Additions	–	450,500	–	450,500
At 30 June 2019 (unaudited)	1,408	–	5,549	6,957
At 1 January 2020	1,629	–	5,739	7,368
Addition	10,000	152,000	–	162,000
Proceeds from sales	–	(152,000)	–	(152,000)
Exchange adjustment	31	–	–	31
At 30 June 2020 (unaudited)	11,660	–	5,739	17,399

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18. FINANCIAL INSTRUMENTS (Continued)

Fair value (Continued)

Fair value hierarchy (Continued)

The fair value of the unlisted equity investment was valued as at 31 December 2019 with reference to valuation performed by an independent valuer, 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.

The directors considered that the carrying amount of the aforesaid financial instruments as at 30 June 2020 did not differ significantly from the fair value as at 31 December 2019 carried out by independent qualified professional valuers. Consequently, no change in fair value has been recognised in current period.

The fair value of the bank wealth management products was valued based on their costs plus expected return.

19. CAPITAL COMMITMENTS

Capital commitments of the Group at the six months ended 30 June 2020 are as follows:

	At 30 June 2020 (unaudited) RMB' 000	At 31 December 2019 (audited) RMB' 000
Capital commitment for the investment in a fund	–	10,000
Capital commitment for the investments in associate	5,000	5,000
	5,000	15,000
Authorised but not contracted for	156,425	156,827
	161,425	171,827

Apart from the above, the Group did not have other significant capital commitments as at 30 June 2020 and 31 December 2019.

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20. EQUITY SETTLED SHARE-BASED TRANSACTIONS

Share option schemes

The Company set up a share option scheme on 5 November 2010 whereby the directors of the Company are authorised, at their discretion, to grant options to subscribe for the Company's shares 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.

As at 30 June 2020, the outstanding share options granted and accepted was 18,368,000 (as at 31 December 2019: 18,368,000).

No option was lapsed during the six months ended 30 June 2020 (2019: 19,026,000 options).

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 period ended 30 June 2020. At 30 June 2020, the trustee held 6,000,000 shares of the Company purchased but not yet awarded under the share award scheme.