KINGWORLD MEDICINES GROUP LIMITED

金活醫藥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 01110

ANNUAL REPORT
2020

Healthy Life with
KINGWORLD

CONTENTS

Corporate Information

DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Mr. Chan Hon Wan

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Mr. Chan Hon Wan

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Financial Highlights

	For the year ended 31 December		Changes
	2020	2019	Increase/
	RMB'000	RMB'000	(Decrease)
Financial Highlights			
Revenue	**745,383**	977,928	(23.8)%
Cost of sales	**(465,229)**	(710,525)	(34.5)%
Gross profit	**280,154**	267,403	4.8%
Profit before taxation	**70,891**	69,809	1.5%
Profit for the year	**50,889**	50,271	1.2%
Profit attributable to owners of the Company	**11,716**	43,427	(73.0)%
Basic earnings per share (RMB cents)	**1.91**	7.00	(72.7)%
Proposed final dividends per share (HK cents)	**0.65**	2.34	(72.2)%

	As at 31 December		Changes Increase/
	2020	2019	(Decrease)
Liquidity and Asset-liability Ratio			
Current ratio (1)	**1.29**	1.27	1.6%
Quick ratio (2)	**1.05**	0.92	14.1%
Asset-liability ratio (3)	**23.6%**	16.7%	6.9% pts

Notes:

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

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

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

Chairman's Statement

Dear Shareholders,

On behalf of Kingworld Medicines Group Limited (the "**Company**") and its subsidiaries (together, the "**Group**"), I would like to express my sincere gratitude to all shareholders (the "**Shareholders**") and stakeholders for your continuing attention, support and encouragement to the Group. For the Group, the year ended 31 December 2020 (the "**Year Under Review**") was a challenging year. Nevertheless, with the continuing endeavours and constant efforts of all our staff, we strived to create a powerful driving force to foster the development of our various lines of businesses which have consequently reached their new heights.

MARKET OVERVIEW

In 2020, we saw the impact of the novel coronavirus (COVID-19) (the "**Pandemic**") swept across the globe, accelerating the evolution of unprecedented changes of the world in a century. Under the background of the prevalence of the global Pandemic, the progress of trade negotiations between China and the U.S. still failed to achieve breakthroughs in 2020, along with the impacts of the game between China and the U.S. and Britain's formal exit from the European Union, the data released by the World Bank showed that the global economy encountered a 4.3% contraction in 2020, and the economic activities and income growth might be subject to suppression for a long period of time. As a result, the global economy may fall into regression.

Chairman's Statement

At the same time, as China has achieved major strategic successes in the battle against the Pandemic, China's economy is able to achieve continuous growth despite the fact that most countries around the world have been suffering economic difficulties. According to the latest economic data, China's GDP in the first three quarters of 2020 amounted to approximately US$10.34 trillion, and the economy increased by 0.7% year-on-year, making China the only major economy capable of achieving positive growth. In response to the pressure from deglobalization, China completed the signing of RCEP and China-EU investment agreement negotiations in 2020, and proposed the economic development direction of "domestic internal circulation as the core, complemented by international and domestic dual circulation". With the steady and continuous growth of the Chinese economy, the level of income and consumption will increase further, which is beneficial to the Group's long-term development of plough deep into the large domestic market. Looking back at the Hong Kong market, Hong Kong experienced four waves of epidemic outbreaks in 2020, and the number of travelers coming to Hong Kong declined dramatically, thus the local retail industry entered into a "cold winter". Similarly, the Group's local businesses in Hong Kong also suffered heavy losses and encountered decline in performance.

Regarding the pharmaceutical industry, due to the impact of the Pandemic, the Group ushered an explosive growth in anti-Pandemic materials as represented by masks. At the same time, the sales of cold and cough drugs declined due to policy control. In view of the strong demand of consumers for foreign high-quality OTC household drugs, the country has gradually opened up pilot points for cross-border pharmaceutical e-commerce. In 2020, the country approved the "Implementation Plan for Beijing City Cross-border E-commerce Sale of Pharmaceutical Products Pilot Work ", which will enable the Group to fully utilize the experience of Kingworld as an agent of overseas health products, introduce more high-quality health products and provide window opportunities in return.

As Shenzhen is one of the important strategic cities as the pilot demonstration zone of socialism with Chinese characteristics and the Guangdong-Hong Kong-Macau Greater Bay Area, the "List of the First Batch of Authorized Items for the Comprehensive Reform Pilot for Building a Pilot Demonstration Zone of Socialism with Chinese Characteristics in Shenzhen" promulgated by the State Council of the PRC renders further support to Shenzhen to become a frontier pilot zone for China's reform and open policy. As Shenzhen becomes an international city and important hub for the Greater Bay Area, it will provide a broad development space for the Shenzhen-based Kingworld Medicines Group and lay an even more solid foundation for the Group to develop into a world leading and well-known omni-channel enterprise with a complete supply chain in the greater health products and services industry.

DEVELOPMENT ACHIEVEMENTS

In January 2020, with the outbreak of the Pandemic, Shenzhen Dong Di Xin Technology Company Limited ("**Dong Di Xin**"), a holding subsidiary of the Group, achieved explosive growth in its infrared thermometer business. In April 2020, it became the fourth infrared thermometer manufacturer in China to be included on the "Name List of Medical Devices and Supplies Companies with Certification/Authorisation from other Countries "issued by the Ministry of Commerce, indicating 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 amount of overseas purchase orders and make timely delivery to its overseas customers.

In order to actively fight against the Pandemic, Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited (深圳金活利生藥業有限公司), a connected party of the Group, took the initiative to transform the GMP solid production workshop into a mask production workshop, and produced anti-Pandemic supplies 24 hours a day without a break. The Group has been adhering to the mission of "to serve the community and to benefit the world (效力世人、澤潤蒼生)", and always insists on providing consumers with high-quality health products. During the epidemic period, the Group also strived to provide consumers with high-quality Kingworld medical masks.

In October 2020, the "Construction Plan for the Chinese Medicine Highlands in the Guangdong-Hong Kong-Macao Greater Bay Area (2020-2025)" jointly issued by the National Administration of Traditional Chinese Medicine, the Office of the Leading Group for the Development of the Guangdong-Hong Kong-Macau Greater Bay Area and the People's Government of Guangdong Province, clearly established a mechanism for setting up a system to facilitate discussion, development and sharing of Chinese medicine in Guangdong, Hong Kong, and Macau in order to accelerate the formation of a new pattern of building the Chinese medicine highland, and further promote the high-quality development of Chinese medicine; build a batch of Chinese medicinal materials planting and breeding demonstration bases featured with the Lingnan characteristics; support the Chinese medicine preparation centres of medical institutions in Guangdong and Macau to undertake the entrusted preparation of Chinese medicine preparations from medical institutions in the Guangdong-Hong Kong-Macau Greater Bay Area; simplify the registration and approval process of traditional Chinese patent medicines for external use in the Hong Kong and Macau markets, and support the expansion and strengthening of the Chinese medicine industry in Hong Kong and Macau; promote the Chinese medicine products approved and registered in Macau and produced in the Hengqin Guangdong-Macau in-depth cooperation zone to apply for marketing in the Mainland in accordance with the provisions of law; support Chinese medicine colleges in Guangdong, Hong Kong and Macau and scientific research institutions to carry out research on the basic theories of Chinese medicine, and the research on the mechanism of the functioning of Chinese medicine and its various ways of application, and promote the scientific clinical studies for the use of Chinese medicines for the prevention and treatment of major and difficult illnesses, rare diseases and those newly emerged and suddenly broke out epidemic diseases; support Guangdong, Hong Kong and Macau enterprises and medical institutions to cooperate in the research and development and clinical application for preparation of compound medicine of renowned ancient classic Chinese medicine formulas. In order to make early deployment for the implementation of Chinese medicine in the "Shenzhen-Hong Kong Loop Region" project, the Group set up the Shenzhen Kingworld Chinese Medicine Technology Development Company Limited on 26 December to strive for policy support to promote the construction of the Shenzhen-Hong Kong International Chinese Medicine Port and shape the vision of "Healthy China, Healthy Bay Area, Healthy Shenzhen, Healthy King Living".

In addition, the Group started to implement a share incentive scheme in 2019. The share incentive scheme aimed to motivate and boost the morale of employees, thereby retaining existing talents to contribute to the continuing operation and development of the Group while it also aims to attract more outstanding talents to join the Group. Furthermore, the scheme will inject new impetus to foster the future development of the Group in the long run.

During the Year Under Review, the Group successfully introduced the distribution of Enalapril maleate and folic acid tablets (馬來酸依那普利葉酸片), which had obtained a Class I new drug certificate issued by the State Food and Drug Administration, and it was also included in the Chinese Guidelines for Prevention and Treatment of Hypertension and Guidelines for Reasonable Use of Hypertension Drugs. With this cooperation, a new chapter was opened for pilot cooperation of OTC channels of prescription drugs.

The Group insists on deep ploughing into the untapped terminal markets, increasing the terminal coverage, penetrating into the county markets, deepening chain cooperation, and strengthening cooperation with the third terminals and medical service institutions. At the same time, the Group is also continuing to expand the aspect of pharmaceutical e-commerce, focusing on the depth and stickiness of cooperation with Ali Health, JD Health and Dingdang, and signing up annual cooperation framework. The Group pays attention to various new marketing models such as the live broadcast delivery and develops marketing cooperation with well-known master television anchors in order to attract new clusters of consumers. In the future, the Group will further optimize the terminal coverage of its existing markets and regional segments until eventually all of the drugs under the Group are fully covered; actively expand new channels such as pharmaceutical e-commerce platforms, cross-border pharmaceutical e-commerce, new retailing types and so forth, thus allowing the high-quality products under the group to be purchased by every consumer.

The Group has been committed to extending its operating reach to the upstream manufacturers, insisting on cooperating with higher education institutions to develop new products that conform to the modern consumption trends, and building a product system for nurturing self-developed brands. For the Year Under Review, the Group and the Hong Kong University of Science and Technology made breakthroughs in new product research and development projects based on Chinese medicine and probiotics as the main ingredients, and the interim product trials were completed and the testing results met the expectations. Two applications had been reviewed by the China National Intellectual Property Administration and announced that the applications had entered the stage of substantive review. We will continue to proceed with the project according to the research and development plan scheduled, and ultimately launch the products into the market as early as possible. It is expected that the probiotic skin care market is broad and prosperous.

The Group expects to provide one-stop research, testing, production, warehousing, logistics, and office bases for more R&D teams of greater health products in order to facilitate the innovation and development of the national pharmaceutical industry. On 28 December, a groundbreaking ceremony was officially held for the Group's Longde Health Industrial Park project. Upon the completion of the Longde Health Building, it is expected that leveraging on its regional transportation advantages, it will become one of the R&D centres for the health industry in the Guangdong-Hong Kong-Macau Greater Bay Area.

During the Year Under Review, the Group advanced a step further in its cooperation model with the upstream manufacturers, not only developing product marketing cooperation, but also opening a new chapter in terms of equity cooperation with the upstream manufacturers. Hong Kong Kingworld Medicine and Healthcare (hereinafter referred to as "**Hong Kong Kingworld**") under the Group and Lanzhou Foci Pharmaceutical Co., Ltd. (hereinafter referred to as "**Lanzhou Foci**") signed an equity transaction confirmation letter, which was approved and reviewed by the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) in December and obtained a permit by the SASAC that the two parties will establish a joint venture company in Hong Kong focusing on business development in the Hong Kong and Macau markets, expanding businesses in Southeast Asia and overseas markets as well as radiating to the cooperation businesses in the domestic market of the country. The joint venture company will serve as the connection port between Lanzhou Foci's series of products and the overseas markets. Based on a continuous effort to further improve the sales of existing products in the Hong Kong and Macau markets, we plan to leverage Lanzhou Foci's product development capabilities and Hong Kong Kingworld's marketing capacities to exploit the advantages of indigenous medicinal material bases owned by Lanzhou Foci, in combination with the market demand of consumers for healthy living, leveraging modern means such as decoction and cooking Chinese herb medicines and Chinese medicine granules, to explore the aspects of overseas R&D of health products and the modernization of Chinese patent medicines so as to develop series of new products. Furthermore, it will explore to develop new and multi-faceted businesses, such as exporting China's high-quality Chinese patent medicines to the Hong Kong, Macau and overseas markets and introducing overseas high-quality products into the China market in return.

Lanzhou Foci Pharmaceutical Co., Ltd. is a state owned listed company and "China Time-honoured Brand" company with 91 years of history in pharmaceutical manufacturing. Foci owns 4 production bases plus 2 pharmaceutical industrial parks that are now under construction, all of which have passed the national GMP certification. The production lines of the headquarters have also passed the certification of the Australian Therapeutic Goods Administration (TGA), the Japan Ministry of Health, Labor, and Welfare (MHLW) and the Ukrainian Product Certification Bureau. Currently, it has 467 registered approval number for drug production, 10 exclusive products, and 9 invention patents. At present, the products of Foci are exported to 28 countries and regions including the United States, Australia, Japan, and Hong Kong. It was accredited as one of the first batch of leading backbone enterprises in the country's first batch of Chinese medicine service trade pilots by the Ministry of Commerce and the National Administration of Traditional Chinese Medicine. The products manufactured by Lanzhou Foci for sale in the Hong Kong and Macau markets are under the Minshan brand, which have considerable influences in the Hong Kong and Macau markets and are welcomed by middle-aged and elderly consumers. There are 36 Minshan brand products registered in Hong Kong, and the sales of these products are showing continuous growth. Based on the demands from the Hong Kong and Macau markets, a batch of new products is in the course of registration, thus enriching the variety of product clusters on an ongoing basis.

FUTURE OUTLOOK

In 2020, under the predicament of the Pandemic, China became the only major economy in the world that could achieve a positive growth, and the consumption levels were back to stability. Looking ahead to 2021, the global economic situation remains complex and severe, and the path of recovery is not stable and balanced. Moreover, various derivative risks caused by the impact of the Pandemic should not be ignored. At the same time, China entered the inaugural year of the "14th Five-Year Development Plan" that economic transformation and upgrading will come to a critical stage, and the expansion of domestic demand has become the core of economic strategy. Moreover, innovation in industrial technology and consumption upgrade have become the new drivers of economic growth. In this regard, we maintain an optimistic yet cautious attitude towards China's economic development and continue to enrich our clusters of products in order to firmly grasp the opportunities brought by the consumption upgrade and aging of the population.

In 2021, the Group will continue to use the SMART system to strengthen the capturing and application analyzing of data information, enhance the digitalized information infrastructure in order to provide support for scientific decision-making support for management of operation and marketing, and provide data to support the traditional medicine business to plough deeper into the terminal market and increase the scope of coverage, thereby providing strong support to the development of pharmaceutical e-commerce and new retail marketing business through new channels.

In 2021, the Group will strengthen its product structure, broaden its domestic and international horizons, expand the product introduction channels, and enhance the innovation of its self-developed brand products. At the same time, we will seize market opportunities, give full play to our operational advantages in the pharmaceutical retail market, accelerate the flow of clusters of hospital product categories, and take the initiative to achieve reciprocal business collaborations with related pharmaceutical companies. In addition to the continuous introduction of domestic and foreign high-quality greater health products, the Group will also increase the research and development, production and sales of products with autonomous intellectual property rights, and accelerate the production and marketing of the products of Chinese medicine with probiotic ingredients. At the same time, the Group will actively explore and approach suppliers of domestic and foreign upstream products, and make every effort to establish a closer relationship with them beyond the scope of distribution agency.

In addition, the Group will continue to promote the deployment of international Chinese medicine port projects, which will be integrated with the Chinese medicine development policy of the Guangdong-Hong Kong-Macau Greater Bay Area, to contribute significantly to the innovation and development, clinical research, planting and production of Chinese medicines in the Greater Bay Area, thus fostering the integration of the Chinese medicine industry in Hong Kong and Macao with the industrial belt in the Mainland. In the years ahead, the Group's Longde Health Industrial Park will commence construction as scheduled. Upon completion of the park, it will become one of the health industry centres for R&D, production and packaging, warehousing and logistics, and marketing of the greater health industry in the Greater Bay Area, thereby further expanding the size of the Group's business system and increasing its profits and income as a whole.

The year 2021 is the closing year of the Group's "Fourth Five-Year Strategic Development Plan". Under the background of a complex situation with unprecedented changes in a century where China starts to implement the Fourteenth Five-Year National Development Plan, the Group will initiate the preparation of the Group's Fifth Five-Year Strategic Development Plan. We will review and summarize the implementation and completion of the strategies of the Fourth Five-Year Strategic Development Plan to formulate various directions, polices and measures for the Fifth Five-Year Strategic Development Plan to achieve the objectives of upgrading the Group's industrial chain and making breakthroughs in operation revenue and net profit during the progression of the fifth strategic development plan.

ACKNOWLEDGEMENT

I hereby express my sincere gratitude to my fellow directors ("**Directors**"), the management and all staff of the Group for their valuable contribution. At the same time, on behalf of the board (the "**Board**") of Directors of the Company, I would like to express my appreciation to all Shareholders, investors, business partners and other stakeholders for their continuous trust and support to the Group. We believe that the Group will be facing both opportunities and challenges in 2021, and the company will maintain its strategic focus, plan ahead, make precise judgements and continue to strive to create greater value for the Shareholders and investors.

Mr. Zhao Li Sheng
Chairman of the Board

Hong Kong, 31 March 2021

Management Discussion and Analysis

MARKET AND INDUSTRY REVIEW

1. *The Pandemic dealt a severe blow to the domestic pharmaceutical industry and the impact on the Chinese Patent Medicines was relatively great*

Under the general context of the negative impact of trade war between China and the United States, downward pressure faced by the domestic economy, tightening of monetary resources and market consumption, and the gradually diminishing purchasing power that affected various industries, the sudden outbreak of the once-in-a-century Pandemic around the world in early 2020 affected the domestic national economy and market consumption comprehensively. All industry sectors were severely affected while the production and manufacturing, supply chain and retail terminals of the pharmaceutical industry have suffered from varying extent of impacts. During the first quarter of 2020 when the prevalence of the Pandemic reached its peak within China, some cities implemented "lockdown" and successively issued notices to prohibit the sale of cold medicines, cough suppressants, and antipyretics. In this regard, the sales of related categories in retail pharmacies encountered a cliff fall decline. According to data analysis, the sales scale of pharmaceutical retail terminals recorded a negative growth of -0.5% in the first half of 2020 as the impact of the Pandemic on the Chinese patent medicines was greater, resulting in a shrinkage in their sales scale and a negative growth of -5.5%, among which the sales of medicines for eliminating coughing and sputum and stabilising breathing (Chinese patent medicines) were either restricted or suspended due to the impact of the Pandemic. The sales of such category of medicines in retail pharmacies decreased by more than 35% in the first half of 2020. The sale of the Nin Jiom product series, the main product of the Group, was severely affected by this policy.

2. *The reform policy on medical reform continues, and the profits of pharmaceutical enterprises are further compressed*

Although the normal operation of the pharmaceutical industry is still affected by the Pandemic, the progress of imposing control on medical insurance fees will not be postponed, and the intensity will only increase rather than decrease. With the launch of centralised quantity-specific procurement reform of three batches of national medicines at the end of 2020, the average prices of medicines covered by the reform decreased by 54%. In addition to centralised procurement, pursuant to the 2020 version of the approved list of medicines eligible for reimbursement under the government-backed medical insurance plans issued on 28 December 2020, 119 types of medicines out of the 162 types of medicines being negotiated succeeded in being included in the list, including 96 exclusive medicines, leading to an average price reduction up to 50.64%. At the same time, the Chinese government continued to seek to develop two types of payment methods, namely the DRG (payment based on the diagnosis-related group) and DIP (payment based on the disease item), with 30 pilot cities entering the simulated DRG stage, and 71 cities in 27 provinces having been listed into the DIP pilot. The reform of quantity-specific procurement, medical insurance list, and payment method will further strengthen the control on national medical insurance fees, thus resulting in a significant reduction in the profit margin of pharmaceutical enterprises.

3. In-depth integration with e-commerce and cross-border pharmaceutical e-commerce inaugurates for the first year

In 2020, under the general context of the Pandemic and the opening-up policy of China, there was a more in-depth integration between e-commerce and pharmaceutical retailing businesses, and the sales of pharmaceutical e-commerce in 2020 amounted to nearly RMB140 billion. An increasing influx of pharmaceutical enterprises commenced businesses in the business-to-business (B2B) mainstream market. With the uplift in the health awareness of consumers and the consolidation on the growth of online shopping consumption habits, there is substantial development in the business-to-customer (B2C) market; more and more pharmaceutical enterprises have also started to develop online-to-offline (O2O) business, among which the O2O business growth of retail pharmacies increased by more than 50%. Under the Pandemic in 2020, the development models of pharmaceuticals to medical treatment and "medical treatment + pharmaceuticals" are widely accepted. In view of the strong demand of consumers for foreign high-quality Over-the-counter ("**OTC**") household drugs, China has gradually opened up pilot points for cross-border pharmaceutical e-commerce. In 2020, as the country promulgated the "Implementation Plan for Beijing City Cross-border E-commerce Sale of Pharmaceutical Products Pilot Work ", those large e-commerce platforms like Ali and JD have become the pilot platforms for cross-border pharmaceutical e-commerce, thus officially initiating the first year of national cross-border pharmaceutical e-commerce. The Group will seize this policy opportunity, fully exploit the advantages of the global supply chain and closely keep up with the development trend in order to promote its cross-border OTC businesses.

4. The Chinese medicine policy of Guangdong-Hong Kong-Macau Greater Bay Area promulgated one after the other

In 2020, with a view to support the development of the Guangdong-Hong Kong-Macau Greater Bay Area, the PRC government has successively introduced various relevant policies and plans. The "Implementation Plan (2020-2025) for the Comprehensive Reform Pilot Point for Building a Pilot Demonstration Zone of Socialism with Chinese Characteristics in Shenzhen" clearly pointed out that Shenzhen should innovate its medical service system, actively develop the clinical application of international cutting-edge medicines, explore and improve the cross-border connection of medical services, establish a standard system for medical talent training and hospital accreditation that is in line with international standards. The "Work Plan for Regulatory Innovation and Development of Pharmaceutical and Medical Device in the Guangdong-Hong Kong-Macau Greater Bay Area" proposed that the Hong Kong registered drugs used by the designated healthcare institutions operating in the nine Mainland cities of the Guangdong-Hong Kong-Macau Greater Bay Area with urgent clinical use, should be subject to the approval of the People's Government of Guangdong as authorised by the State Council of the PRC instead of approval by the National Medical Products Administration (NMPA). The promulgation of the "Construction Plan for the Chinese Medicine Highlands in the Guangdong-Hong Kong-Macau Greater Bay Area (2020-2025)" will accelerate the formation of a new pattern of construction of Chinese medicine highlands. The Group will seize the industry development opportunities in the Guangdong-Hong Kong-Macau Greater Bay Area and make early deployment for implementing the pharmaceutical research and development ("**R&D**") and promoting Hong Kong Chinese medicine in the Greater Bay Area, thereby supporting the country to develop the economy of the Greater Bay Area.

5. *The overall implementation of building a Healthy China, prevention of diseases and elderly care will become the blue ocean*

During the Year Under Review, the PRC government issued the outline of China's Fourteenth Five-year Development Plan, in which a comprehensive plan for developing a healthy China was highlighted. The plan sets out a development strategy that prioritised the protection of the health of people; emphasised prevention of disease as the main approach; implemented in-depth action to foster a healthy China; improved and optimised the national health promotion policy; and solidified the protection net for national public health, thereby providing multidimensional and full-cycle health services to the people, including the support of social medical services and the promotion of telemedicine. Moreover, it emphasised the importance of integrating Chinese and Western medicine; vigorously developed Chinese medicine industries; implemented a national strategy to actively respond to the aging of the population; promoted a synergistic development of the elderly care businesses and the elderly care industry; improved the basic elderly care service system; developed generalised and all-inclusive elderly care services and promoted mutually supportive elderly care; rendered support to encourage family groups to take up the elderly care functions in order to nurture a new norm for the elderly care service sector; created an elderly care system combining home and community elderly care services and an integrated elderly care service to merge medical care with healthcare, thus setting up a comprehensive supervision system for elderly care services as a whole.

To integrate with the national "Healthy China 2030" strategy and focus on two directions, primarily focusing on the awareness of prevention; secondly aiming to improve the health promotion policy; and thirdly form a government-led protection net for public health, thus providing multidimensional and full-cycle health services for the nationals. Illustrating that the requirements of the Healthy China strategy for the medical and health industry are not confined to treating diseases and saving the lives of people, but more importantly, improving the immunity of people and their physical fitness, and building a comprehensive pharmaceutical, medical and healthcare industry with "prevention of disease" as the core, and this in turn includes the provision of various types of healthy food and healthcare products to improve the physical health of people, implement full-cycle health management and offline and online health services to improve the standard of living. In view of the aging trend, improving the elderly care industry, heightening the quality of health of the elderly population, increasing the life span of the population and completing the elderly care industry will become the blue ocean for the pharmaceutical, medical and healthcare industry in the future.

BUSINESS REVIEW

1. *Highlights of the pharmaceutical products segment*

(i) Nin Jiom product series

The Group's star product, the Nin Jiom product series, was impacted by the Pandemic as the Chinese government has restricted the sales of flu and cough-reducing products in terminal pharmacies and enacted the real-name registration measure, and even removed the products from shop shelves, resulting in reduced customer flow in pharmacies and decrease in consumer demand. Affected by this, during the Year Under Review, the revenue of Nin Jiom Chuan Bei Pei Pa Koa (京都念慈菴蜜煉川貝枇杷膏) decreased by 62.6% to approximately RMB181,723,000 compared with the same period last year. Nevertheless, during the Year Under Review, the Group continued to react to the trend proactively, grasping the growth trend of online consumption and live broadcast businesses during the Pandemic, and actively promoting online visits and trainings to cope with the changes in the consumption scenarios, and actively participating in the live broadcasts in major pharmacies in order to convey the messages to the consumers regard the healthcare benefits of Nin Jiom for moisturising and nourishing of lungs, thereby further enhancing the brand awareness and reputation as well as promoting sales. When the Pandemic stabilised in the PRC during the second half of 2020, the Group still adhered to the channel optimisation strategy, leveraging the power of its cooperative partners to increase terminal coverage and promote penetration into the second and third tier markets. At the same time, the Group started to launch the drainage activities of O2O and cooperated with online platforms such as ELEME Inc. to jointly organise various types of promotional activities to boost sales in terminal stores, strengthen terminal display, enhance consumer education, expand and strengthen cooperation with regional chains, thus allowing more consumers to experience the Nin Jiom products. In terms of brand promotion, the Group still continued to carry out promotion for the brand rejuvenation of Nin Jiom by launching a number of large-scale comprehensive promotional activities and new media brand promotion to attract new clusters of young consumers. At the same time, the Group organised various promotion campaigns to consolidate the loyalty of Nin Jiom's old customers and inject a contemporary image into the brand. The core activities included conducting filial piety carnivals, the "filial piety project, the youth accompanying the setting of the sun" new journey, and the Nin Jiom "Cheers for Mother" campaign during the Mother's Day, title sponsorship of Beijing Satellite TV programme "The Great Wall", title sponsorship of Jiangsu Satellite TV's popular variety shows such as "Mask Faces and Guess the Singers", "Pop Music Chart" and other well-known variety shows, advertisements on public transport and subway in cities including Hangzhou, Shanghai, Zhengzhou, and the "Big Hands hold Small Hands, Healthy Walks Together, Nin Jiom 2021 Healthy China Tour" campaign.

(ii) Taiko Seirogan

Taiko Seirogan (喇叭牌正露丸) from Japan is another core product of the Group's pharmaceutical segment. During the Year Under Review, despite the impact of the Pandemic, the Group continued to seek breakthroughs. The Group studied changes in the consumption scenarios, and rode on the trend. Moreover, the Group continued to strengthen the training of store staff and consumer education activities, and kept a close eye on the trends of market development of competing products, and enhance the distribution and recommendation of stores through terminal promotion activities which is supplemented by precise brand promotion in order to nurture consumer loyalty towards the brand and promote product distribution so as to create an active ambience at the terminal market, thus strengthening the closeness with the consumers and enhancing customer retention. As for the non-core markets, the distribution and dynamic sales rate were improved through cooperation with large-scale national chains and O2O drainage cooperation with ELEME Inc. The Group also had insight into online sales opportunities and launched precise online marketing activities with JD.com, Ali Health Pharmacy, Dingdong Kuaiyao, and ELEME Inc. Alongside this, the Group focused promotion efforts on the both the "Double 11 Day" and "Double 12 Day", thereby proactively embracing the integrated online and offline new retail format.

During the Year Under Review, the Group and the factory also increased their brand promotion efforts, launching billboard advertisements on bustling streets of cities, including the launch of Golden World's large outdoor LED screen advertisements on the most bustling zone of Dongmen business district in Shenzhen had attracted views every day. In addition, various types of advertising tools were also engaged, including bus exterior advertisements, advertisements on the pillow covers and magazine of trains, advertisements in high-speed railway stations and immigrating border, community access control, and city elevator. In order to attract new clusters of consumers, the Group also actively promoted precise marketing and nurturing of potential customers at new media, and promoted the application scenarios of products through Baidu Q&As, advertorials of key opinion leaders (KOLs) at Xiaohongshu and TikTok short videos to reach consumers' pain points and provide solutions to them. During the Year Under Review, the sales revenue of Taiko Seirogan was RMB53,229,000, representing a decrease of 43.3% over the same period of last year.

餓了麼線下進行引流及雙十一、雙十二必購清單活動

ELEME Inc introduced offline drainage and the "must buy" list of the Double 11 and Double 12

Taiko Seirogan on JD Pharmacy

Taiko Seirogan on "Little Red Book"

(iii) Mentholatum series

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 its own brand, Kingworld Imada Red Flower Oil (金活依馬打正紅花油). During the Year Under Review, we formulated online and offline promotional activities for each product according to its featured characteristics and clusters of target consumers, among them, we continued to strengthen the online promotion of the Mentholatum series by enhancing close cooperation with the pharmaceutical e-commerce merchants on the online platform, and launching online promotion on various popular large APP promotion platforms and websites such as optimising the product details on various major online platforms and posting special advertorials to boost attraction. At the same time, the Group gained online exposure through advertorials by well-known KOLs on TikTok and Xiaohongshu, and placed advertisements on WeChat friend groups and Guangzhou Metro stations; continued to carry out offline promotion through store staff training and consumer education to enrich their product knowledge, conduct campus promotion and store display to further enhance brand awareness and boost sales.

The artist Cheng Hei Yee

The artist Christy Chung

(iv) Kingworld brand product series

(a) Kingworld Imada Red Flower Oil (金活依馬打正紅花油)

Kingworld Imada Red Flower Oil (金活依馬打正紅花油) is the own brand of the Group and it has established certain marketing network and awareness after years of market development. During the Year Under Review, in order to rapidly increase the sales of this product and serve more consumers, the Group formulated the brand development strategy of "Kingworld Imada Red Flower Oil becoming popular all over China". Under the guidance of this strategy, the Group will further optimise the deployment of the channel network in the key markets, and deepen the marketing reach to the third- and fourth-tier cities and even extending to towns. As for the key regions, the Group strengthened the cooperation with the chains and strengthened the product knowledge training and enhanced consumer experience. When the Pandemic became stabilised during the second half of 2020, more than 800 rounds of activities, namely the "Try the one-time experience in summer" were held in more than 30 cities to provide consumers with the trial products and conduct charity product trial activities of the Kingworld Imada Red Flower Oil. The Group actively participated in sports events and sponsored the 2020 Shanghai Jing'an New Year Run, the 2020 Shenzhen Longgang City Orienteering Event, the 2020 Guangming District Elite Running Up Building Competition, and continued to implement several rounds of "Quality Goods Welcome Your Trial "charity activities and through providing trial experience to the vast community local residents enhanced consumer's product recognition and purchase confidence. In terms of brand promotion, using the brand name of Kingworld Imada Red Flower Oil, the Group secured title sponsor of the marine weather forecast advertisement broadcast by News Channel of CCTV, and launched large-screen outdoor LED advertising in the prime locations of eight cities, including Shenzhen, Guangzhou, Foshan, Qingyuan, Zhongshan, Zhaoqing, Dongguan and Huizhou. During the Year Under Review, the Group paid great attention to online sales and new media communications and carried out promotion and publicity campaigns through channels such as TikTok, Xiaohongshu, Baidu Zhidao to increase different application scenarios of Kingworld Imada Red Flower Oil. During the Year Under Review, the sales revenue of the Kingworld Imada Red Flower Oil series increased by 22.1% compared with the same period of last year.

(b) *SZ Kingworld Lifeshine Medical Masks*

Since the outbreak of the Pandemic, the Group has actively invested in various anti-Pandemic measures, and quickly established a special anti-Pandemic team to comprehensively organise the resumption of work and production. During the period when there was shortage of medical masks to cater for the resumption of work in various enterprises, the Group boldly assumed the social responsibility of being a listed company and fully explored its own resources to engage in the distribution of medical masks produced by Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited ("**SZ Kingworld Lifeshine**"), a connected person of the Company. During the Year Under Review, SZ Kingworld Lifeshine obtained the medical device license for the production of medical masks and the registration certificate, officially shortlisted in the "White List" of the Ministry of Commerce for export of medical supplies. During the Year Under Review, the Group proactively seized the opportunity to provide the brand of SZ Kingworld Lifeshine medical masks to the terminal pharmacies through its local marketing networks in various regions. At the same time, it also formulated product portfolio marketing, developed the opportunities of group buying for enterprises and institutions, and made deployment for online sales.

(c) *Kingworld Jianfu Capsules and Pu Ji Kang Gan Granules*

As the Pandemic raged around the world in 2020, the awareness of personal health and hygiene continued to escalate, and the demand for anti-influenza and upper respiratory tract medicines increased significantly in the market. In this regard, the Group was agilely seized the opportunity to promote its anti-influenza flagship "Pu Ji Kang Gan Granules" and officially started distribution in various pharmacies in Hong Kong to expand its market reach. "Pu Ji Kang Gan Granules" can be used for upper respiratory tract infections, capable of detoxification and clearing away heat, minimising the effects of cold inside the body, soothing throats and relieving coughing, and can quickly relieve certain cold symptoms to a certain extent without causing any side effects, thus helping to prevent viral infections.

Fengbao Jianfu Capsules is another type of Chinese patent medicine product of the Group's own brand. It is used to prevent and treat infertility. Experiments have shown that this product has a significant effect on improving female anaemia and has a broad market prospect. In order to better develop this product, the Group has conducted academic research in hospitals through its cooperative partners and actively participated in the bidding work in various provinces and cities. Up to now, the Group has succeeded in promoting this product in 4 provinces. However, due to the impact of the Pandemic, the meetings dealing with pharmaceutical affairs of various hospitals have been postponed and this in turn severely affected the progression of sales. It is believed that when the conditions of the Pandemic became stabilised and after the situation is back to normal, the sales of this product will increase significantly. At the same time, the Group has also distributed goods to local pharmacies in Hong Kong. In September 2020, good news came from the Jianfu Capsules again after obtaining the patent for "Chinese medicine preparations for the prevention and treatment of infertility" approved by the Patent Registry of the Hong Kong Intellectual Property Department.


Patents Registry
Intellectual Property Department

The Government of the Hong Kong
Special Administrative Region

批予短期專利證明書

（專利條例）（第 514 章）

CERTIFICATE OF GRANT OF SHORT-TERM PATENT

Patents Ordinance (Chapter 514)

I hereby certify that a short-term patent with the following particulars has been granted today:

Patent No.: HK30017365 Application No.: 32020005316.5

Name and Address of Proprietor:
YUEN TAI PHARMACEUTICALS LIMITED

Title of Invention:
A TRADITIONAL CHINESE MEDICINE PREPARATION FOR PREVENTING AND TREATING INFERTILITY

Term of Short-term Patent (subject to renewal):
Eight years commencing on 03.04.2020

2. *Highlights of the healthcare products segment*

(i) Culturelle probiotics product series

The Culturelle (康萃樂) probiotics product series from the United States, another major product series of the Group, is a leading brand in the probiotics product market in the United States and the probiotics product brand for children most recommended by pediatricians in the United States. According to ACNielsen's report, the sales volume of Culturelle probiotics product series ranked as the No.1 probiotics brand in Hong Kong in 2018. During the Year Under Review, the Group continued to place advertisements on MTR stations, building elevator advertisements, and TV advertisements from time to time to enhance brand awareness and guide the consumption aspect. The Group focused on exploring the sales and channel coverages in the Hong Kong and Macau markets, and adopted supplementary promotional tactics such as offering gifts to purchasers to boost sales. At present, the distribution channels mainly cover Mannings, Watsons, SaSa, Colourmix, CR Care, HealthPlus, Eugene Baby, Yue Wah Chinese Products, AEON Stores, HKTV Mall, various chain pharmacies and individual pharmacies. There were around 1,600 distribution channels of Culturelle's sales terminal sites in the Hong Kong and Macau markets. During the Year Under Review, as affected by the Pandemic, the number of travellers to Hong Kong dropped dramatically and decreased by 94% compared with the same period last year, along with the weakening local consumption sentiments in Hong Kong, the total revenue of Culturelle Probiotics product series in the Hong Kong and Macau markets decreased by 74.2% as compared to the same period last year.

(ii) Lifeline Care maternal and infant fish oil nutrient product series

Lifeline Care maternal and infant fish oil nutrient product series from Norway is another star healthcare product brand of the Group in the Mainland China, Hong Kong and Macau markets. During the Year Under Review, the Group continued to deepen the product advantages of Lifeline Care as the "Norwegian local pure fish oil DHA+", strengthen the promotion model of cooperation with celebrities and doctors, increase the word-of-mouth propaganda of "experts + celebrities + talents + amateurs", deepen cooperation with top anchors, thus bringing the brand a substantial flow in the market and further enhancing the brand awareness. Alongside this, by taking advantage of the popularity of short videos, the TikTok and Kuaishou marketing frenzy, it increased the exposure of Lifeline Care in the new media while achieving simultaneous sales. In addition, the Group continued to enhance strategic cooperation with large-scale cross-border e-commerce platforms and big names in maternal and infant segment. The parties cooperated in increasing brand exposure and sales. Through the sales of hot products and developing explosive matrix to develop social e-commerce, the operation in flagship store and the repurchase rate of regular customers and the return on investment of other platforms improved. During the Year Under Review, the Lifeline Care maternal and infant fish oil nutrient product series gained a considerable volume of high-quality word-of-mouth appreciation for the brand and products from consumers through diversified precise marketing tools and new channel development, and was ranked first on the sales list of the Norwegian pharmacies; ranked second on the Kaola's online shopping platform for the sales of infant DHA products; repeatedly listed on the top five of the Tmall 618 maternal and infant series live broadcast list; highly recommended by the owner of "Excellent Clinical Teaching Professor Award" and "Family Education Hundred Public Welfare Figures" and well-known obstetrician and gynecologist Dr.Ma Liangkun and by Cui Yutao Education Academy. Moreover, it was also jointly recommended by dozens of well-known pediatricians, chief doctors and well-known nutritionists of the top three hospitals. During the Year Under Review, the revenue increased by 17.4% compared with the same period last year.

(iii) CARMEX Lipstick series

During the Year Under Review, the Group continued to conduct research and development and try out brand promotion models that suit the new generation of consumers, highlight the different effects of CARMEX according to the climate changes; refine the solution as the selling points; enlarge the benefits of brand promotion; establish a public account for the product at Wechat supplemented by a portal websites; exploit the print media to build up a word-of-mouth communication (Baidu Q&A/Zhihu/Beauty Magazine); utilise social platforms to nurture sales (such as Xiaohongshu/Oasis/TikTok); invite beauty bloggers and top-notch and head anchors for live commerce and form communication channels; expand the product portfolio and create hot product specifications. The Group actively expanded online sales opportunities, including the setup of an official flagship store on Tmall, developing Taoke channels, implementation of annual advertisement agreement and pairing up with corresponding channels, and combining the promotion rhythm to guide purchases and promote sales. During the Year Under Review, the Group reached a collaboration with the top anchor Li Jiaqi that captured more than 10 million of views in a single live broadcast and achieved up to RMB2 million of sales in a single live broadcast, thus greatly enhanced the brand awareness. During the Pandemic, major offline sales channels such as Watsons encountered a decline in sales during peak seasons due to low traffic flow. During the Year Under Review, the online sales of CARMEX increased significantly compared with the same period last year.

3. *Highlights of the medical devices segment*

Shenzhen Dongdixin Technology Co., Ltd. ("**Dong Di Xin**"), a subsidiary of the Company and a medical device manufacturer, mainly produces infrared thermometers. This series of products has obtained a Chinese invention patent, the FDA Certification, EU CE0197 Certification, and passed the ISO13485 Certification and Canadian Medical Device System Certification and has been selling to many countries and regions around the world. During the outbreak of the Pandemic, Dong Di Xin, leveraging on its excellent product quality and complete product quality certification system, has become the fourth infrared thermometer enterprise approved for inclusion in the "White List" in China, and achieved significant increase in sales orders. In this regard, the Company has designated all employees to support the front line of the factory throughout the year, engaging in overtime work while the number of production lines has been increased to 12. So far, Dong Di Xin's infrared thermometers have successfully entered the second largest pharmaceutical chain store in the United States and the purchase orders continue to grow due to the global spread of the Pandemic.

During the Year Under Review, the revenue of Dong Di Xin amounted to approximately RMB370,264,000, representing an increase of 91.7% over the same period last year.

Figure 1 of Infrared thermometers

Information of the CFDA of infrared thermometers


Smart Health Mobile Monitor
iCare Basic Thermo
iCare Genius Thermo
Smart Relief
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
Wireless App-controlled Tens Device for fast, drug free pain relief
01 | CARETALK
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产品资质和检验报告汇总
KINGWORLD MEDICINES GROUP
金活医药集团
股份代号：01110.HK
一、营业执照复印件
二、医疗器械生产许可证正本
三、医疗器械生产产品登记表
四、医疗器械注册证
五、医疗器械产品技术要求
六、CE符合性声明
七、CE欧代注册证明
八、CE欧盟当地注册凭证
九、CE欧代协议
十、CE中英文说明书
十一、ISO10993国内细胞毒性试验
十二、ISO10993国内动物刺激试验
十三、ISO10993国内超敏反应试验
十四、CE ISO10993 In Vitro Lytotoxicity Test
十五、CE ISO10993 Skin Irritation Test
十六、CE ISO10993 Skin Sensitization Test
十七、CE14683一次性使用医用口罩检测报告
十八、一次性使用医用口罩注册检验报告
十九、一次性使用医用口罩十只挂式包装检验报告
二十、一次性使用医用口罩十只枕式包装检验报告
二十一、质量管理体系认证 GB/T19001-2016/ISO9001:2015（正在申请）
二十二、医疗器械质量管理体系认证 YY/T0287-2017/ISO13485:2016（正在申请）

MANAGEMENT REVIEW

1. *Establish a flat organisational structure to improve organisational and operational efficiency*

The Group has strived to cope with the changes and uncertainties in the macro environment and the industry during the Pandemic and make faster market response and decision-making in order to further strengthen its operational strategy and management needs while fully implementing the Group's continuous "rooted, optimised and perfected" operation and sales management strategy. In the second half of 2020, the Group adopted a flat approach to optimise the organisation of the marketing system by promoting experienced sales executives to take charge of the overall operation of the domestic businesses, including sales and market management as well as adjusting the structure and personnel appointment procedure of certain sales districts in order to further streamline the organisational structure, thereby facilitating swift market response of various business districts and shortening the time required to formulate counter measures.

During the Year Under Review, the Group has also conducted evaluation on the operational efficiency of the marketing structure, made multidimensional analysis and evaluation on the sales performance and the inputs of the costs of human resources. In addition, two-way adjustments were made to the performance and deployment of human resources based on the evaluation results to improve the operation efficiency of the marketing structure, and enhance the positivity and cohesion of the employees.

The Group firmly believes that the adjustment to a flat organisational structure will play a key and consolidating role in promoting a steady growth in Group's performance, focusing on channel penetration, and further increasing the distribution rate of products and strengthening the execution capability of various business aspects in the future.

2. Strengthen digitalised marketing and enhance the operation efficiency of the Company

During the Year Under Review, the Group adopted the established Market Sales Traceability Management System ("**SMART System**") to conduct a comprehensive analysis of customers, products, regions and personnel in order to discover potential markets and customers, make reasonable plans on marketing, purchasing, inventory, and event management to accurately identify the blank spots in the market so as to formulate more precise marketing strategies and achieve higher returns as well as improving the return on equity. On the other hand, the Group also used the SMART system to assess the performance of marketing personnel across the country and to implement the system of the survival of the fittest. Through the SMART system and scientific analysis of big data to get hold of the needs of targeted consumer groups and explore market segments. At the same time, it could satisfy the country's requirements for traceability and safety monitoring of pharmaceuticals and food, and this in turn reinforced the Group to impose a systematic management on monitoring the flow of its pharmaceutical and healthcare product businesses, thus forming an integrated and platformised supervision to provide a strong guarantee for achieving the objectives of realising the origin of products, tracking their physical flow, checking the quality and investigating the responsibility. Alongside this, it enabled real-time monitoring of the effects of market activities, facilitated accurate and effective market inputs, thus achieving the integration of market, sales and finance.

3. Grasp the new drainage forces of live broadcast and O2O, and promote online and offline integration

During the Pandemic, there was explosive growth in live streaming marketing in the domestic retail market. The Group also seized the development opportunities arising from the live broadcast businesses by creating a communication matrix through seasonal live broadcast of top anchors and subsequently followed up by the live broadcast of the principal and secondary anchors; using top anchors to explore store resources and simultaneously drain the offline sales to create a powerful trend; seizing the hot spots of short videos; promoting short videos on major platforms, TikTok and flagship stores, thereby creating market noise for the brand. In addition, the Group has also actively carried out live broadcast activities with offline stores, and reached cooperation with the well-known O2O platforms such as Meituan and ELEME Inc. to drain the traffic to the offline stores, promote distribution and sales, thereby building the Kingworld new retail ecosystem actively.

During the Year Under Review, the number of the Group's offline national over-the-counter medicine "OTC" retail pharmacies exceeded 200,000, and the Group had reached strategic partnerships with more than 2,700 chain pharmacies chains across the PRC. As for the online businesses, the Group's coverage in various large comprehensive e-commerce platforms mainly includes: JD.com, Taobao, Tmall International and Pinduoduo; the coverage of professional e-commerce platforms mainly includes: NetEase Kaola, Vipshop,com, and Xiaohongshu; self-owned public media accounts mainly includes: Kingworld Medicines Group WeChat public account and Weibo account, Kingwood Health Family Mini Program, Rice Cake Mom and Yuxueyuan. In the future, the Group will make full use of the online platform data to gain insight into market opportunities, implement precise marketing, and exploit big data to reinforce sales.

Overseas Kingworld Health Family specialty store

Overseas Pinduoduo flagship store

Taobao Kingworld Health Mall

4. *Benefit hypertensive patients and support healthy China*

During the Year Under Review, Shenzhen Kingworld Medicine Company Limited ("**Shenzhen Kingworld**"), a wholly owned subsidiary of the Company, signed a cooperation agreement with Shenzhen Ausa Pharmaceutical Co., Ltd. ("**Ausa**"), pursuant to which Shenzhen Kingworld was appointed as Ausa's exclusive distributor for the marketing, sale and distribution of 10.4 mg Enalapril maleate and folic acid tablets ("**Enalapril**") in the China market for a term five years. Upon the expiration of the initial five-year term, the agreement may be automatically renewed for a period of five years, marking the outset of the Group to enter into the market of chronic diseases and prescription medicines. In this regard, the Group has further optimised its greater health product structure, thereby laying a solid foundation for the Company to develop different business scopes in the future. At present, Enalapril has successively entered into major chains and sales points across the PRC.

Enalapril maleate and folic acid tablet is an innovative preventive compound prescription drug of multi-risk factors control specifically designed for the effective control of H-type hypertension. In 2016, it was awarded with the second prize of the National Science and Technology Progress Award, and was included in many domestic and foreign guidelines for the prevention and treatment of hypertension and the guidelines for reasonable use of hypertension medicines. It has been classified as National Class I New Drug (Chemical) and included in the 2009 National Drug Catalogue for Basic Medical Insurance, Work-related Injury Insurance and Maternity Insurance of the PRC.

5. *Establish a learning-centric organisation, enrich the corporate culture, and enhance soft competitive power*

During the Year Under Review, in order to achieve the Group's development objectives, the "rooted, optimised and improved" marketing management strategy and improve its core competitiveness, the Group's Human Resources Centre and Kingworld Business School organised multiple training sessions through video, online and offline training aiming to build a learning-centric organisation to adapt to the rapid development of the market, improve the working skills and management level of employees at all levels, and comprehensively enhance the Company's soft competitive power. The content and objects of these trainings cover various aspects, mainly including (i) training of sales skills, business negotiation and product knowledge for different sales district personnel and sharing on outstanding cases; (ii) improvement in organisational efficiency; (iii) performance improvement in the sales system, improvement in the management capacity of the management cadre, market system training project and the best experimental extraction project; (iv) new employee training project to understand the Company's corporate system, corporate culture, product knowledges, and operation management knowledge; (v) Kingworld talent training project to train a cluster of reserve talents for the sales system through cooperation with the Guangzhou Institute of Food and Drug.

During the Year Under Review, the total number of training sessions amounted to 34, and the cumulative number of personnel trained was 3,719.

The Group has been adhering to promote innovative schooling for ten years and collaborated with the Guangdong Food and Drug Vocational College to open customised Kingworld classes, thus continuously providing the Group with a cluster of trained foundational talents. In 2020, the Group was awarded the honorary title of the "Group of Industry-Academic-Research Cooperation Advanced Unit", and Chan Lok San, the Executive Director of the Group and Dean of the Business School, was awarded the honorary title of the "Group Vocational Education Outstanding Contribution Award". In 2020, during the Pandemic, Kingworld Medicines Group fully demonstrated its people-centric way of management by providing Chinese medicine for epidemic prevention and safe meals for employees at its headquarters, and it also provided medical masks, Chinese medicine for epidemic prevention and medicine kits for employees across the country throughout the year.

In 2020, the "Mind Comforting Hall Living Space (舒心堂 • 生空間)" achieved innovative breakthroughs. From April to July 2020, it held the Guyu Art Festival Urban Dream Theme Exhibition through online and offline connections and the exhibition gathered more than 50 young artists and showcased nearly 100 pieces of original works from the cross-traditional media, alongside with resident performance projects, jointly interpreting the theme of "urban dream". In September 2020, in order to further "go out", the Mind Comforting Hall Living Space participated in the 2020 Art Shenzhen Expo and it continued to explore innovative development ideas. In November 2020, the Mind Comforting Hall Living Space brought a new set of the nine-volume "Chinese Traditional Buddha and Bodhisattva Portraits" to hold the "Grand World·Ultimate Unifying" touring exhibition of Xingxin Degongbi paintings and won enthusiastic appreciation. In 2021, the Mind Comforting Hall Living Space will continue to plan different art exhibitions, seek for innovation, enrich the content of the Group's corporate culture, strengthen the Group's competitive soft power, and extend the Company's health concept to benefit the physical and mental health of people.

6. *Formulate share incentive scheme for several times, repurchase shares to reward talents*

During the Year Under Review, in order to expedite the development of the entire category of products operated by the Group, the Group formulated different development objectives, performance assessments and incentive methods based on the different degree of maturity of each product's market share in each region, and exploited the big data to guide the sales team to look for undeveloped markets, formulate integrated strategies and precise marketing strategies to increase sales and achieve the objective of individual employees to grow together with the Company. Through the adjustment of performance and appraisal elements, the Group was able to encourage the sales staff to fully develop their subjective initiative and nurture the mindset of "I want to do it" instead of "You ask me to do it."

In order to further stimulate the enthusiasm of the Company's key employees, the Group adhered to uphold the "people-centric" corporate spirit even in the environment of economic uncertainties and proposed to offer the share incentive scheme against the market trend and increased the quota of the share incentive scheme proposed on 27 August 2019.

The Group announced on 7 October, 9 October and 16 October 2020 and repurchased 1,136,000 shares, 944,000 shares and 3,924,000 shares on 5 to 7 October 2020, 8 to 9 October 2020 and 14 to 16 October 2020, respectively.

The increase in the limit of the share incentive scheme aimed at commending the contributions made by certain participants and providing rewards to them so as to retain key employees to support the continuous operation and development of the Group, while attracting suitable talents to drive further the development of the Group and give new impetus to facilitate the Group's future development and create greater value for shareholders of the Company (the "**Shareholders**").

7. *Investment projects progressed steadily and achieved favourable returns*

During the Year Under Review, the investment projects of the Group developed steady and generated favourable returns. The investment projects included the 15% equity interest investment in Dong Hua Tong Investments Limited ("**Dong Hua Tong**") (東華通投資有限公司) in 2015. Dong Hua Tong invested in (i) Miquel Alimentacio (西班牙米蓋爾公司) (a Spanish company engaged in food distribution and wholesale and supply chain management) and (ii) Manassen Foods Australia (a major food company). The divestment of the indirect investment by the Group from the above two projects has been successfully completed in September and October 2020, respectively, and realised good returns from the investment. The Group has also subscribed for 2,302,000 public-offered shares of Chuangmei Pharmaceutical Co., Ltd. (02289.HK) in 2015 and continued to receive favourable dividend returns from this investment project.

On the other hand, the Group actively sought high-quality project investment opportunities, including the participation in BYD Semiconductor Co., Ltd. ("**BYD Semiconductor**")'s project to introduce strategic investors and spin-off items 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 Shenzhen Kingworld, a wholly-owned subsidiary of the Group, at the beginning of 2020 in order to acquire favourable investment returns for the Group in the future. BYD Semiconductor is a leading manufacturer of autonomous and controllable automotive-grade IGBT in China. At the same time, IGBT products produced by BYD Semiconductor are also widely used in the industrial field.

8. *Promote Hong Kong medicines, construct the Longde Health Industrial Park, and deploy the integration of research, production, and sales*

In order to seize the opportunity of cross-border OTC to allow Hong Kong's high-quality Chinese medicines to benefit more mainland consumers, Shenzhen Kingworld Medicine Company Limited, a wholly-owned subsidiary of the Group, has made early deployment for carrying out the "Shenzhen-Hong Kong Loop Region" project to promote Hong Kong's Chinese medicines in China, and established Shenzhen Kingworld Chinese Medicines Technology Development Co., Ltd. in the Futian Free Trade Zone in Shenzhen on 16 December 2020. It aimed to make full use of the geographical advantages of Shenzhen and Hong Kong, and vigorously introduce colleges and universities of domestic and international Chinese medicine and related fields, scientific research institutions, Hong Kong time-honored manufacturers, and well-known domestic Chinese medicine companies to build an innovative development complex of Chinese medicine that combines clusters of brands, product distribution, and integrated industry-university-research elements. The Company will explore the innovative development and reform practice of Chinese medicine, including the reform of the Chinese medicine registration and approval system, the exploration of the Hong Kong Chinese medicine entry registration and approval system, the exploration of the path of the review and approval system for the well-known classic prescriptions, the formulation of the quality and standard of Chinese medicine to enter the international markets, and the innovation and research of Chinese medicine and its application, promotion of the cross-border e-commerce business of Chinese medicine of Hong Kong. In a nutshell, the Group has taken practical actions to make advance demonstration in order to foster the development of the industrialisation of Chinese medicine in China.

Shenzhen Kingworld Co., Ltd., a wholly-owned subsidiary of the Group, and Shenzhen Xinda Shanghenggang Cooperative Stock Company formed a joint venture company, Shenzhen City Longde Jiankang Company Limited ("**Longde Jiankang**") in 2016, which is used for land development and construction of logistics centres and supporting properties equipped with supporting facilities. On 28 December 2020, the grand opening ceremony of the Group's Longde Health Industrial Park project was held at No. 6 Cuilong Road, Baolong Community, Longgang District, the PRC. The supporting development centre of the Chinese Medicine Science and Technology Innovation Park will be constructed in the Shenzhen-Hong Kong Loop region. The completion and operation of the project is conducive to the innovative development of the healthy living and pharmaceutical industries of Shenzhen, and is conducive to the goal of Longgang District, Shenzhen to build a strategic highland in the east, and to create a new business card for Longgang's health industry.

The Longde Health Industrial Park covers a total project area of 10,000 square meters and a planned total construction area of 58,336 square meters. The park is planned to build the following four core sections: 1. a Chinese medicine research and development centre to be used by the group to establish multi-faceted laboratory with higher education institutions in Guangdong and Hong Kong and science and technology institutions; 2. a Health Industry Technology Innovation Centre in Shenzhen and the Group has held a strategic cooperation signing ceremony with the Shenzhen Health Industry Promotion Association at the groundbreaking ceremony for jointly building the "Shenzhen Health Industry Technology Innovation Centre" in the park targeting to establish a health project incubation platform; 3. build a domestic development centre for the Shenzhen-Hong Kong Loop Chinese Medicine Technology Innovation Park to realise the establishment of a Chinese Medicine Technology Park erected by the Shenzhen-Hong Kong Loop region within the park; 4. as a national logistics and distribution centre of the Group and a key logistics enterprise in Shenzhen. The Group is committed to building an omni-channel and full-chain pharmaceutical supply chain. It is believed that the completion of the distribution centre will provide strong support for the Group to build a more complete and more convenient national logistics system, and further enhance the Group's comprehensive strength in the logistics industry, thus providing positive demonstration to foster the development of logistics enterprises in Shenzhen and across the country. The estimated total construction amount of Longde Health Industrial Park amounted to approximately RMB400,000,000, in which approximately RMB357,354,000 are authorised but not contracted capital commitment.

9. *Proposed acquisition of the issued share capital of Fat Chi Medicine Company Limited (佛慈藥廠有限公司)*

On 18 March 2021, Kingworld Medicine Healthcare Limited (金活藥業健康發展有限公司) ("**HK Kingworld**"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the "**Fat Chi Agreement**") with Lanzhou Foci Pharmaceutical Co., Ltd (蘭州佛慈製藥股份有限公司) ("**Lanzhou Foci**") in relation to the proposed acquisition (the "**Proposed Acquisition**") of the issued share capital of Fat Chi Medicine Company Limited (佛慈藥廠有限公司) ("**Fat Chi**"). Pursuant to the Fat Chi Agreement, subject to its terms and conditions, HK Kingworld agreed to acquire not more than 49% of the total issued share capital of Fat Chi from Lanzhou Foci. Upon completion of the Proposed Acquisition, Lanzhou Foci will be the majority shareholder of Fat Chi. Fat Chi is principally engaged in the import, export, distribution, manufacture and sale of pharmaceutical products. Subject to the fulfilment of the terms and conditions of the Fat Chi Agreement, completion of the Proposed Acquisition is expected to occur in the first half of 2021.

It is expected that Fat Chi will be focusing on business development in the Hong Kong and Macau markets, expanding into businesses in Southeast Asia and overseas markets as well as radiating to conduct business cooperation in the domestic market. In the development plan of Fat Chi, it will introduce more Lanzhou Foci medicines, such as its Angong Niuhuang Wan and Ejiao products which represented a total domestic sales exceeding RMB5 billion. At the same time, it will selectively source the indigenous Chinese medicinal herb materials in Gansu. Gansu Province is one of the main production areas of Chinese medicinal herb materials, having 2,540 kinds of Chinese medicinal herb sources and more than 30 kinds of indigenous medicinal materials, all of which can be purchased through the joint venture at competitive costs. These indigenous medicinal materials can be processed as extract of semi-finished products and exported to foreign countries via Hong Kong. According to data analysis, the export scale of Chinese medicine extracts in 2019 approximately amounted to RMB5 billion.

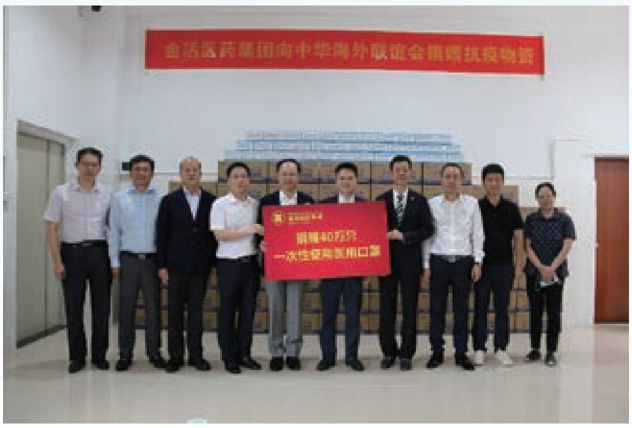
As all of the applicable percentage ratios in respect of the transactions contemplated under the Proposed Acquisition are below 5%, the transaction contemplated under the Proposed Acquisition is not a notifiable transaction under the Listing Rules.

10. *Give back to the society and contribute love*

The Group's business philosophy is "to serve the community and to benefit the world (效力世人，澤潤蒼生)", and is committed to carefully selecting high-quality medicines and healthcare products for consumers, so that consumers can eat with peace of mind and at ease. At the same time, we will not forget our original intention and actively participate in social construction to benefit the community. Looking back at this year, the Group and Kingworld Health Care Foundation donated a total of approximately RMB6.6 million for charitable purposes. The main areas of donation included anti-epidemic funding, environmental protection, care and mutual assistance, and maintenance and repair of temples.

At the beginning of 2020, in view of the sudden outbreak of the Pandemic, the Group adhered to the corporate philosophy of "to serve the community and to benefit the world", actively responding to the government's appeal, taking up the due responsibilities of pharmaceutical companies, fulfilling social responsibilities, overcoming difficulties, and resuming work and production to work together to help to fight the Pandemic. In order to alleviate the shortage of medical masks in the market, the Group entered into a medical masks distribution agreement with SZ Kingworld Lifeshine, pursuant to which the Group agreed to act as the exclusive distributor for distribution of medical masks produced by SZ Kingworld Lifeshine in the PRC and overseas market. Since then, several millions of disposable medical masks have been donated to domestic and overseas Chinese through institutions such as the China Overseas Friendship Association and the Chinese Temple in Nepal. In view of the outstanding performance of the Group in contributing anti-epidemic funding, there was wide coverage by the "Shenzhen Overseas Chinese News" and other platforms such as the website of the China Overseas Friendship Association and the website of the Shenzhen Political Consultative Conference. These anti-epidemic deeds were included in the "Together we fight the Pandemic: Compilation of Guangdong CPPCC Members Fighting the Pandemic", edited and organised by the Guangdong CPPCC.

During the Year Under Review, the Group was ranked 28th in Shenzhen's 2018-2019 Corporate Donation List, and won the Pengcheng Charity Donation Enterprise Bronze Award. At the same time, the income of the Group's donation fund society was ranked 74th on the list of social organisation donations.



HONOURS

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

In January 2020, Mr. Zhao Li Sheng, the Chairman of the Board was awarded the honour of "Excellent Member"of the Shenzhen Municipal Committee of the Chinese People's Political Consultative Conference (CPPCC) in 2019;

In April 2020, the Group successfully passed the review by the Guangdong Food and Drug Administration and obtained the "Medical Device Business License (Class III)", the "Medical Device Registration Certificate" and the "Medical Device Manufacturing License";

In May 2020, 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.

In May 2020, the Group was awarded the "2019 Guangdong Province Contract-abiding and Credit-worthy Enterprise" again by the Guangdong Provincial Administration for Industry and Commerce. So far, Kingworld has won this honorary title for six consecutive years;

In August 2020, Nin Jiom, which the Group act as an agent, was ranked 18th in the 2020 "Healthy Chinese Brand List and Value Ranking", with a brand value of 4.379 billion yuan. In the same month, Nin Jiom was also shortlisted for the 38th place in the 2019 TOP100 list of Chinese traditional Chinese medicine companies;

In September 2020, the Group passed the review by the Shenzhen Famous Brand Evaluation Committee and was awarded the title of "Shenzhen Famous Brand" (2020-2022) again;

In September 2020, Jianfu Capsule, a product of the Group, was granted a new patent by the Patent Registry of the Hong Kong Intellectual Property Department: Chinese medicine preparations for the prevention and treatment of infertility;

In September 2020, the Group won the "Pengcheng Charity Award Bronze Award" co-sponsored by the Shenzhen Charity Federation, Shenzhen Newspaper Group, and Shenzhen Radio, Film and Television Group, and was ranked 28th on the list of corporate donations in Shenzhen 2018-2019. At the same time, the income of the Group's fund donation society was ranked 74th on the list of social organization donations;

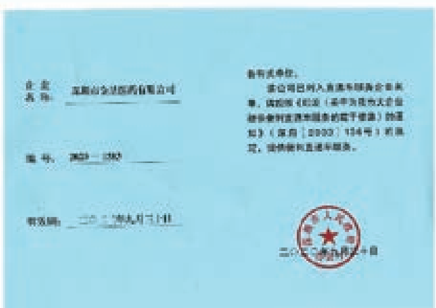
In September 2020, Nin Jiom, which the Group act as an agent, won two honors -- the honorable list of the "2019-2020 Chinese Family Standing Medicines Listed Brands" and the honorable list of "Golden Cane Honorable List of Chinese Pharmaceutical Companies -- O2O Marketing Innovation Case Award";

In September 2020, the Group passed the accreditation of the Shenzhen Municipal People's Government and entered the list of "Shenzhen Thorough Train Companies". Being a company on this list, the Group can enjoy convenient services and greatly shorten the approval time when dealing with related government departmental matters;

In October 2020, the Group was awarded the "2020 Shenzhen Top 500 Enterprises" in the "2020 Shenzhen Top 500 Enterprises Development Report" compiled by the Shenzhen Enterprise Confederation and Shenzhen Entrepreneurs Association. The Group was ranked 411th and was on the top 500 list for the third consecutive year;

In October 2020, the Group was awarded the "Group Industry-University-Research Cooperation Advanced Unit" by Guangdong Food and Drug Vocational College. Ms. Chan Lok San, the executive Director of the Company and Dean of Business School, was awarded the "Group Vocational Education Outstanding Contribution Award"; and

In December 2020, Mr. Zhao Li Sheng, the Chairman of the Board, was successfully selected into the fourth "Shenzhen 100 Industry Leaders" list for his outstanding contributions in the field of imported Chinese patent medicines;



FINANCIAL REVIEW

1. *Revenue*

Revenue of the Group for the Year Under Review was approximately RMB745,383,000, representing a decrease of approximately RMB232,545,000 or 23.8% from approximately RMB977,928,000 for the year ended 31 December 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 off-set 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 Year Under Review.

2. *Cost of sales*

For the Year Under Review, cost of sales for the Group amounted to approximately RMB465,229,000, representing a decrease of approximately RMB245,296,000 or 34.5% from approximately RMB710,525,000 for the year ended 31 December 2019. The decrease in cost of sales was in line with the decrease in revenue. Gross profit margin increased from 27.3% for the year ended 31 December 2019 to 37.6% for the year ended 31 December 2020. Such increase is 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 Year Under Review.

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

Other revenue, income and other net loss mainly included exchange difference, promotional service income, rental income, government grant, interest income and dividend income. For the Year Under Review, other revenue, income and other net loss amounted to approximately RMB55,504,000, representing an increase of approximately RMB7,841,000 of 16.5% from approximately RMB47,663,000 for the year ended 31 December 2019. The increase was mainly due to the increase in promotional service income of approximately RMB3,718,000 and the dividend income from financial assets at fair value through other comprehensive income and through profit or loss of approximately RMB7,488,000.

4. *Selling and distribution costs*

For the Year Under Review, selling and distribution costs amounted to approximately 132,950,000, representing an increase of approximately RMB20,667,000 or 18.4% from approximately RMB112,283,000 for the year ended 31 December 2019. This increase was primarily attributable to the increase in provision for obsolete inventories of approximately RMB34,336,000 which was mainly for Culturelle probiotics product series, while partially offset by the decrease in advertising and promotional expenses of approximately RMB7,574,000 and bonus of approximately RMB5,051,000.

5. Administrative expenses

For the Year Under Review, administrative expenses amounted to approximately RMB112,559,000, representing an increase of approximately RMB5,116,000 or 4.8% from approximately RMB107,443,000 for the year ended 31 December 2019. For the Year Under Review, rental expenses was approximately RMB2,211,000, administrative staff costs was approximately RMB14,130,000, legal and professional fees, which comprised mainly of financial reporting costs of the Company and legal advisory and consultancy fees, was approximately RMB7,409,000, and research and development expenses was approximately RMB13,257,000 (2019: rental expenses was approximately RMB2,223,000, administrative staff costs was approximately RMB12,946,000, legal and professional fees was approximately RMB6,085,000, and research and development expenses was approximately RMB15,072,000).

6. Profit from operations

For the Year Under Review, profit from operations for the Group amounted to approximately RMB73,649,000, representing a decrease of approximately RMB3,095,000 or 4.0% from approximately RMB76,744,000 for the year ended 31 December 2019. The decrease in profit from operations was mainly due to the increase in administrative expenses for the Year Under Review.

7. Finance costs

For the Year Under Review, finance costs amounted to approximately RMB15,161,000, representing a decrease of approximately RMB323,000 or 2.1% from approximately RMB15,484,000 for the year ended 31 December 2019. The decrease was mainly due to the decrease in interest charged on bank loans as a result of a decrease in interest rate of lending.

8. Profit before taxation

For the Year Under Review, profit before taxation for the Group amounted to approximately RMB70,891,000, representing an increase of approximately RMB1,082,000 or 1.5% from approximately RMB69,809,000 for the year ended 31 December 2019. The increase in profit before taxation was mainly due to the increase in share of profit of a joint venture of approximately RMB2,372,000.

9. Income tax

For the Year Under Review, income tax expenses for the Group amounted to approximately RMB20,002,000, representing an increase of approximately RMB464,000 or 2.4% from approximately RMB19,538,000 for the year ended 31 December 2019. This increase was mainly due to the increase in profit before taxation. The effective tax rate for the Year Under Review was 28.2%, compared to 28.0% for the year ended 31 December 2019. The details are set out in Note 8 to the Financial Statements.

10. *Profit for the year*

As a result of the foregoing, we recorded net profit for the Year Under Review and the year ended 31 December 2019 of approximately RMB50,889,000 and RMB50,271,000, respectively, representing an increase of approximately RMB618,000 or 1.2% from approximately RMB50,271,000 for the year ended 31 December 2019.

11. *Profit for the year attributable to owners of the Company*

For the Year Under Review, profit for the year attributable to owners of the Company amounted to approximately RMB11,716,000, representing a decrease of approximately RMB31,711,000 or 73.0% from approximately RMB43,427,000 for the year ended 31 December 2019. The decrease in profit for the year attributable to owners of the Company was mainly due to the following factors:

(i) As affected by the Pandemic, the number of travellers to Hong Kong dropped drastically, along with the weakening consumption sentiments in Hong Kong, the total revenue generated from the Culturelle probiotics product series of the Group in Hong Kong and Macau markets decreased by approximately 74.2% for the Year Under Review as compared with the corresponding period in the previous year; and

(ii) The increase in the selling and distribution costs of the Group by approximately 18.4% for the Year Under Review as compared to approximately RMB112,283,000 for the previous year due to the increase in provision for obsolete inventories as a result of the decrease in the sale of Culturelle probiotics product series of the Group for the Year Under Review.

ANALYSIS OF MAJOR BALANCE SHEET ITEMS

1. *Trade and other receivables*

Trade and other receivables of the Group include credit sales to the Group's distributors. Other receivables of the Group include prepayments, deposits and other receivables. Trade and other receivables of the Group as at 31 December 2020 amounted to approximately RMB323,060,000, representing a decrease of approximately RMB68,456,000 or 17.5% from approximately RMB391,516,000 as at 31 December 2019. The decrease was mainly due to the decrease in trade and bills receivables of approximately RMB33,676,000 and other loan of approximately RMB46,825,000.

2. *Inventories*

As at 31 December 2020, inventories owned by the Group amounted to approximately RMB130,221,000, representing a decrease of approximately RMB74,900,000 or 36.5% when compared with that of RMB205,121,000 as at 31 December 2019. The main reason for the decrease in inventories was the decrease in finished goods.

3. *Right-of-use assets*

As at 31 December 2020, right-of-use assets amounted to approximately RMB109,518,000. As at 31 December 2019, right-of-use assets of the Group amounted to approximately RMB118,333,000.

4. Property, plant and equipment

Property, plant and equipment owned by the Group include building, leasehold improvements, furniture, fixtures and office equipment, machinery, motor vehicles and construction-in-progress. As at 31 December 2020, the net book value of property, plant and equipment owned by the Group amounted to approximately RMB58,368,000, representing a decrease of approximately RMB935,000 or 1.6% from approximately RMB59,303,000 as at 31 December 2019. The decrease in property, plant and equipment was mainly due to the depreciation charge during the Year Under Review.

5. Trade and other payables

Trade and other payables of the Group mainly include trade and bill payables, prepayments from customers, other payables and accrued expenses. As at 31 December 2020, trade and other payables of the Group amounted to approximately RMB187,991,000, representing a decrease of approximately RMB85,421,000 or 31.2% from approximately RMB273,412,000 as at 31 December 2019. The decrease was mainly due to the decrease in trade and bills payables of approximately RMB125,987,000.

CASH FLOWS

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

During the Year Under Review, the Group's cash and cash equivalents increased by approximately RMB137,323,000, which mainly comprised the net cash inflow generated from operating activities with the amount of approximately RMB123,584,000, net cash outflow used in investing activities with the amount of approximately RMB2,761,000, net cash inflow generated from financing activities with the amount of approximately RMB25,032,000 and the foreign exchange loss of approximately RMB8,532,000. Details of cash flows of the Group are set out in pages 100 and 101 of the "Consolidated Statement of Cash Flows" in this report.

CAPITAL STRUCTURE

1. Indebtedness

The total indebtedness of the Group, which will be due within one year as at 31 December 2020, was approximately RMB296,538,000 (31 December 2019: approximately RMB214,327,000). During the Year Under Review, the Group did not experience any difficulties in renewing its banking facilities with the lenders.

2. Asset-liability ratio

As at 31 December 2020, the Group's asset-liability ratio, calculated as the total bank borrowings divided by total assets multiplied by 100%, was approximately 23.6% (31 December 2019: approximately 16.7%). The increase was mainly due to the increase in bank borrowings.

3. *Gearing ratio*

As at 31 December 2020, the Group's gearing ratio, calculated as total debts divided by total equity, was appropriately 43.7% (31 December 2019: approximately 31.8%). The increase was mainly due to the increase in bank borrowings.

4. *Pledge of assets*

As at 31 December 2020, the Group had pledged investment properties, right-of-use assets, property, plant and equipment and trade receivables to certain banks in the amount of approximately RMB107,000,000, RMB56,923,000, RMB19,893,000 and RMB123,629,000, respectively. As at 31 December 2019, the Group 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.

5. *Capital expenditures*

The capital expenditures of the Group primarily included purchases of plant, equipment, leasehold improvements and other costs for acquisition of right-of-use assets and land. The Group's capital expenditures amounted to approximately RMB11,425,000 and RMB28,622,000 for the years ended 31 December 2020 and 31 December 2019, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long-term and short-term bank borrowings. For the Year Under Review, the effective interest rate for fixed rate loans ranged from 2.16% to 6.23%. Taking into account the cash flow generated from operations and the long-term and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 31 December 2020, the Group had cash and cash equivalents of approximately RMB250,818,000 (31 December 2019: approximately RMB113,495,000) which was mainly generated from operations of the Group.

CAPITAL COMMITMENT

As at 31 December 2020, the Group had capital commitment of approximately RMB357,947,000 (31 December 2019: approximately RMB171,827,000).

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

During the year ended 31 December 2020, the Group did not make any material acquisition or disposal.

LITIGATION

As at 31 December 2020, the Group did not have any material 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 2019 Appeal was heard by the Shenzhen Intermediate People's Court of Guangdong Province (廣東省深圳市中級人民法院) on 18 November 2020. As at the date of this report, the relevant judgment has not been handed down yet.

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. Dong Di Xin Shareholder A subsequently applied for the withdrawal of the appeal on 22 January 2021. The Shenzhen Intermediate People's Court of Guangdong Province (廣東省深圳市中級人民法院) approved the withdrawal of the appeal on 1 March 2021. Such decision is a final decision.

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 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 Listing Rules.

FUTURE OUTLOOK

1. *To comply with the national plan, Kingworld supports a healthy China*

The year 2020 was the closing year of the "National Thirteenth Five-year Plan", and it was also a year when the world was facing the impact of the Pandemic. The Group was exposed to the sudden outbreak of the Pandemic in a century and the world economy was falling into the most severe recession since the end of World War II. We maintained our strategic determination, accurately judged the situation, carefully planned and made deployment, took decisive action, and contributed our devoted efforts to maintain the normal operations and business activities of the Group, thus capable of maintaining a steady level of revenue and profit.

The year 2021 was the inaugural year of the "National Fourteenth Five-Year Plan". While the macro environment at home and abroad is complex and volatile, there is huge pressure on the growth of the domestic economy. The reform of the medical and pharmaceutical industry has entered the "deep water zone", and the price of medicines in public medical institutions continues to fall. The profit margin of pharmaceutical companies is under pressure, and a huge outflow of hospital prescription medicines to the OTC market while the pharmaceutical e-commerce and cross-border pharmaceutical e-commerce have achieved breakthrough developments. At the same time, it comes to the era of 5G life where consumers have more convenient and diversified channels for obtaining information and making purchases. As a result, there are rapid changes in the macroeconomy, industry policies, consumer markets. In the post-epidemic era, people are more concerned with their health, and the concept of improving immunity and focusing on prevention will be more deeply rooted in the hearts of the people. The Group should follow the trend of the times and the development of the country in order to seize the opportunity arising from the outflow of prescription medicines to the OTC market by properly engaging in industry research and market planning to fully utilise its marketing advantages. Based on the foundation of "Enalapril maleate and folic acid tablets", the Group will continue to absorb new products and act as an agent for prescription medicines in the pharmaceutical retail channels to enrich the Group's product portfolio. In the future, the Group will focus on the goal of building a healthy China based on the national "2035 Vision", launch the Group's "Fifth Five-Year Strategic Development Plan", continue to introduce high-quality overseas medicines, healthcare products, healthy foods and beauty cosmetics products, and seize the opportunity to vigorously develop cross-border pharmaceutical e-commerce to provide consumers with more high-quality and greater health products at a faster speed.

2. *Actively open up the industrial chain and expand the deployment of the greater health industry*

In 2021, the Group will continue to look for upstream suppliers and production enterprises of high-quality overseas brands, and at the same time undertake to select well established domestic production-oriented enterprises with GMP certification as partners and form a strategic and close cooperation relationship with these partners in form of capital, marketing, and OEM. In this regard, the Group can gradually consolidate the supply chain system of the greater health industry and launch more high-quality products. In the future, the Group will also seek opportunities for OEM production in Europe so as to produce products belonging to the Group's own brands with intellectual property rights to cater for the changing demands of domestic consumers.

With the promulgation and implementation of the Chinese medicine policy in the Guangdong-Hong Kong-Macau Greater Bay Area, together with the opening the first batch of pilot cross-border OTC pharmaceutical e-commerce flagship stores, it will further accelerate the Group's Hong Kong medicines to enter the Greater Bay Area and in turn allow a large number of renowned Hong Kong Chinese patent medicines to enter the China domestic markets and serve the Mainland consumers. In this regard, it will further expand the Group's e-commerce business and broaden the Group's distribution of pharmaceutical and healthcare products in Hong Kong, Macau and even in the rest of the world.

On the other hand, the Group continues to actively promote the research and development project of probiotic products via its cooperation with the Hong Kong University of Science and Technology, and will complete the mass production of the final product and launch it to the market as soon as possible. Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited* (深圳金活利生藥業有限公司), a connected company of the Group, is in the course of constructing a health industrial park located in Luhe, Shantou. Upon completion of the construction, the park will become the Group's red flower oil Chinese medicine extraction base and probiotic natural medicine fermentation centre.

At the same time, the Group actively promote the construction of Longde Health Industrial Park, which is positioned as an integrated health product research and development centre for R&D, testing, production, warehousing, and transportation. Upon its completion, it will complement the existing marketing advantages of the Group and broaden the realm of its health industry.

3. *Exploit data to support channel penetration and apply intelligent analysis to boost sales and marketing*

As the Group continues to gather data through the SMART system, the data content will become enriched, completed and continuous, which will help making scientific and accurate marketing decisions substantially. In the future, the Group will deeply explore the value of various kind of data, examine and adjust the channels deployment, and continue to optimise terminal network coverage; integrate all levels of channel business, adjust procurement and sales demand based on the flowing rate, grasp the trends of product sales, scientifically allocate and promote resources, and promote orderly development of markets at all levels; enhance the existing market coverage of existing products, expand new markets and new channels for existing products, explore new markets for new products, penetrate into the second- and third-tier and county-level channels, deepen the penetration of terminals at all levels, thereby completing the coverage of untapped markets. In addition, the Group will undertake to highly consolidate the customer data, using technology to assist in intelligent analysis to exploring and enhancing the efficiency of marketing management, thereby allowing the date to make our marketing work "visible, graspable, and manageable".

4. *Enhance the efficiency of human resources organisation, optimise the incentive mechanism, and ensure the maximum cost-effectiveness of human resources*

In 2021, the Group will analyse, sort out, optimise, and improve the human resources and organisational effectiveness of each region and each team, combined with the actual situation of the market and sales, and further strengthen the analysis of benefits of per capita output, and optimise the organisational structure and workforce of the employee team. The Group will further strengthen the training of talents, create talent supply chain projects, and nurture talents to fill up the core positions in a timely manner in order to ensure a smooth development of the Group's businesses. At the same time, the Group will further strengthen the management and control of labour costs and make accurate calculation of labour costs, conduct regular analysis and control, optimise remuneration and incentive mechanisms, thus stimulating the enthusiasm of the team sales, and ensure maximum efficiency in labour costs.

5. *Sales performance of Dong Di Xin continues to improve despite the prevalence of the Pandemic*

Up till now, the continued spread of the Pandemic in the rest of the world has led to a steady growth of orders for infrared thermometers. All the employees of the company are still working overtime at the production lines to support production, and this has been recognised by major European and American retailers, thus leading to further cooperations. Since the orders and logistics have been scheduled until after the 2021 Spring Festival, it is expected that the sale performance of Dong Di Xin will continue to grow positively.

6. *Kingworld's overseas OTC flagship store officially opens and seizes the early bird benefits of cross-border pharmaceutical e-commerce business*

In the context of the country's further implementation of the medical reform, the general health and medical industry is ushering in new changes. The new form of Internet model has further integrated and innovated with the medical and pharmaceutical industry, especially under the impact of the Pandemic over the past year where consumer habits are changing, and new models such as online consultation, online prescription, and home delivery of medicines have been accepted by more patients. At the same time, although the Pandemic has also affected the normal demand for purchase of overseas medicines, consumers still have strong demand for high-quality OTC household drugs commonly used overseas. In order to meet market needs, the national pharmaceutical e-commerce policy and its cross-border pharmaceutical e-commerce pilots points have been opened up further. In 2020, the country issued the "Beijing City Cross-border E-commerce Sale of Pharmaceutical Products Pilot Work Plan", and large e-commerce platforms such as Alibaba and JD.com have become cross-border pharmaceutical e-commerce pilot platforms, officially opening the first year of national cross-border pharmaceutical e-commerce.

The Group undertakes to firmly grasp the trend of pharmaceutical e-commerce development and use its own global supply chain system to actively promote cooperation with Tmall International and establish a cross-border medicine hypermarket-type corporate flagship store as well as developing in-depth operational cooperation with well-known e-commerce operators.

The overseas flagship store of Kingworld Health Home is a store-type flagship store opened by Kingworld Group based on the Tmall International's pharmaceutical section of Alibaba Group. With the Group's excellent introduction capabilities, it gathers all overseas high-quality pharmaceutical brands and products through the store-type flagship store to conduct online cross-border sales and integrate the comprehensive traffic of stores and platforms, thus providing consumers with the highest quality products. In order to expand and strengthen the operation of flagship stores, the Group has launched a five-year strategic planning layout, and is also trying to introduce new operating models (such as the introduction of investors, shareholding of operating teams), through the incubation of high-quality brands in online flagship stores to introduce offline pharmaceutical retail channels, build offline consumer experience stores, carry out online and offline integrated marketing, and form an innovative pharmaceutical product introduction marketing model that quickly introduces overseas high-quality OTC pharmaceutical products to the flagship stores on the project line to promote trial sales rapidly, and introduce sales model for innovative pharmaceutical products to promotes offline penetration. Currently, the brands that have been included in these stores include those online and high-traffic well-known brands including Hong Kong convenient pack of Nin Jiom, sugar-free Pei Pa Koa and Huang Daoyi Wood Lock Oil and so forth.

The Group believes that the launch of the flagship stores will enhance the Group's brand awareness, increase market penetration, and meet consumer demand for high-quality medicines and healthcare products, and will benefit the Company and its Shareholders as a whole.

7. Strengthen risk management to ensure steady operations of the Group

In 2021, it is generally expected in the market that the global situation will become more complex and uncertain. The Group remains cautiously optimistic about China's economic environment and undertakes to closely monitor the domestic and international economic situation, formulate various crisis response measures, prudently carry out investment business, make sufficient reserve for cash flow to maintain the smooth operation of the Group. Moreover, the Group will strictly control its internal expenses, reduce corporate operating costs, and strengthen the management of accounts receivable; and it will also take necessary measure to prepare the inventory for various products to cope with the recovery of China's economy and market consumption, carry out timely and precise marketing and promotion, actively explore new clusters of customers and channels, and resume the normal growth of the Group's business as soon as possible to ensure the return on investment of Shareholders and other stakeholders.

HUMAN RESOURCES AND TRAINING

As at 31 December 2020, the Group had a total of 1,033 employees, of whom 134 worked at the Group's headquarters in Shenzhen, and 411 were stationed in 34 regions mainly responsible for sales and marketing, and 488 worked at Dong Di Xin. Total staff cost for the Year Under Review amounted to approximately RMB152,774,000 (2019: approximately RMB127,134,000). The Group releases an annual sales guideline on a yearly basis, setting out the annual sales targets and formulating quarterly sales strategies to provide sales and marketing guidelines for all representative offices and their staff. The Group has a management team with extensive industry experience (including the sales directors and product managers), which is responsible for coordinating front-line sales and marketing teams to meet the annual sales targets.

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

The Company has adopted a share option scheme for the purpose of providing incentives and rewards to eligible participants, including eligible employees of the Group, who have contributed to the success of the Group. Details of such share option scheme are set out in the paragraph headed "Share Option Scheme" on page 68 of this report.

The Company has also implemented a share award scheme in August 2019 (the "**Share Award Scheme**") for the purpose of recognising the contributions made by certain participants and providing incentives in retaining the participants for the continual operation and development of the Group and attracting suitable personnel for future development of the Group. Details of the Share Award Scheme are set out in the paragraph headed "Share Award Scheme" in this report.

DIVIDENDS

To extend the Company's gratitude for the support of our Shareholders, the Board has recommended the distribution of a final dividend for the year ended 31 December 2020 of HK0.65 cents per share to Shareholders whose names appear on the register of members of the Company on Monday, 7 June 2021, amounting to approximately HK$4,046,000, subject to the approval of the Shareholders at the Company's forthcoming annual general meeting to be held on Thursday, 27 May 2021. Total dividend payout ratio is approximately 29.2% of the profit for the year attributable to owners of the Company. The above-mentioned final dividend is expected to be paid on or before Wednesday, 30 June 2021.

Directors' and Senior Management's Biographies

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

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Zhao Li Sheng (趙利生), aged 62, was appointed as an executive Director of the Company on 25 September 2008. He is the co-founder of the Group and the chairman of the Company. He is primarily responsible for the Group's overall strategic planning and business management. He has over 25 years of experience in business management and development in the distribution of pharmaceutical and healthcare products. He was also appointed as the chairman of Shenzhen Kingworld Industry Company Limited ("**SZ Industry**") in 1994 and the general manager and chairman of SZ Kingworld Medicine Company Limited ("**SZ Kingworld**") in 1996. Mr. Zhao was qualified as a senior business manager by the Business Management Qualification Accreditation Committee of Hubei Province in December 2002. Mr. Zhao was a member of the standing committee (常委) of the 4th and 5th Shenzhen Committee of the Chinese People's Political Consultative Conference (深圳市政協第四及第五屆委員會). Mr. Zhao was the vice-president of The Fifth Council of the Shenzhen General Chamber of Commerce (深圳市總商會(工商聯)第五屆理事會) in 2005. He was the honorary director (名譽會董) of the Federation of Hong Kong Chiu Chow Community Organisations, the council member (理事) of the Third Session of China Overseas Friendship Association (第三屆中華海外聯誼會) in 2008 and the standing council member (常務理事) of the Third China Economic and Social Council (第三屆中國經濟社會理事會) in 2009. Currently, he is the vice president (副會長) of the Shenzhen Healthcare Association (深圳市保健協會) and the Fifth Council of the Pharmaceutical Profession Association (深圳市醫藥行業協會第五屆理事會). He is also the chairman of the Youth Chawnese Committee of Shenzhen (深圳潮人海外經濟促進會青年委員會). He is the spouse of Ms. Chan Lok San, an executive Director of the Company.

Ms. Chan Lok San (陳樂燊), aged 57, was appointed as an executive Director of the Company on 25 September 2008. She is the co-founder of the Group. She is primarily responsible for the Group's financial planning and human resources management. She has over 24 years of experience in the pharmaceutical industry as well as over 13 years of experience in property management. Ms. Chan has been working for SZ Industry since 1994 and SZ Kingworld since 1996, respectively. She has been the vice chairlady of SZ Kingworld and SZ Industry since 2005 and 2006, respectively, and the vice chairlady of Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited since 2005 and the legal representative of Shenzhen Kingworld Department Store Property Management Company Limited and Shenzhen King Gibson Golf Company Limited. She received a master degree in business administration of senior management from Sun Yat-Sen University in 2010. In 2011, she was appointed as a committee of Shenzhen Golf Society and a vice-chairlady of Shenzhen Clothing Society. She was also a member of the Global Foundation of Distinguished Chinese (世界傑出華人基金會) in 2003. Since 25 December 2012, she has served as the chairlady of the EMBA Alumni Association of Sun Yat-Sen University. Currently, she is also the director (理事) of Sun Yat-Sen University Entrepreneur Alumni Association (Third Session) (第三屆中山大學企業家校友聯合會). She is the spouse of Mr. Zhao Li Sheng, an executive Director of the Company.

Mr. Zhou Xuhua (周旭華), aged 54, was appointed as an executive Director of the Company on 3 August 2009. He has been the general manager of SZ Kingworld since 2009. He is primarily responsible for the business development and operations of SZ Kingworld. He was the business manager of SZ Industry between 1994 and 1995 and was the regional manager and deputy general manager of SZ Kingworld after he joined SZ Kingworld in 1996. He has 23 years of experience in the pharmaceutical industry. Mr. Zhou has worked as a clerk and was later promoted to become a supervisor of Shenzhen International Arcade between 1987 and 1993. He completed his education at Shenzhen Finance School (深圳市財經學校) in 1987.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Duan Jidong (段繼東), aged 55, was appointed as an independent non-executive Director of the Company on 5 November 2010. He has approximately 30 years of experience in the pharmaceutical industry. Mr. Duan received a bachelor degree in medicine at The Shanghai Railway Medical Institute (上海鐵道醫學院) in 1989, and was a surgeon with the Central Hospital of Shenyang Railway Bureau (原瀋陽鐵路局中心醫院) from 1989 to 1994 and worked in the Beijing Mundipharma Pharmaceutical Company Limited (北京萌蒂製藥有限公司) from 1994 to 1998. Mr. Duan served as the chairman and legal representative of Kunming Baker Norton Pharmaceutical Company Limited from December 2002 to April 2006, a director of Holley Pharmaceutical (Chongqing) Co., Ltd. (重慶華立藥業股份有限公司, stock code : 000607), a company listed on the Shenzhen Stock Exchange, from 2005 to 2006, and a director of Wuhan Jianmin Pharmaceutical Groups Corp, Ltd. (武漢健民藥業集團股份有限公司, stock code: 600976), a company listed on the Shanghai Stock Exchange, from 2004 to 2006. He was a chief executive officer from 2002 to 2005, and a director from 2004 to 2006, of Kunming Pharmaceutical Group Corporation, Ltd. (昆明製藥集團股份有限公司, stock code: 600422), a company listed on the Shanghai Stock Exchange. From April 2008 to April 2011, he was an independent non-executive director of Zhejiang CONBA Pharmaceutical Company Limited (浙江康恩貝製藥股份有限公司, stock code: 600572), a company listed on the Shanghai Stock Exchange. Since February 2013, he has been an independent non-executive Director of Yan He Medicines Company Limited (仁和药業股份有限公司, stock code : 000650), a company listed on the Shenzhen Stock Exchange. Currently, he is the chairman of Beijing Strategy & Action Enterprise Management Consulting Company Limited (北京時代方略企業管理諮詢有限公司).

Mr. Wong Cheuk Lam (黃焯琳), aged 52, was appointed as an independent non-executive Director of the Company on 5 November 2010. He has over 25 years of experience in accounting and finance fields. Mr. Wong obtained a bachelor degree in arts from the University of Hong Kong in 1992 and a master degree in business from Victoria University of Technology, Australia in 1997. Mr. Wong is a member of the Hong Kong Institute of Certified Public Accountants, a member of CPA Australia and a Certified Taxpay Strategist (PRC). From 1994 to 2003, Mr. Wong worked in accounting positions in Sakura Finance Asia Limited, BOCI Securities Limited and Going Accounting Services Company. He worked at Zhengzhou China Resources Gas Company Limited (鄭州華潤燃氣股份有限公司), a company previously named Zhengzhou Gas Company Limited and was listed on the Stock Exchange as a company secretary from 2003 to January 2013, a chief financial officer from July 2005 to January 2013 and a financial controller from October 2007 to July 2010. From February 2015 to May 2015, Mr. Wong worked in Genvon Group Limited (currently named Beijing Enterprises Medical and Health Industry Group Limited), a company listed on the Main Board of the Stock Exchange (stock code: 2389), as financial controller and deputy company secretary. From May 2015 to June 2016, Mr. Wong was the CFO and company secretary of ASR Logistics Holdings Limited (currently named Beijing Sports and Entertainment Industry Group Limited), a company listed on the Main Board of the Stock Exchange (stock code: 1803). From August 2018 to October 2019, Mr. Wong was employed as the deputy company secretary of China Shun Ke Long Holdings Limited（中國順客隆控股有限公司）, a company listed on the Main Board of the Stock Exchange (Stock code: 974). Since March 2020, Mr. Wong has worked in Megain Holding (Cayman) Co., Limited（美佳音控股有限公司）as a company secretary.

Mr. Zhang Jianbin (張建斌), aged 60, was appointed as an independent non-executive Director of the Company on 1 August 2013. Mr. Zhang has over 28 years of experience in teaching and researching in the management aspect of marketing, services marketing and brand marketing, and in project consultation work. Mr. Zhang obtained a bachelor degree in engineering (industrial management engineering profession) from Wuhan University of Technology (formerly known as Wuhan Institute of Technology) in June 1982. Mr. Zhang completed a USA MBA program (organised by the graduate school of Columbia University and other universities) of Beijing Information Science & Technology University (formerly known as Beijing Institute of Machinery) in September 1986, and obtained a doctor's degree of economics (industrial economics profession) from the College of Economics, Jinan University in July 1999. Mr. Zhang worked in the Management Engineering Faculty of Wuhan University of Technology (formerly known as Wuhan Institute of Technology) as a teaching assistant and a lecturer from July 1982 to March 1989. He worked in the Management Engineering Faculty of Guangdong University of Technology (formerly known as Guangdong Institute of Technology) as a teaching assistant, lecturer, associate professor and served as deputy director, director and deputy head of the Teaching and Research Department from March 1989 to June 1998. Mr. Zhang has been teaching at Jinan University since July 1998 and is an associate professor and a tutor to master's degree research students at the Management School of Jinan University. Mr. Zhang was also the director of the MBA Department and deputy director of the MBA education centre from 2003 to 2005. Mr. Zhang was a chief marketing consultant of the Fourth Shoe Factory (第四皮鞋廠) in Wuhan city from 1987 to 1989. He was a factory director of Zhongshan Precision Instrument Factory (中山先能精密儀器廠) from 1991 to 1992 and a manager of the Planning Department of Guangdong International Mass Advertising Media Company (廣東國際大眾廣告傳播公司) from 1992 to 1993. From 1993 to 1995, Mr. Zhang was a general manager of Guangdong Design and Planning Company (廣東創世紀設計策劃公司) and was a marketing consultant of Guangdong Construction Real Estate Company (廣東建業房地產公司) from 1995 to 1996. He was a marketing consultant of Guangdong Yihe Real Estate (Group) (廣東頤和地產(集團)有限公司) from 1997 to 2002 and a consultant of Guangdong Persian Technology Company Limited (廣東波斯科技股份有限公司) from 2002 to 2012.

SENIOR MANAGEMENT

Mr. Chan Hon Wan (陳漢雲), aged 60, was appointed as the financial controller and company secretary of the Company on 25 June 2009. Currently, he is also the authorised representative of the Company. He is responsible for the management of the Group's financial matters. Mr. Chan has over 35 years of experience in auditing and accounting fields. He served as a financial controller of Fairwood Fast Food Limited from 1995 to 1998. He also worked as a corporate finance director of Texwood Limited from 2000 to 2005 and a business director of Texwood Group from 2006 to 2008, respectively. Mr. Chan received a bachelor degree in economics from Macquarie University Australia in 1986. In 2005, he received a master degree in science (accountancy) from the Hong Kong Polytechnic University. He is an associate member of the Institute of Chartered Accountants in Australia and an associate member of the Hong Kong Institute of Certified Public Accountants.

Ms. Fang Danna (方丹娜), aged 55, has been the financial manager of SZ Kingworld since 1995. She is primarily responsible for the management of SZ Kingworld's financial policies. Ms. Fang has approximately 29 years of experience in the accounting industry. She worked for the accounting department of Shenzhen Xinwei Electronics Company Limited (深圳新偉電子有限公司) in 1989 before she joined SZ Industry as a financial manager in 1995. Ms. Fang completed a course in accounting from Wuhan University (武漢大學) in 1991.

Mr. Liu Yibing (劉亦兵), aged 61, is the assistant of the General Manager of SZ Kingworld. He is primarily responsible for the implementation of the Group's administrative policies. Mr. Liu has approximately 18 years of experience in the administrative field. He worked in the cadre training center at the human resources department of Foxconn International Group between 1995 and 1998. Mr. Liu received a bachelor degree in Chinese literature from Hunan Normal University (湖南師範大學) in 1982. He joined SZ Kingworld in 2001.

Mr. Ceng Yun (曾澐), aged 50, is the sales controller (commerce) of SZ Kingworld. He is primarily responsible for the customer and sales management. Mr. Ceng has approximately 21 years of experience as a sales manager in the pharmaceutical industry. Mr. Ceng completed a master degree in industrial economics from Nanchang University (南昌大學) in 2001. He joined SZ Kingworld in 1996.

Ms. Zhang Dan (張丹), aged 56, is the marketing director of SZ Kingworld. Ms. Zhang is primarily responsible for the formulation and implementation of SZ Kingworld's overall marketing strategies for the Group's products, especially Nin Jiom Pei Pa Koa, Taiko Seirogan, Imada Red Flower Oil and Flying Eagle Wood Lok Medicated Oil. Ms. Zhang has approximately 19 years of experience in the sales and marketing areas. She received a bachelor degree in medical treatment from Yunyang Medical College of Tongji Medical University (同濟醫科大學鄖陽醫學院) in 1986, and was a lecturer at the Hubei Province Wuhan Health School between 1986 and 1995. Ms. Zhang joined SZ Kingworld in 1996.

Mr. Huang Ruozhong (黃若忠), aged 58, is the corporate finance controller of SZ Kingworld and is responsible for managing the matters relating to the Listing. He has 25 years of experience in handling securities and finance related matters. Mr. Huang worked in the securities department of the Shantou branch of the Bank of Communications Co. Ltd. from 1992 to 1999. Mr. Huang worked in the securities trading department of the Shantou Trust and Investment Company from 1999 to 2002, and worked for the Deheng Securities Company Limited (德恒證券有限公司) from 2002 to 2003. Since 2004, Mr. Huang has been the executive directors of 23 subsidiaries and served as a director of Zhuhai Jinming since 2006. In 2001, Mr. Huang was presented with the qualification of handling securities business by the Securities Association of China (中國證券協會). He graduated from the Chinese People's Liberation Army Air Force Engineering University (中國人民解放軍空軍工程大學) and Chinese People's Liberation Army Guilin Air Force Academy (中國人民解放軍桂林空軍學院) in 1985 and 1989 respectively. Mr. Huang joined SZ Kingworld in 2003.

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

Corporate Governance Report

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

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

As at 31 December 2020, the Board comprises a total of six Directors, being three executive Directors (the"**Executive Directors**"), and three independent non-executive Directors (the "**Independent Non-executive Directors**"). Mr. Zhao Li Sheng, Ms. Chan Lok San and Mr. Zhou Xuhua served as Executive Directors and Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam served as Independent Non-executive Directors. These Independent Non-executive Directors, who have different business and professional backgrounds, have brought valuable experience and expertise for the best interests of the Group and its Shareholders. Each Independent Non-executive Director has been appointed for a 3-years term of services. Biographical details of and the relationship between the Directors are set out in the paragraph headed "Directors' and Senior Management's Biographies" of this report.

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

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

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

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

Pursuant to article 108 of the articles of association of the Company (the "**Articles of Association**"), one third of the Directors shall retire from office by rotation at each annual general meeting and every Director shall be subject to retirement by rotation at least once every three years. Accordingly, Mr. Zhao Li Sheng being an executive Director and Mr. Duan Jidong being an independent non-executive Director, shall hold office until the forthcoming annual general meeting of the Company and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company. In considering the re-election of Mr. Duan Jidong, with the assistance and recommendation from the nomination committee of the Company, the Board has reviewed the structure, size, composition and diversity of the Board from a number of aspects, including but not limited to the age, gender, nationality, length of service and the professional experience, skills and expertise of Mr. Duan Jidong. The Board is of the view that his education, background and experience practice allow him to provide valuable and relevant insights and contribute to the diversity of the Board. The Board is also of the view that during his tenure as independent non-executive Director, Mr Duan Jidong has made positive contributions to the Group's development, strategy and performance with his independent advice and comments and his understanding of the business of the Group. The Board believes that Mr. Duan Jidong will bring his valuable experience to the Board for promoting the best interests of the Company and its Shareholders. Holding less than seven listed company directorship, Mr. Duan Jidong is able to devote sufficient time and attention to perform the duties as independent non-executive Directors. Alongside the other independent non-executive Directors, he will contribute to ensuring that the interests of all Shareholders are taken into account and that relevant issues are subject to objective and dispassionate consideration by the Board. The Company received written confirmation from Mr. Duan Jidong on his independence in accordance with the Listing Rules. In view of the aforesaid factors, the Board would recommend Mr. Duan Jidong for re-election at the forthcoming annual general meeting of the Company.

Accordingly, Mr. Zhao Li Sheng and Mr. Duan Jidong shall retire at the forthcoming annual general meeting of the Company. The retiring Directors, all being eligible, offer themselves for re-election.

BOARD COMMITTEES

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

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

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

AUDIT COMMITTEE

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

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

During the Year Under Review, the Audit Committee had held two meetings and all the members attended the meetings. The work performed by the Audit Committee during the Year Under Review included reviewing the audited consolidated financial statements of the Group for the year ended 31 December 2019, the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2020 and the effectiveness of the internal control practices of the Group. The Audit Committee has also reviewed the audit plan and approach of the external auditor and monitored the progress and results of the audit regularly.

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

The Audit Committee has, together with the management of the Company and external independent auditor, reviewed the consolidated financial statements for the year ended 31 December 2020, the results announcement, this annual report, the accounting principles and practices adopted by the Group, as well as the risk management and internal control systems of the Group for the Year Under Review, and agreed with the accounting treatments adopted by the Group, and was of the opinion that the preparation of the financial statements in this annual report complies with the applicable accounting standards and the requirements under the Listing Rules and adequate disclosures have been made.

REMUNERATION COMMITTEE

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

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

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

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

NOMINATION COMMITTEE

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

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

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

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

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

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

BOARD/COMMITTEE MEETINGS AND INDIVIDUAL ATTENDANCE

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

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

Details of the attendance records of Directors on Board meetings and board committee meetings for the year ended 31 December 2020 are as follows:

Name of Directors	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Executive Directors					
Mr. Zhao Li Sheng *(Chairman)*	6/6	–	–	–	1/1
Ms. Chan Lok San	6/6	–	–	–	1/1
Mr. Zhou Xuhua	6/6	–	–	–	1/1
Independent Non-executive Directors					
Mr. Duan Jidong	6/6	2/2	2/2	2/2	1/1
Mr. Wong Cheuk Lam	6/6	2/2	2/2	2/2	1/1
Mr. Zhang Jianbin	6/6	2/2	2/2	2/2	1/1

Subsequent to the year ended 31 December 2020 and up to the date of this report, the Board held anther Board meeting in March 2021 for the main purposes of approving the annual results of the Group for the year ended 31 December 2020 and this annual report for publication and formulating business development strategies. All Directors attended such meeting.

TRAINING AND SUPPORT OF DIRECTORS

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

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

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

RESPONSIBILITIES OF THE DIRECTORS AND EXTERNAL AUDITORS

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

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

REMUNERATION OF EXTERNAL AUDITORS

For the year ended 31 December 2020, the remuneration paid to the external auditors in Hong Kong and the PRC, for audit services amounted to approximately RMB1,424,000 (equivalent to approximately HK$1,600,000).

For the year ended 31 December 2020 the total remuneration for the permissible non-audit services provided by the external auditors amounted to RMB387,000 (equivalent to approximately HK$435,000), mainly represents remuneration for interim review services.

INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL COMPLIANCE GUIDELINES

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

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

For the year ended 31 December 2020, through reviews conducted by the Audit Committee and study results from the internal audit department, the Board has conducted a review on the effectiveness of internal control system, the risk management system and the internal compliance guidelines, and has come to the conclusion that such systems and guidelines have been effectively and adequately executed and followed.

CORPORATE GOVERNANCE MEASURES

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

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

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

DIRECTORS' INSURANCE

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

COMPANY SECRETARY

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

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

SHAREHOLDERS' RIGHTS

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

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

Procedures for directing Shareholders' enquiries to the Board

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

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

INVESTOR RELATIONS

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

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

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

Hong Kong, 31 March 2021

Report of the Directors

The Directors have pleasure in presenting the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2020 (the "**Financial Statements**").

PRINCIPAL BUSINESS

The Company is an investment holding company. The Group is principally engaged in (i) distribution of imported branded pharmaceutical and healthcare products in the PRC; and (ii) manufacturing and sales of electrotherapeutic, physiotherapeutic devices and general medical examination devices. As at 31 December 2020, the Group managed a portfolio of eleven categories with more than sixty products including pharmaceutical products, healthcare products, general foodstuffs and medical products from fourteen suppliers and/or manufacturers in Japan, United States, Canada, Hong Kong, Taiwan, Thailand and the PRC. Many of the products distributed by the Group are established brand names including Nin Jiom Chuan Bei Pei Pa Koa, Taiko Seirogan, Kawai Product Range, Flying Eagle Wood Lok Medicated Oil, Kyushin Pill and Mentholatum Product Series. Amongst these brands, "Nin Jiom" has always been the best-seller of the Group. Nin Jiom Chuan Bei Pei Pa Koa is also the best-selling Chinese medical cough relieving product in the PRC, which is the leading product with the largest market share.

RESULTS AND DIVIDENDS

Profit of the Group for the year ended 31 December 2020 and the state of affairs of the Company and the Group as at that date are set out in the Financial Statements on pages 95 to 208 of this report.

To extend the Company's gratitude for the support of the Shareholders, the Board has recommended the distribution of a final dividend for the year ended 31 December 2020 of HK0.65 cents per share to Shareholders whose names appear on the register of members of the Company on Monday, 7 June 2021, amounting to approximately HK$4,046,000, subject to the approval of the Shareholders at the Company's forthcoming annual general meeting to be held on Thursday, 27 May 2021. Total dividend payout ratio is approximately 29.2% of the profit for the year attributable to owners of the Company. The above-mentioned final dividend is expected to be paid on or before Wednesday, 30 June 2021.

POLICY ON PAYMENT OF DIVIDENDS

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

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

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

CLOSURE OF THE REGISTER OF MEMBERS

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

The register of members of the Company will be closed from Friday, 21 May 2021 to Thursday, 27 May 2021 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for attending and voting at the forthcoming annual general meeting, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Thursday, 20 May 2021.

To qualify for the proposed final dividends

The register of members of the Company will be closed from Thursday, 3 June 2021 to Monday, 7 June 2021 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for receiving the proposed final dividends, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 2 June 2021.

BUSINESS REVIEW

A review of the business of the Group for the Year Under Review and a discussion on the Group's future business development are provided in the "Management Discussion and Analysis" on pages 12 to 51. An analysis of the Group's performance during the Year Under Review using financial key performance indicators is provided in the five-year "Financial Summary" on page 209. No important event affecting the Group has occurred since the end of the Year Under Review.

ENVIRONMENTAL POLICY

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

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

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

RELATIONSHIPS WITH STAKEHOLDERS

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

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

KEY RISKS AND UNCERTAINTIES

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

Market Risk

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

Foreign exchange risk

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

Liquidity Risk

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

Operational Risk

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

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

LITIGATION AND CONTINGENT LIABILITIES

As disclosed on page 46 of this report, except for a claim filed by the Plaintiff against the Substantial Shareholder and Dong Di Xin and the Appeal to the Intermediate Court against the Judgment, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

As disclosed in the 2018 Annual Report, the Judgment will not have any material adverse impact on the Group's ordinary operations and financial positions as the Company will not bear any liability or any significant litigation fee and there will be no dilutive effect on the Group's holding in the equity interest in Dong Di Xin. 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 the Retrial.

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

The 2019 Appeal was heard by the Shenzhen Intermediate People's Court of Guangdong Province on 18 November 2020. As at the date of this report, the relevant judgement has not been hand down yet. The Company will make further announcement(s) to keep the Shareholders and the public informed of any material progress on the case as and when appropriate according to the Listing Rules.

SHARE OPTION SCHEME

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

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

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

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

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

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

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

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

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

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

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

Grantees	Position held with the Group and/or relationship with the Group	Date of grant	Option Period (Note 3)	Exercise Price per Share (HK$) (Note 4)	Number of Share Options: Outstanding as at 1 January 2020	Granted during the Year	Cancelled during the Year	Lapsed during the Year	Outstanding as at 31 December 2020	Approximate percentage of the Company's total issued share capital
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: Zhao Li Sheng is also a substantial shareholder of the Company through his beneficial Interest, interests of spouse and controlled corporation.

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

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

Note 4: The closing price of the Share on the date of grant of Share Options on 23 April 2018 was HK$1.26.

SHARE AWARD SCHEME

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

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

In September 2019 and October 2020, the Trustee purchased an aggregate of 6,000,000 shares and 10,000,000 shares of the Company from the market for the purpose of the Share Award Scheme, respectively. As at the date of this report, no shares of the Company have been awarded to any selected participants pursuant to the Share Award Scheme.

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

BORROWINGS

Details of the Group's bank borrowings as at 31 December 2020 are set out in Note 27 to the Financial Statements.

EQUITY-LINKED AGREEMENTS

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

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

PERMITTED INDEMNITY PROVISION

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

GOING CONCERN

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

PUBLIC FLOAT

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

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

For the year ended 31 December 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 30 to the Financial Statements.

RESERVES

Details of change in reserves of the Group and the Company are set out on page 99 of the "Consolidated Statement of Changes in Equity" and Note 30 to the Financial Statements.

DISTRIBUTABLE RESERVES

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

As at 31 December 2020, the aggregate amount of reserves available for distribution to owners of the Company was approximately RMB113,551,000 (31 December 2019: approximately RMB159,141,000). After the end of the Year Under Review, the Directors proposed a final dividend of HK0.65 cents (equivalent to RMB0.55 cents) (2019: HK2.34 cents, equivalent to RMB2.09 cents) per share amounting to approximately RMB3,424,000 (2019: approximately RMB13,010,000). The proposed final dividend has not been recognised as a liability at the end of the Year Under Review.

CHARITY DONATIONS

Charity donations made by the Group during the Year Under Review was approximately RMB3,976,000 (2019: approximately RMB6,429,000).

PROPERTY, PLANT AND EQUIPMENT

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

INVESTMENT PROPERTIES

The Group's investment properties were revalued as at 31 December 2020, decrease in fair value of investment properties arising on revaluation amounting to approximately RMB1,600,000 has been charged to the consolidated statement of profit or loss. Details of the Group's investment properties as at 31 December 2020 are set out in Note 14 of the Financial Statements and on page 210 of this report.

PRE-EMPTIVE RIGHTS

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

SUBSIDIARY COMPANIES

Details of the major subsidiary companies of the Company as at 31 December 2020 are set out in Note 15 to the Financial Statements.

DIRECTORS

The Directors of the Company during the year ended 31 December 2020 and up to the date of this report have been:

Executive Directors

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

Independent Non-executive Directors

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

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Company are set out in pages 52 to 55 under the section headed "Directors' and Senior Management's Biographies" in this report.

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

REMUNERATIONS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

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

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

The five highest paid individuals of the Group in the Year Under Review include 3 Directors (2019: 3 Directors). Details of the five highest paid individuals are set out in Note 12 to the Financial Statements.

SERVICE CONTRACTS OF DIRECTORS

Executive Directors

Each of the Executive Directors has entered into a service contract with the Company for a term of three years commencing from the Listing Date and may be terminated by not less than three months' prior notice in writing served by either party to the other. Subject to the retirement and re-election at the annual general meeting of the Company in accordance with (inter alia) the Articles of Association, the latest service contract was renewed on 25 November 2019 until being terminated pursuant to the terms of the service contract.

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

	RMB'000
Mr. Zhao Li Sheng	1,437
Ms. Chan Lok San	1,221
Mr. Zhou Xuhua	670

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

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

Independent Non-executive Directors

Each of the Independent Non-executive Directors (other than Mr. Zhang Jianbin) has signed a letter of appointment with the Company for a term of three years commencing on the Listing Date and may be terminated by giving three months' notice in writing thereof by either party to the other. Subject to the retirement and re-election at the annual general meeting of the Company in accordance with (inter alia) the Articles of Association, the latest letter of appointment was renewed on 25 November 2019 until being terminated pursuant to the terms of the letter of appointment. Mr. Zhang Jianbin has signed a letter of appointment with the Company for a term of three years commencing from 1 August 2013, which may be terminated by giving three months' notice in writing by either party to the other. Subject to the retirement and re-election at the annual general meeting of the Company in accordance with (inter alia) the Articles of Association, the letter of appointment was renewed on 1 August 2019 until being terminated pursuant to the terms of the letter of appointment.

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

	RMB'000
Mr. Duan Jidong	284
Mr. Wong Cheuk Lam	284
Mr. Zhang Jianbin	284

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

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed under the paragraph headed "Continuing Connected Transactions", during the year ended 31 December 2020, no Director is considered to have interests in the businesses which compete or are likely to compete directly or indirectly with the businesses of the Group.

DISCLOSURE OF INTERESTS

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

As at 31 December 2020, the interests and short positions held by the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

(I) Interest in the shares in the Company:

Name of Directors	Capacity/Nature of Interest	Number of shares in the Company held	Approximate percentage of the Company's total issued share capital
Zhao Li Sheng (Note 1)	Beneficial owner	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.

2. Ms. Chan Lok San 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.

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

				Number of Share Options					
Name of Directors	Date of grant	Option Period (Note 3)	Exercise Price per Share (HK$) (Note 4)	Outstanding as at 1 January 2020	Granted during the Year	Cancelled during the Year	Lapsed during the Year	Outstanding as at 31 December 2020	Approximate percentage of the Company's total issued share capital
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%
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: Zhao Li Sheng is also a substantial shareholder of the Company through his beneficial interest, interests of spouse and controlled corporation.

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

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

Note 4: The closing price of the Share on the date of grant of Share Options on 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 31 December 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 31 December 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.

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

As at 31 December 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 Li Sheng, Mr. Zhao is deemed (by virtue of the SFO) to be interested in 388,556,250 shares in the Company. These shares are held in the following capacities:

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

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

2. Ms. Chan is deemed (by virtue of the SFO) to be interested in 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. Pursuant to the share purchase agreement entered into between Golden Land and Sinopharm Capital dated 16 September 2014 (as supplemented by the supplemental agreements dated 7 November 2014 and 15 December 2014), Sinopharm Capital designated Sinopharm Healthcare Fund L.P. as its nominee to acquire 62,187,750 shares of the Company from Golden Land for a consideration of HK$133,703,662.50.

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

5. The corporate substantial shareholder notice filed by Sun Hill Capital Investments Limited indicated that it controlled 100% interest in Sinopharm Capital Limited and indirectly controlled 1.64% interest in Sinopharm Healthcare Fund L.P..

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

Save as disclosed above, to the best knowledge of the Directors of the Company, as at 31 December 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.

DIRECTORS' RIGHTS IN ACQUIRING SHARES AND DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the paragraph headed "Continuing Connected Transactions", as at 31 December 2020 and during any time for the year ended 31 December 2020, there was no contract of significance (as defined in Appendix 16 to the Listing Rules) subsisting in which a Director is or was materially interested, whether directly or indirectly.

Save as disclosed under the paragraph headed "Continuing Connected Transactions", as at 31 December 2020 and during any time for the year ended 31 December 2020, there was no contract of significance in relation to the Company's business subsisting to which the Company, its subsidiary, its holding company or a subsidiary of its holding company was a party and in which a Director has or had, or at any time during that period, in any way, whether directly or indirectly, a material interest.

Save as disclosed under the paragraph headed "Continuing Connected Transactions", as at 31 December 2020 and during any time for the year ended 31 December 2020, none of the Directors was in any way, directly or indirectly, materially interested in any contract of significance entered into or proposed to be entered into with the Company in relation to the Company's business.

MANAGEMENT CONTRACTS

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

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2020, the Group entered into various transactions with certain individuals and entities that are regarded as connected persons of the Company (as defined under Chapter 14A of the Listing Rules). Details of these individuals and entities are set out in Note 35 to the Financial Statements.

The recurring related party transactions set out in Note 35 to the Financial Statements fall within the definition of "continuing connected transaction" under Chapter 14A of the Listing Rules while the key management remuneration set out in Note 11 to the Financial Statements do not fall within the definition of "connected transaction" or "continuing connected transaction" under Chapter 14A of the Listing Rules. The Company has complied with the relevant disclosure requirements in accordance with Chapter 14A of the Listing Rules.

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

As disclosed in the announcements of the Company dated 20 November 2019 and 24 December 2019; and the circular of the Company dated 31 December 2019 (the "**Circular**"), on 20 November 2019, (1) Kingworld Medicine Healthcare Limited ("**HK Kingworld**"), a wholly-owned subsidiary of the Company, entered into a master distribution agreement with Yuen Tai Pharmaceuticals Limited (遠大製藥廠有限公司) ("**Yuen Tai**") ("**Yuen Tai Master Distribution Agreement**"); and (2) Shenzhen Kingworld Medicine Company Limited ("**SZ Kingworld**"), a wholly-owned subsidiary of the Company, entered into a master distribution agreement with Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited (深圳金活利生藥業有限公司) ("**SZ Kingworld Lifeshine**") ("**SZ Kingworld Lifeshine Master Distribution Agreement**"), respectively (collectively, the "**New Master Distribution Agreements**").

Unless otherwise defined herein, terms used in the following section headed "New Master Distribution Agreements for the three years ending 31 December 2022" shall have the same meanings as defined in the Circular.

New Master Distribution Agreements for the three years ending 31 December 2022

Transaction	Member of the Group	Connected person	Actual transaction amounts for the year ended 31 December 2020 RMB'000	Approximate annual cap for the year ended 31 December 2020 RMB'000
Purchase and distribution of Pharmaceutical and Healthcare Products from SZ Kingworld Lifeshine	SZ Kingworld	SZ Kingworld Lifeshine	22,170	22,271
Purchase and distribution of Pharmaceutical and Healthcare Products from Yuen Tai	HK Kingworld/ SZ Kingworld	Yuen Tai	1,623	4,242

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

SZ Kingworld Lifeshine Master Distribution Agreement

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

On 20 November 2019, SZ Kingworld Lifeshine and SZ Kingworld entered into the SZ Kingworld Lifeshine Master Distribution Agreement, pursuant to which the Group will purchase certain pharmaceutical and healthcare products from SZ Kingworld Lifeshine and act as the exclusive distributor for distribution of such pharmaceutical and healthcare products in the PRC for a term of three years commencing from 1 January 2020 and ending on 31 December 2022 (both days inclusive).

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

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

Yuen Tai Master Distribution Agreement

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

On 20 November 2019, Yuen Tai and HK Kingworld entered into the Yuen Tai Master Distribution Agreement, pursuant to which the Group will purchase certain pharmaceutical and healthcare products from Yuen Tai and act as the exclusive distributor for distribution of such pharmaceutical and healthcare products in the PRC for a term of three years commencing from 1 January 2020 and ending on 31 December 2022 (both days inclusive).

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

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

As disclosed in the announcement of the Company dated 18 May 2020 (the "**Announcement**"), on 18 May 2020, SZ Kingworld entered into (1) a medical masks distribution agreement ("**2020 Medical Masks Distribution Agreement**"; and (2) a medical masks service agreement ("**2020 Medical Masks Service Agreement**") with SZ Kingworld Lifeshine, respectively (collectively, the "**2020 Medical Masks Agreements**").

Unless otherwise defined herein, terms used in the following section headed "2020 Medical Masks Agreements" shall have the same meanings as defined in the Announcement.

2020 Medical Masks Agreements

Transaction	Member of the Group	Connected person	Actual transaction amount for the year ended 31 December 2020 RMB'000	Approximate annual cap for the year ended 31 December 2020 RMB'000
Purchase and distribution of medical masks	SZ Kingworld	SZ Kingworld Lifeshine	750	9,000
Provide sales coordination and market research services	SZ Kingworld	SZ Kingworld Lifeshine	–	6,000

Principal terms of the 2020 Medical Masks Agreements are as follow:

2020 Medical Masks Distribution Agreement

On 18 May 2020, SZ Kingworld and SZ Kingworld Lifeshine entered into the 2020 Medical Masks Distribution Agreement, pursuant to which SZ Kingworld and/or any wholly-owned subsidiary of the Company shall purchase medical masks from SZ Kingworld Lifeshine and act as its exclusive distributor for distribution of medical masks produced by SZ Kingworld Lifeshine in the Greater China and overseas market. The term of the 2020 Medical Masks Distribution Agreement will be from 18 May 2020 to 31 December 2020.

In the event that a customer requests SZ Kingworld Lifeshine to sell the medical masks to it directly, instead of through a distributor, SZ Kingworld Lifeshine may, subject to the compliance with the Listing Rules, sell the medical masks to the customers directly and SZ Kingworld Lifeshine shall pay the relevant service fee to the Group in accordance with the terms of the 2020 Medical Masks Service Agreement.

The prices of the medical masks to be purchased by the Group will be based on the prevailing market prices of similar products and the unit prices of the medical masks from time to time and will be no less favourable to the Group than those terms offered by other independent third parties suppliers.

40% of the purchase price shall be paid in advance by the Group within three days after the Group has placed an order, and SZ Kingworld Lifeshine has confirmed the order, for each batch of products and the remaining balance of the purchase price shall be paid upon delivery of the products and the passing of the product inspection.

On 30 December 2020, in view of the prospective expiry of the 2020 Medical Masks Distribution Agreement, SZ Kingworld and SZ Kingworld Life Shine entered into the 2021 Medical Masks Distribution Agreement. For details, please refer to the announcement of the Company dated 30 December 2020.

2020 Medical Masks Service Agreement

On 18 May 2020, SZ Kingworld and SZ Kingworld Lifeshine entered into the 2020 Medical Masks Service Agreement, pursuant to which the SZ Kingworld and/or any wholly-owned subsidiary of the Company shall provide sales coordination and market research services in relation to the direct sales of medical masks by SZ Kingworld Lifeshine in the Greater China and overseas market. The term of the 2020 Medical Masks Service Agreement will be from 18 May 2020 to 31 December 2020.

The service fees received by the Group will be based on each successful purchase order obtained by the Group. The Group shall be entitled to service fees which is equal to 3% of the transaction amount paid by the customers to SZ Kingworld Lifeshine for the medical masks ordered. SZ Kingworld Lifeshine shall pay the service fees to the Group within five business days upon the receipt of the transaction amount from the customer.

The service fees and other terms under the Medical Masks Service Agreement will be based on the prevailing market prices of similar services provided from time to time and will be no less favourable to the Group than those terms offered by other independent third parties.

On 30 December 2020, in view of the prospective expiry of the 2020 Medical Masks Service Agreement, SZ Kingworld and SZ Kingworld Life Shine entered into the 2021 Medical Masks Service Agreement. For details, please refer to the announcement of the Company dated 30 December 2020.

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

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

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

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

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

(i) have received the approval of the Board;

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

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

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

PLEDGE OF ASSETS

As at 31 December 2020, the Group had pledged investment properties, right-of-use assets, property, plant and equipment and trade receivables to certain banks in the amount of approximately RMB107,000,000, RMB56,923,000, RMB19,893,000 and RMB123,629,000, respectively. As at 31 December 2019, the Group 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.

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long and short-term bank borrowings. For the Year Under Review, the effective interest rate for fixed rate loans ranged from 2.16% to 6.23%. Taking into account the cash flow generated from operations and the long and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 31 December 2020, the Group had cash and cash equivalents of approximately RMB250,818,000 (31 December 2019: approximately RMB113,495,000) which was mainly generated from operations of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year Under Review, the total revenue of the Group's five largest customers accounted for approximately 36.4% of the Group's revenue, in which revenue from the largest customer of the Group accounted for approximately 10.5% of the total revenue of the Group. During the same period, total purchases of the Group's five largest suppliers accounted for approximately 88.5% of the Group's total purchase, in which purchase from the largest supplier of the Group accounted for approximately 54.5% of the total purchase of the Group.

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

TAX RELIEF AND EXEMPTION

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

EMPLOYEE BENEFITS

Details of the employee benefits of the Group for the year ended 31 December 2020 are set out in Note 34 to the Financial Statements. No forfeited contributions (by the Group on behalf of employees who leave the defined contribution plans prior to vesting fully in such contributions) can be used by the Group to reduce the existing level of contributions.

EVENT AFTER THE REPORTING PERIOD

(i) On 7 January 2021, the Company, as purchaser, entered into the agreement with an independent third party ("**Vendor A**"), pursuant to which the Company agreed to acquire a property (the "**Property**") from Vendor A at a purchase price of HK$8,550,000 (equivalent to RMB7,132,000). The acquisition of the Property was completed on 1 April 2021. The Company intends to use the Property as the Group's office in Hong Kong.

(ii) Subsequent to the reporting period end and on 18 March 2021, the Group entered into a conditional agreement with an independent third party ("**Vendor B**"), pursuant to which the Group agreed to acquire and Vendor B agreed to sell 45.3125% of the equity interests in a company established in Hong Kong (the "**Target Company**") at the consideration of approximately RMB4,914,000. The Target Company is engaged in the import, export, distribution, manufacture and sale of pharmaceutical products. The transaction has not yet been completed at the date of approval of the consolidated financial statements.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2020 have been audited by Crowe (HK) CPA Limited ("**Crowe**"). Crowe will retire as auditor at the conclusion of the forthcoming annual general meeting and being eligible, offer themselves for re-appointment. A resolution will be submitted to the forthcoming annual general meeting of the Company for the re-appointment of Crowe as the auditor of the Company.

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

Hong Kong, 31 March 2021

Crowe

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

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

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

OPINION

We have audited the consolidated financial statements of Kingworld Medicines Group Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 95 to 208, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

The Key Audit Matter	*How the matter was addressed in our audit*
(a) Impairment of goodwill and other intangible assets (Refer to notes 2(j)(ii) and (v)(ii), 16, 19 and 32(b) and (i) to the consolidated financial statements) At 31 December 2020, the carrying amount of goodwill and other intangible assets were approximately RMB90,693,000 and RMB27,272,000, respectively, relating to Shenzhen Dong Di Xin Technology Company Limited acquired in 2015. Their respective recoverable amounts are based on an assessment of the higher of fair value less cost to sell and value in use of the identified cash generating unit to which the goodwill and other intangible assets are allocated. Value in use is calculated as the net present value of estimated future cash flows. For impairment assessment at the reporting period end, the Group appointed an independent professional valuer to perform valuation for the recoverable amount, being value in use, of the cash generating unit, to which goodwill and other intangible assets are allocated, and made reference to the independent professional valuation. The Group's assessment of impairment is a judgemental process which requires assumptions and estimates concerning the estimated future cash flows, discount rate and growth rate based on management's view of future business prospects.	We reviewed and challenged the impairment analysis prepared by the management as outlined below: With regard to the overall impairment assessments performed by the management, we evaluated the design of internal controls in place to determine any asset impairments. We reviewed and challenged the appropriateness of the models, key assumptions and estimates used by management and the valuers for determining the recoverable value of the goodwill and other intangible assets. We evaluated and challenged the key assumptions used in each valuation model and performed sensitivity analysis around key drivers of cash flow forecasts, including unit of sales, gross margins, growth rates and operating costs. We reviewed the calculation of discount rate used for determining the value in use, taking into account the cost of capital of the Group and comparable companies, and challenged the reasonableness of the methodology and assumptions applied in determining the discount rate. Furthermore, we assessed historical accuracy in management's forecasting process. We also assessed the adequacy of the Group's disclosures in respect of goodwill and other intangible assets made in notes 16 and 19, respectively, to the consolidated financial statements.

KEY AUDIT MATTERS *(Continued)*

The Key Audit Matter	*How the matter was addressed in our audit*
(b) Impairment of trade and bills receivables (Refer to notes 2(j)(i), 22, 31(a) and 32(d) to the consolidated financial statements) At 31 December 2020, trade and bills receivables amounted to approximately RMB246 million, net of allowance for expected credit losses approximately RMB6.4 million, for which there was no collateral as security for settlement. In the normal ordinary course of its business, the Group grants its customers with credit period up to 120 days after billing. This may give rise to the risk of bad debt losses arising from unfavorable changes in the customers' abilities to settle their trade debts after year end. Lifetime expected credit losses of trade and bills receivables are based on management's estimate of the lifetime expected credit losses to be incurred, which is estimated by taking into account the credit loss experience, ageing of overdue trade receivables, customers' repayment history and customers' financial position and an assessment of both the current and forecast of future economic conditions, all of which involve a significant degree of management judgement.	We reviewed and challenged the assumptions applied by management in estimating the provision for expected credit losses on trade and bills receivables at the year end as outlined below: We reviewed the Group's credit control and debt recovery procedures and actions taken to monitor and collect the trade and bills receivables. We reviewed historical settlement history of the customers and checking subsequent cash receipts from the customers after the year end. We enquired management of any disputes with customers, assessed the replies to the debtor confirmations directly obtained from the customers and reviewed correspondences with the customers for any dispute. We tested ageing analysis for trade and bills receivables by customers, critically evaluated updated creditworthiness of the customers and assessed other forward looking information such as the future economic conditions. We assessed the reasonableness of the expected credit loss rates that were applied to calculate the lifetime expected credit losses of trade and bills receivables and checked the calculation of the required provision for the lifetime expected credit losses of trade and bills receivables. We also assessed the adequacy of the Group's disclosures in respect of trade and bills receivables made in notes 22 and 31(a) to the consolidated financial statements.

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

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

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

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

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

Crowe (HK) CPA Limited
Certified Public Accountants
Hong Kong, 31 March 2021

Leung Chun Wa
Practising Certificate Number P04963

Consolidated Statement of Profit or Loss

For the year ended 31 December 2020
(Expressed in Renminbi)

	Note	2020 RMB'000	2019 RMB'000
Revenue	4	**745,383**	977,928
Cost of sales	7(c)	**(465,229)**	(710,525)
Gross profit		**280,154**	267,403
Other revenue, income and other net loss	6	**55,504**	47,663
Selling and distribution costs		**(132,950)**	(112,283)
Administrative expenses		**(112,559)**	(107,443)
Amortisation of intangible assets	19	**(13,569)**	(18,831)
Valuation loss on investment properties	14	**(1,600)**	–
(Impairment losses)/reversal of impairment losses on financial assets, net	7(c)	**(1,331)**	235
Profit from operations		**73,649**	76,744
Finance costs	7 (a)	**(15,161)**	(15,484)
Share of profit of a joint venture	18	**12,381**	10,009
Share of profit/(loss) of an associate	17	**22**	(1,460)
Profit before taxation	7	**70,891**	69,809
Income tax	8	**(20,002)**	(19,538)
Profit for the year		**50,889**	50,271
Attributable to:			
Owners of the Company		**11,716**	43,427
Non-controlling interests		**39,173**	6,844
Profit for the year		**50,889**	50,271
Earnings per share	10		
Basic (RMB cents)		**1.91**	7.00
Diluted (RMB cents)		**1.91**	7.00

The notes on pages 102 to 208 form part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020
(Expressed in Renminbi)

	2020 RMB'000	2019 RMB'000
Profit for the year	**50,889**	50,271
Other comprehensive (loss)/income for the year (net of tax)		
Items that will not be reclassified to profit or loss:		
Fair value (loss)/gain on financial assets	**(1,849)**	11,900
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside the PRC	**(2,797)**	287
	(4,646)	12,187
Total comprehensive income for the year (net of tax)	**46,243**	62,458
Attributable to:		
Owners of the Company	**7,759**	55,614
Non-controlling interests	**38,484**	6,844
Total comprehensive income for the year	**46,243**	62,458

The notes on pages 102 to 208 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2020
(Expressed in Renminbi)

	Note	**2020** **RMB'000**	2019 RMB'000
Non-current assets			
Right-of-use assets	13	**109,518**	118,333
Property, plant and equipment	13	**58,368**	59,303
Investment properties	14	**121,000**	122,600
Interest in a joint venture	18	**84,969**	72,588
Interest in associates	17	**2,588**	2,566
Goodwill	16	**90,693**	90,693
Other intangible assets	19	**27,272**	40,841
Financial assets at fair value through profit or loss	23	**6,257**	5,739
Financial assets at fair value through other comprehensive income	20	**39,962**	33,697
		540,627	546,360
Current assets			
Inventories	21	**130,221**	205,121
Trade and other receivables	22	**323,060**	391,516
Financial assets at fair value through profit or loss	23	**10,552**	15,325
Financial assets at fair value through other comprehensive income	20	**94**	–
Pledged bank deposits	24	**–**	8,549
Cash and cash equivalents	24	**250,818**	113,495
		714,745	734,006
Current liabilities			
Contract liabilities	25	**56,496**	72,342
Trade and other payables	26	**187,991**	273,412
Bank loans	27	**296,538**	214,327
Lease liabilities	28	**8,003**	9,115
Tax payable	29(a)	**6,623**	7,173
		555,651	576,369
Net current assets		**159,094**	157,637
Total assets less current liabilities		**699,721**	703,997
Non-current liabilities			
Lease liabilities	28	**1,236**	8,374
Deferred tax liabilities	29(b)	**19,975**	22,433
		21,211	30,807
NET ASSETS		**678,510**	673,190

The notes on pages 102 to 208 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2020
(Expressed in Renminbi)

	Note	**2020** **RMB'000**	2019 RMB'000
CAPITAL AND RESERVES	30		
Share capital		**53,468**	53,468
Reserves		**538,335**	549,875
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**591,803**	603,343
NON-CONTROLLING INTERESTS		**86,707**	69,847
TOTAL EQUITY		**678,510**	673,190

Approved and authorised for issue by the board of directors on 31 March 2021.

Mr. Zhao Li Sheng
Director

Ms. Chan Lok San
Director

The notes on pages 102 to 208 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020
(Expressed in Renminbi)

	Attributable to owners of the Company										
	Share capital RMB'000 (note 30(a))	Share premium RMB'000 (note 30(b))	Statutory and discretionary reserves RMB'000 (note 30(c))	Contributed surplus RMB'000 (note 30(d))	Fair value reserve RMB'000 (note 30(e))	Exchange reserve RMB'000 (note 30(f))	Capital reserve RMB'000 (note 30(g))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total Equity RMB'000
At 1 January 2020	**53,468**	**152,700**	**44,626**	**–**	**6,380**	**(20,786)**	**(5,530)**	**372,485**	**603,343**	**69,847**	**673,190**
Changes in equity:											
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**11,716**	**11,716**	**39,173**	**50,889**
Other comprehensive income/(loss) for the year											
– Exchange difference arising from the translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**(2,108)**	**–**	**–**	**(2,108)**	**(689)**	**(2,797)**
– Fair value change on financial assets	**–**	**–**	**–**	**–**	**(1,849)**	**–**	**–**	**–**	**(1,849)**	**–**	**(1,849)**
Total other comprehensive income/(loss) for the year	**–**	**–**	**–**	**–**	**(1,849)**	**(2,108)**	**–**	**–**	**(3,957)**	**(689)**	**(4,646)**
Total comprehensive income/(loss) for the year	**–**	**–**	**–**	**–**	**(1,849)**	**(2,108)**	**–**	**11,716**	**7,759**	**38,484**	**46,243**
Dividends (note 9(b))	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(12,274)**	**(12,274)**	**–**	**(12,274)**
Distribution to non-controlling interest (note 15(f))	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(24,534)**	**(24,534)**
Share purchased for the share award scheme (note 37)	**–**	**–**	**–**	**–**	**–**	**–**	**(7,025)**	**–**	**(7,025)**	**–**	**(7,025)**
Contribution from non-controlling interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,910**	**2,910**
Appropriation of statutory and discretionary reserves	**–**	**–**	**4,015**	**–**	**–**	**–**	**–**	**(4,015)**	**–**	**–**	**–**
At 31 December 2020	**53,468**	**152,700**	**48,641**	**–**	**4,531**	**(22,894)**	**(12,555)**	**367,912**	**591,803**	**86,707**	**678,510**
At 1 January 2019	53,468	152,700	44,108	29,068	(5,520)	(21,073)	8,454	304,587	565,792	72,438	638,230
Changes in equity:											
Profit for the year	–	–	–	–	–	–	–	43,427	43,427	6,844	50,271
Other comprehensive income/(loss) for the year											
– Exchange difference arising from the translation of foreign operations	–	–	–	–	–	287	–	–	287	–	287
– Fair value change on financial assets	–	–	–	–	11,900	–	–	–	11,900	–	11,900
Total other comprehensive income for the year	–	–	–	–	11,900	287	–	–	12,187	–	12,187
Total comprehensive income for the year	–	–	–	–	11,900	287	–	43,427	55,614	6,844	62,458
Dividends (note 9(b))	–	–	–	–	–	–	–	(12,533)	(12,533)	–	(12,533)
Distribution to non-controlling interests (note 15(f))	–	–	–	–	–	–	–	–	–	(9,925)	(9,925)
Shares purchased for the share award scheme (note 37)	–	–	–	–	–	–	(5,530)	–	(5,530)	–	(5,530)
Contribution from non-controlling interest	–	–	–	–	–	–	–	–	–	490	490
Appropriation of statutory and discretionary reserves	–	–	518	–	–	–	–	(518)	–	–	–
Transfer of reserve upon the expiry of share options	–	–	–	–	–	–	(8,454)	8,454	–	–	–
Transfer of reserve	–	–	–	(29,068)	–	–	–	29,068	–	–	–
At 31 December 2019	53,468	152,700	44,626	–	6,380	(20,786)	(5,530)	372,485	603,343	69,847	673,190

The notes on pages 102 to 208 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2020
(Expressed in Renminbi)

	Note	2020 RMB'000	2019 RMB'000
Operating activities			
Profit before taxation		**70,891**	69,809
Adjustments for:			
Depreciation of property, plant and equipments	7(c)	**10,753**	8,996
Amortisation of right-of use assets/leasehold land held for own use under operating leases	7(c)	**10,215**	8,490
Finance costs	7(a)	**15,161**	15,484
Bank interest income	6	**(1,154)**	(537)
Interest income from a shareholder loan	6	**(128)**	(131)
Dividend received from financial assets at fair value through other comprehensive income	6	**(15,191)**	(7,482)
Dividend received from financial assets at fair value through profit or loss	6	**(403)**	(624)
Interest received from financial assets at fair value through other comprehensive income	6	**(290)**	(1,027)
Loss on disposal of property, plant and equipment	7(c)	**117**	551
Impairment losses/(reversal of) impairment losses on trade receivables	7(c)	**962**	(170)
Impairment losses/(reversal of) impairment losses on other receivables	7(c)	**369**	(65)
Change in fair value of financial assets at fair value through profit or loss	6	**3,361**	(95)
Amortisation of intangible assets	7(c)	**13,569**	18,831
Share of profit of a joint venture	18	**(12,381)**	(10,009)
Share of (profit)/loss of an associate	17	**(22)**	1,460
Valuation loss on other investment properties	14	**1,600**	–
Write-down of inventories	21	**33,562**	1,576
COVID-19-related rent concessions allowed	13(a)	**(142)**	–
Changes in working capital			
Decrease/(increase) in inventories		**41,338**	(24,633)
Decrease in trade and other receivables		**67,125**	25,181
Decrease/(increase) in deposits for letters of credit		**8,549**	(6,907)
Decrease in contract liabilities		**(15,846)**	(376)
(Decrease)/increase in trade and other payables		**(85,421)**	53,701
Cash generated from operations		**146,594**	152,023
Income tax paid		**(23,010)**	(19,312)
Net cash generated from operating activities		**123,584**	132,711

The notes on pages 102 to 208 form part of these consolidated financial statements.

	Note	**2020 RMB'000**	2019 RMB'000
Investing activities			
Payment for the purchase of property, plant and equipment		**(9,927)**	(8,795)
Payment for the additional right-of-use assets		**–**	(11,493)
Payment for the acquisition of financial assets at fair value through other comprehensive income		**(207,500)**	(726,700)
Proceeds from disposal of financial assets at fair value through other comprehensive income		**197,500**	726,700
Receipts from financial assets at fair value through other comprehensive income		**–**	2,803
Interest received from financial assets at fair value through other comprehensive income	6	**290**	1,027
Bank interest received	6	**1,154**	537
Shareholder loan interest received	6	**128**	131
Dividends received from financial assets at fair value through other comprehensive income	6	**15,191**	7,482
Dividends received from financial assets at fair value through profit or loss	6	**403**	624
Net cash used in investing activities		**(2,761)**	(7,684)
Financing activities			
Proceeds from new bank loans	24(b)	**421,867**	216,620
Repayment of bank loans	24(b)	**(330,902)**	(341,742)
Capital element of lease rentals paid	24(b)	**(9,578)**	(6,294)
Interest element of lease rentals paid	24(b)	**(793)**	(1,232)
Interest on bank loans paid		**(14,639)**	(14,252)
Payments for shares purchased for the share award scheme	37	**(7,025)**	(5,530)
Dividend paid to owners of the Company	9(b)	**(12,274)**	(12,533)
Dividends paid to non-controlling interests	15(f)	**(24,534)**	(9,925)
Contribution from non-controlling interests		**2,910**	490
Net cash generated from/(used in) financing activities		**25,032**	(174,398)
Net increase/(decrease) in cash and cash equivalents		**145,855**	(49,371)
Cash and cash equivalents at beginning of year		**113,495**	160,660
Effect of foreign exchange rate changes		**(8,532)**	2,206
Cash and cash equivalents at end of year	24	**250,818**	113,495

The notes on pages 102 to 208 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

a) *Statement of compliance*

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

The consolidated financial statements for the year ended 31 December 2020 comprise the Company and its subsidiaries and the Group's interests in a joint venture and associates.

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

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

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

– derivative financial instruments (see note 2(aa));

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

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

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 32.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

c) *Subsidiaries and non-controlling interests*

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

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

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position.

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

d) *Associate and joint ventures*

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operation policy decisions.

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

e) *Other investments in debt and equity securities*

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

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 31(f). These investments are subsequently accounted for as follows, depending on their classification.

i) *Investments other than equity investments*

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

ii) *Equity investments*

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 2(t)(iii).

f) *Investment properties*

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

g) *Property, plant and equipment*

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

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

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

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

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

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

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

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

h) *Leased assets*

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

i) *As a lessee*

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) *Leased assets (Continued)*

i) *As a lessee (Continued)*

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

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

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

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

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

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("**lease modification**") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 Pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16 *Leases*. In such cases, the Group took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognized the change in consideration as if it were not a lease modification.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) *Leased assets (Continued)*

ii) *As a lessor*

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

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

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

i) *Inventories*

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

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

– pharmaceutical products
– healthcare products
– medical devices

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) *Credit losses and impairment of assets*

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

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

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

– contract assets (see note 2(k)); and

– debt securities measured at FVOCI (recycling).

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

Measurement of ECLs

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Measurement of ECLs *(Continued)*

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

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

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

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

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

ECLs are measured on either of the following bases:

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At the end of each reporting period, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

In certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) Credit losses and impairment of assets (Continued)

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

General approach *(Continued)*

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs, except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1	–	Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
Stage 2	–	Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
Stage 3	–	Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at the end of each reporting period. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) Credit losses and impairment of assets (Continued)

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

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 (as for distribution sales of pharmaceutical and healthcare products), or 120 (as for manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices) days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) Credit losses and impairment of assets (Continued)

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

Significant increases in credit risk *(Continued)*

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

Basis of calculation of interest income

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

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

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

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or past due event;

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Write-off policy

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

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

ii) *Impairment of other non-current assets*

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

– right-of-use assets;

– property, plant and equipment;

– intangible assets;

– interests in associates and a joint venture;

– goodwill; and

– investments in subsidiaries, a joint venture and associates in the Company's statement of financial position.

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

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

iii) *Interim financial reporting and impairment*

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

k) *Contract assets and contract liabilities*

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

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

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

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

l) *Trade and other receivables*

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 2(k)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(j)).

m) *Trade and other payables*

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

n) *Interest-bearing borrowings*

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

o) *Cash and cash equivalents*

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

p) *Income tax*

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

p) *Income tax* *(Continued)*

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

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

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

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

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

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

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

  - the same taxable entity; or

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

q) *Provisions and contingent liabilities*

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

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

r) *Borrowing costs*

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

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

s) *Translation of foreign currencies*

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

s) *Translation of foreign currencies (Continued)*

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

t) *Revenue and other income*

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

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

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

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

i) *Sale of goods*

Sales of goods are recognised as follows:

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

t) *Revenue and other income (Continued)*

ii) *Rental income from operating leases*

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

iii) *Dividend income*

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

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

iv) *Interest income*

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

v) *Promotional income*

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

vi) *Government grants*

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

u) *Segment reporting*

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

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

v) i) *Business combinations or asset acquisitions*

Optional concentration test

Effective from 1 January 2020, the Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

Asset acquisitions

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to investment properties which are subsequently measured under fair value model and financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

v) i) *Business combinations or asset acquisitions (Continued)*

Asset acquisitions (Continued)

Except for certain recognition exemptions, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting* issued in October 2010).

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

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

– liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date;

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

– lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

v) i) *Business combinations or asset acquisitions (Continued)*

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

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

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the" measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates in with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are measured under HKFRS 9 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

v) ii) *Goodwill*

Goodwill represents the excess of

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

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

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

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

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

w) *Employee benefits*

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

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

ii) *Share-based payments*

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

w) *Employee benefits (Continued)*

ii) *Share-based payments (Continued)*

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

iii) *Share award scheme*

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

iv) *Termination benefits*

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

x) *Related parties*

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

i) has control or joint control over the Group;

ii) has significant influence over the Group; or

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

x) *Related parties* *(Continued)*

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

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

ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

iii) Both entities are joint ventures of the same third party.

iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

vi) The entity is controlled or jointly controlled by a person identified in (a).

vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

y) *Other intangible assets (other than goodwill)*

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

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

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

– Customer relationships	8 years
– Patents	5 years

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

y) *Other intangible assets (other than goodwill) (Continued)*

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

z) *Research and development costs*

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

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

aa) *Derivative financial instruments*

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

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

The Group has applied the following amendments to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

– Amendments to HKFRS 3, *Definition of a Business*

– Amendment to HKFRS 16, *Covid-19-Related Rent Concessions*

Other than the amendment to HKFRS 16, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

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

Amendments to HKFRS 3, Definition of a Business

The amendments clarify the definition of a business and provide further guidance on how to determine whether a transaction represents a business combination. In addition, the amendments introduce an optional "concentration test" that permits a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or Group of similar identifiable assets.

The Group has applied the amendments prospectively to transactions for which the acquisition date is on or after 1 January 2020.

Amendment to HKFRS 16, Covid-19-Related Rent Concessions

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 Pandemic ("**COVID-19-related rent concessions**") are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The Group has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the year. Consequently, rent concessions received have been accounted for as negative variable lease payments recognized in profit or loss in the period in which the event or condition that triggers those payments occurred. There is no impact on the opening balance of equity at 1 January 2020.

4. REVENUE

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

	2020	2019
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products		
– pharmaceutical products	**284,297**	633,700
– healthcare products	**90,822**	151,114
– medical devices	**370,264**	193,114
	745,383	977,928
Timing of revenue recognition		
A point in time	**745,383**	977,928

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

5. SEGMENT REPORTING

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

a. 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.

b. 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, which are carried out by Dong Di Xin as defined in Note 15 below. Currently, the Group's activities in this regard are primarily carried out in the PRC.

5. SEGMENT REPORTING *(Continued)*

a) *Segment results, assets and liabilities*

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

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

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

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

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

5. SEGMENT REPORTING *(Continued)*

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

Information regarding the Group's reportable segments as provided to the Group's directors for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2020 and 2019 is set out below.

	Distribution sales of pharmaceutical and healthcare products				Manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices			
	Hong Kong		PRC		PRC		Total	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue from external customers	**43,915**	102,180	**500,126**	789,102	**370,265**	193,114	**914,306**	1,084,396
Inter-segment revenue	**2,570**	8,180	**3,901**	2,654	**–**	–	**6,471**	10,834
Reportable segment revenue	**46,485**	110,360	**504,027**	791,756	**370,265**	193,114	**920,777**	1,095,230
Reportable segment profit (adjusted EBITDA)	**(47,725)**	215	**5,806**	47,797	**123,913**	35,841	**81,994**	83,853
Interest income from bank deposits	**134**	126	**49**	228	**1,098**	312	**1,281**	666
Interest expense	**334**	313	**7,593**	5,455	**415**	609	**8,342**	6,377
Depreciation and amortisation for the year	**1,633**	581	**9,951**	9,634	**22,023**	26,066	**33,607**	36,281
Reportable segment assets	**44,509**	70,229	**608,510**	740,047	**273,159**	185,086	**926,178**	995,362
(including investment in joint venture)	**–**	–	**84,969**	72,588	**–**	–	**84,969**	72,588
Additions to non-current segment assets during the year	**–**	2,284	**13,555**	15,152	**7,001**	7,344	**20,556**	24,780
Reportable segment liabilities	**6,715**	39,933	**301,765**	345,880	**113,297**	69,026	**421,777**	454,839

5. SEGMENT REPORTING *(Continued)*

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

	2020 **RMB'000**	2019 RMB'000
Revenue		
Reportable segment revenue	**920,777**	1,095,230
Elimination of inter-segment revenue	**(6,471)**	(10,834)
Elimination of Group's share of revenue of joint venture	**(168,923)**	(106,468)
Consolidated revenue (note 4)	**745,383**	977,928

	2020 **RMB'000**	2019 RMB'000
Profit		
Reportable segment profit (adjusted EBITDA) derived from the Group's external customers and joint venture	**81,994**	83,853
Other income	**55,504**	47,663
Depreciation and amortisation	**(34,537)**	(36,317)
Finance costs	**(15,161)**	(15,484)
Unallocated head office and corporate expenses	**(16,909)**	(9,906)
Consolidated profit before taxation	**70,891**	69,809

5. SEGMENT REPORTING *(Continued)*

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

	2020 RMB'000	2019 RMB'000
Assets		
Reportable segment assets	**926,178**	995,362
Elimination of inter-segment receivables	**(752)**	(1,263)
	925,426	994,099
Financial assets at fair value through other comprehensive income	**40,056**	33,697
Financial assets at fair value through profit or loss	**16,809**	21,064
Unallocated head office and corporate assets	**273,081**	231,506
Consolidated total assets	**1,255,372**	1,280,366

	2020 RMB'000	2019 RMB'000
Liabilities		
Reportable segment liabilities	**421,777**	454,839
Elimination of inter-segment payables	**(23,097)**	(18,538)
	398,680	436,301
Current tax liabilities	**6,623**	7,173
Deferred tax liabilities	**19,975**	22,433
Unallocated head office and corporate liabilities	**151,584**	141,269
Consolidated total liabilities	**576,862**	607,176

5. SEGMENT REPORTING *(Continued)*

c) *Geographic Information*

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

	Revenues from external customers		**Specified non-current assets**	
	2020	2019	**2020**	2019
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC (excluding Hong Kong)	**349,734**	696,616	**492,747**	502,636
Hong Kong	**34,441**	95,789	**1,661**	4,288
	384,175	792,405	**494,408**	506,924
Other countries outside the PRC:				
The United States of America	**262,619**	92,869	**–**	–
The United Kingdom	**17,256**	13,892	**–**	–
Germany	**35,132**	29,797	**–**	–
Italy	**17,258**	12,613	**–**	–
Others	**28,943**	36,352	**–**	–
	361,208	185,523	**–**	–
	745,383	977,928	**494,408**	506,924

5. SEGMENT REPORTING *(Continued)*

d) *Information about major customers*

Revenues from a customer contributed 10% or more of the total revenue of the Group is as follows:

	2020 **RMB'000**	2019 RMB'000
Customer A – revenue from manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices	**77,972**	N/A#

\# The transactions with this customer did not contribute 10% or more of total revenue of the Group during the year ended 31 December 2019.

6. OTHER REVENUE, INCOME AND OTHER NET LOSS

	2020 RMB'000	2019 RMB'000
Other revenue:		
Total interest income on financial assets not at fair value through profit or loss:		
Bank interest income	**1,154**	537
Interest income from a shareholder loan (note 35(b))	**128**	131
Interest income from financial assets at fair value through other comprehensive income	**290**	1,027
Gross rental income from investment properties	**2,205**	2,911
Dividend income from financial assets at fair value through other comprehensive income and through profit or loss	**15,594**	8,106
Promotional service income	**29,746**	26,028
Other income and other net loss:	**49,117**	38,740
Government grants		
– HK (note i)	**946**	–
– PRC (note ii)	**11,808**	6,450
Change in fair value of financial assets at fair value through profit or loss	**(3,361)**	95
Compensation received arising from cancellation of purchases orders and rental agreement	**–**	2,390
Exchange loss, net	**(5,006)**	(2,185)
Others	**2,000**	2,173
	55,504	47,663

Note:

(i) In 2020, the Group successfully applied for funding support from the Employment Support Scheme under the Anti-epidemic Fund, set up by the Hong Kong Government. The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the grant, the Group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees.

(ii) 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, production of epidemic prevention materials. There was no unfulfilled conditions attached to these grants.

7. PROFIT BEFORE TAXATION

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

		2020 RMB'000	2019 RMB'000
a)	**Finance costs**		
	Total interest expense on financial liabilities not at fair value through profit or loss:		
	– Interest on bank loans	**14,368**	14,252
	– Interest on lease liabilities	**793**	1,232
		15,161	15,484
b)	**Staff costs (including directors' and chief executive's remuneration)**		
	Salaries and other benefits	**146,614**	115,812
	Contributions to defined contribution retirement plan	**6,160**	11,322
		152,774	127,134
c)	**Other items**		
	Amortisation of other intangible assets (note 19)	**13,569**	18,831
	Auditor's remuneration		
	– audit service	**1,424**	1,462
	– non-audit services	**387**	417
	Costs of inventories recognised as expense:		
	– Cost of inventories sold (note (i))	**465,229**	710,525
	– Write-down of inventories (note 21)	**33,562**	1,576
	Depreciation of property, plant and equipment (note 13)	**10,753**	8,996
	Amortisation of right-of-use assets (note 13)	**10,215**	8,490
	Impairment losses/(reversal of impairment losses) on:		
	– Trade receivables (note 22(c))	**962**	(170)
	– Other receivables	**369**	(65)
	Loss on disposal of property, plant and equipment	**117**	551
	Short-term leases and leases of low-value assets	**701**	2,638
	Rental income from investment properties less direct outgoings of RMB481,000 (2019: RMB313,000)	**(1,724)**	(2,598)
	Research and development costs	**13,257**	15,072

Note:

(i) Cost of inventories recognised as expenses includes approximately RMB49,798,000 (2019: RMB35,469,000) relating to staff costs, depreciation of property, plant and equipment, amortisation of right-of-use assets and short-term leases and leases of low-value assets, which are included in the respective total amounts disclosed separately above.

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

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

	2020 **RMB'000**	2019 RMB'000
Hong Kong Profits Tax (note (ii))		
– Current year	**390**	2,380
– Over-provision in prior year	**(90)**	–
PRC Enterprise Income Tax ("**EIT**") (note (iii))		
– Current year	**22,235**	20,801
– Over-provision in prior years	**(75)**	(819)
Deferred tax (note 29(b))		
– Origination and reversal of temporary differences	**(2,458)**	(2,824)
	20,002	19,538

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

ii) The provision for Hong Kong Profits Tax for 2020 is calculated at 16.5% (2019: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first HK$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2019.

The provision for Hong Kong Profits Tax for 2020 takes into account a reduction granted by the Hong Kong SAR Government of 100% of the tax payable for the year of assessment 2019/20 subject to a maximum reduction of HK$20,000 for each business (2019: a maximum reduction of HK$20,000 was granted for the year of assessment 2018/19 and was taken into account in calculating the provision for 2019).

iii) The PRC Enterprise Income Tax charge of the Group during the years ended 31 December 2020 and 2019 represented mainly the PRC Enterprise Income Tax charge from the Group's PRC subsidiaries, Shenzhen Kingworld Medicine Company Limited ("**SZ Kingworld**"), Shenzhen Dong Di Xin Technology Company Limited ("**Dong Di Xin**") and are based on a statutory rate of 25% (2019: 25%), except for Dong Di Xin, which is chargeable at a preferential income tax rate of 15% (2019: 15%).

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

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

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.

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

	2020 **RMB'000**	2019 RMB'000
Profit before taxation	**70,891**	69,809
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdiction concerned	**11,198**	15,710
Tax effect of non-deductible expenses	**10,501**	8,377
Tax effect of non-taxable income	**(6,162)**	(4,237)
Tax effect of prior years' tax losses utilised	**(4)**	(14)
Tax effect of unrecognised temporary differences	**453**	439
Tax effect of unused tax losses not recognised	**4,199**	117
Over-provision in prior years	**(165)**	(819)
Tax concession	**(18)**	(35)
Actual tax expense	**20,002**	19,538

c) As at 31 December 2020, the undistributed profits of the Company's PRC subsidiaries amounted to approximately RMB240,270,000 (2019: RMB281,092,000) for which the potential deferred tax liabilities of approximately RMB12,014,000 (2019: RMB14,055,000) have not been recognised in these financial statements because the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

9. DIVIDENDS

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

	2020 **RMB'000**	2019 RMB'000
Final dividend proposed after the end of the reporting period of HK0.65 cents (equivalent to RMB0.55 cents) (2019: HK2.34 cents (equivalent to RMB2.09 cents)) per ordinary share	**3,424**	13,010

The final dividend for the year ended 31 December 2020 proposed after the end of the reporting period is subject to approval by the Company's shareholders in its forthcoming annual general meeting. It has not been recognised as a liability at the end of the reporting period.

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

	2020 **RMB'000**	2019 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK2.34 cents (equivalent to approximately RMB1.97 cents) (2019: HK2.25 cents (equivalent to approximately RMB2.01 cents))	**12,274**	12,533

10. EARNINGS PER SHARE

a) Basic earnings per share

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

	2020 **RMB'000**	2019 RMB'000
Earnings		
Profit for the year attributable to owners of the Company	**11,716**	43,427
Earnings for the purpose of basic earnings per share	**11,716**	43,427

	2020 **'000**	2019 '000
Number of shares		
Weighted average number of ordinary shares in issue	**622,500**	622,500
Effect of shares repurchased and held under share award scheme	**(8,091)**	(1,878)
Weighted average number of ordinary shares for the purpose of basic earnings per share	**614,409**	620,622

b) Diluted earnings per share

Diluted earnings per share for the years ended 31 December 2020 and 2019 was the same as the basic earnings per share because of the exercise price of the share options granted was higher than the weighted average market price of the Company's shares during the years ended 31 December 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.

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

	Directors' Fees RMB'000	**Salaries, allowances and benefits in kind RMB'000**	**Discretionary bonuses RMB'000**	**Retirement scheme contributions RMB'000**	**2020 Total RMB'000**
Executive directors:					
Zhao Li Sheng (chief executive officer)	**–**	**1,419**	**–**	**18**	**1,437**
Chan Lok San	**–**	**1,205**	**–**	**16**	**1,221**
Zhou Xuhua	**–**	**400**	**232**	**38**	**670**
Independent non-executive directors:					
Duan Jidong	**284**	**–**	**–**	**–**	**284**
Wong Cheuk Lam	**284**	**–**	**–**	**–**	**284**
Zhang Jianbin	**284**	**–**	**–**	**–**	**284**
	852	**3,024**	**232**	**72**	**4,180**

	Directors' Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	2019 Total RMB'000
Executive directors:					
Zhao Li Sheng (chief executive officer)	–	1,611	–	17	1,628
Chan Lok San	–	1,365	–	17	1,382
Zhou Xuhua	–	750	405	48	1,203
Independent non-executive directors:					
Duan Jidong	300	–	–	–	300
Wong Cheuk Lam	300	–	–	–	300
Zhang Jianbin	300	–	–	–	300
	900	3,726	405	82	5,113

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

During the years ended 31 December 2020 and 2019, no amount was paid or payable to the directors or chief executive or any of the five highest paid individuals set out in note 12 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which any director or chief executive waived or agreed to waive any emolument during both years.

12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group include 3 directors (2019: 3 directors) during the year, whose emoluments are disclosed in note 11. The aggregate of the emoluments in respect of the remaining individuals are as follows:

	2020	2019
	RMB'000	RMB'000
Salaries and other emoluments	**1,010**	1,698
Retirement scheme contributions	**12**	11
	1,022	1,709

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

	2020	2019
Nil to HK$1,000,000	**2**	2

13. RIGHT-OF-USE ASSETS/PROPERTY, PLANT AND EQUIPMENT

	Property, plant and equipment								
	Buildings held for own use (notes a and b)	Leasehold improvements	Furniture, fixtures and office equipment	Machineries	Motor vehicles	Construction-in-progress	Sub-total	Right-of-use assets	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost									
At 1 January 2019	24,259	13,148	25,014	22,529	11,272	2,271	98,493	109,672	208,165
Exchange adjustments	–	2	1	–	103	–	106	58	164
Additions	–	1,117	2,806	4,772	–	100	8,795	19,827	28,622
Transferal	–	2,371	–	–	–	(2,371)	–	–	–
Disposals	–	–	(234)	(1,413)	–	–	(1,647)	–	(1,647)
At 31 December 2019	24,259	16,638	27,587	25,888	11,375	–	105,747	129,557	235,304
At 1 January 2020	24,259	16,638	27,587	25,888	11,375	–	105,747	129,557	235,304
Exchange adjustments	–	(7)	(5)	–	(319)	–	(331)	(231)	(562)
Additions	–	85	1,105	4,240	1,224	3,273	9,927	1,498	11,425
Disposals	–	–	(221)	(345)	(318)	–	(884)	–	(884)
At 31 December 2020	24,259	16,716	28,466	29,783	11,962	3,273	114,459	130,824	245,283
Accumulated depreciation									
At 1 January 2019	2,182	6,397	12,663	9,132	8,135	–	38,509	2,730	41,239
Exchange adjustments	–	2	1	–	90	–	93	4	97
Charge for the year	1,091	1,996	3,127	2,032	750	–	8,996	8,490	17,486
Disposals	–	–	(212)	(942)	–	–	(1,154)	–	(1,154)
At 31 December 2019	3,273	8,395	15,579	10,222	8,975	–	46,444	11,224	57,668
At 1 January 2020	3,273	8,395	15,579	10,222	8,975	–	46,444	11,224	57,668
Exchange adjustments	–	(7)	(5)	–	(304)	–	(316)	(133)	(449)
Charge for the year	1,093	2,859	3,401	2,657	743	–	10,753	10,215	20,968
Disposals	–	–	(194)	(278)	(318)	–	(790)	–	(790)
At 31 December 2020	4,366	11,247	18,781	12,601	9,096	–	56,091	21,306	77,397
Carrying amount									
At 31 December 2020	19,893	5,469	9,685	17,182	2,866	3,273	58,368	109,518	167,886
At 31 December 2019	20,986	8,243	12,008	15,666	2,400	–	59,303	118,333	177,636

13. RIGHT-OF-USE ASSETS/PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Note:

(a) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	Notes	2020 $'000	2019 $'000
Ownership interests in leasehold land and buildings held for own use, carried at depreciated cost in PRC, with remaining lease term of:			
– between 10 and 50 years	(i)	**99,904**	101,268
Other properties leased for own use, carried at depreciated cost	(ii)	**9,614**	17,065
		109,518	118,333

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2020 $'000	2019 $'000
Depreciation charge of right-of-use assets by class of underlying asset:		
– Ownership interests in leasehold land and buildings	**1,365**	1,365
– Other properties leased for own use	**8,850**	7,125
	10,215	8,490
Interest on lease liabilities (note 7(a))	**793**	1,232
Short-term leases and leases of low-value assets (note 7(c))	**701**	2,638
COVID-19-related rent concessions allowed	**142**	–

13. RIGHT-OF-USE ASSETS/PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Note: *(Continued)*

(a) Right-of-use assets *(Continued)*

During the year, additions to right-of-use assets were $1,498,000. This amount primarily related to the capitalised lease payments payable under new tenancy agreements.

As disclosed in note 3, the Group has early adopted the Amendment to HKFRS 16, *Leases, Covid-19-Related Rent Concessions,* and applies the practical expedient introduced by the Amendment to all eligible rent concessions received by the Group during the period. Further details are disclosed in (ii) below.

(i) Ownership interests in leasehold land and buildings held for own use

The Group holds several commercial buildings for its office and the land use rights for a piece of land held for development. The Group is the registered owner of these property interests, including the whole or part of undivided share in the underlying land. Lump sum payments were made upfront to acquire these property interests from their previous registered owners, and there are no ongoing payments to be made under the terms of the land lease, other than payments based on rateable values set by the relevant government authorities. These payments vary from time to time and are payable to the relevant government authorities.

(ii) Other properties leased for own use

The Group has obtained the right to use other properties as its factories, offices and warehouses through tenancy agreements. The leases typically run for an initial period of two to three years. Lease payments are usually increased every two years to reflect market rentals.

(b) Included in right-of-use assets is the land use rights for a piece of land held for development situated in the PRC with a carrying amount of approximately RMB42,981,000 (2019: RMB42,981,000). During the year ended 31 December 2019, the Group submitted application for modifying the scope of use of this land for which additional upfront payments of approximately RMB11,493,000 were paid by the Group.

(c) As at 31 December 2020, certain right-of-use assets and buildings held for own use with a total carrying amount of RMB76,816,000 (2019: RMB79,271,000) were pledged in favour of a bank for bank loans of the Group (note 27).

14. INVESTMENT PROPERTIES

	RMB'000
Fair value	
At 1 January 2019	122,600
Fair value adjustment	–
At 31 December 2019 and 1 January 2020	122,600
Fair value adjustment	(1,600)
At 31 December 2020	121,000

a) The Group's investment properties were revalued as at 31 December 2020 and 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 an independent firm of qualified valuers, Cushman & Wakefield Limited ("**Cushman & Wakefield**"), who amongst its staff have members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The Group's property manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results when the valuations are performed at each annual reporting date.

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

14. INVESTMENT PROPERTIES *(Continued)*

c) At 31 December 2020, certain of the Group's investment properties with a total fair value of approximately RMB107,000,000 (2019: RMB108,900,000) were pledged in favour of the banks for the bank loans and banking facilities granted to the Group (note 27).

d) Fair value measurement of properties

(i) Fair value hierarchy

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

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

	Fair value at 31 December 2020 RMB'000	Fair value measurements as at 31 December 2020 categorised into Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Group				
Recurring fair value measurement				
Investment properties:				
– Commercial – PRC	**121,000**	**–**	**–**	**121,000**

14. INVESTMENT PROPERTIES *(Continued)*

d) Fair value measurement of properties (Continued)

(i) Fair value hierarchy (Continued)

	Fair value at 31 December 2019	Fair value measurements as at 31 December 2019 categorised into		
		Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000
Group				
Recurring fair value measurement				
Investment properties:				
– Commercial – PRC	122,600	–	–	122,600

During the years ended 31 December 2020 and 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 fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Information about Level 3 fair value measurements

		Valuation techniques	Unobservable input	Range
Investment properties: – Commercial – PRC	(i)	Direct comparison method	Sales evidence of comparable properties (adjusted for the difference in the quality and location of the properties)	RMB41,892 - RMB45,984 per square meter (2019: RMB40,541 - RMB47,619)
	(ii)	Discounted cash flow	Risk-adjusted discount rate (i.e. market rental yield)	3.25%-4% (2019:3.9%-4%)
			Expected market rental growth	3.25%-4% (2019:3.9%-4%)
			Expected occupancy rate	100% (2019: 100%)

14. INVESTMENT PROPERTIES *(Continued)*

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

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

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

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

	2020	2019
	RMB'000	RMB'000
Investment properties – Commercial – Mainland China		
At 1 January	**122,600**	122,600
Net loss from a fair value adjustment recognised in valuation loss on investment properties in profit or loss	**(1,600)**	–
At 31 December	**121,000**	122,600

e) The Group leases out investment properties under operating leases. The leases run for a period for one to three years (2019: one to three years). None of the leases include contingent rentals.

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

	2020	2019
	RMB'000	RMB'000
Within 1 year	**3,138**	1,827
After 1 year but within 5 years	**5,480**	3,602
	8,618	5,429

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

(Expressed in Renminbi)

15. SUBSIDIARIES

The following is a list of principal subsidiaries of the Group as at 31 December 2020.

Name	Place of incorporation/ operations	Proportion of ownership interest held by the Group at effective interest	Class of shares/ capital held	Particulars of issued and paid up capital	Principal activities
Kingworld Medicine and Healthcare Group Limited ("**BVI Kingworld**") (note (a))	The BVI/Hong Kong	100% (2019: 100%)	Ordinary shares	111 shares of US$1 each (2019: 111 shares of US$1 each)	Investment holding
Kingworld Medicine Healthcare Limited	Hong Kong	100% (2019: 100%)	Ordinary shares	195,546,680 shares (2019: 195,546,680 shares)	Investment holding and distribution sale of branded imported pharmaceutical and healthcare products in Hong Kong
金活(香港)控股有限公司 Kingworld (Hong Kong) Holdings Limited	Hong Kong	100% (2019: 100%)	Ordinary shares	1 share (2019: 1 share)	Investment holding
深圳市金活醫藥有限公司 SZ Kingworld Medicine Company Limited (note (b)) ("**SZ Kingworld**")	The PRC	100% (2019: 100%)	Registered capital	RMB180,900,000 (2019: 180,900,000)	Distribution sale of branded imported pharmaceutical and healthcare products in the PRC
深圳市東迪欣科技有限公司 Shenzhen Dong Di Xin Technology Company Limited (note (c)) ("**Dong Di Xin**")	The PRC	55% (2019: 55%)	Registered capital	RMB2,000,000 (2019: RMB2,000,000)	Manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices in the PRC
深圳市龍德健康有限公司 Shenzhen City Longde Jiankang Company Limited (note (c)) ("**Longde**")	The PRC	90% (2019: 90%)	Registered capital	RMB28,800,000 (2019: RMB28,800,000)	Property investment
深圳市舒心堂藝術文化傳播有限公司 (note (c)) ("**舒心堂**")	The PRC	41% (2019: 51%)	Registered capital	RMB3,000,000 (2019: RMB1,000,000)	Distribution sales of artwork and organization of art exhibition
深圳市金活中醫藥科技發展有限公司 (note (c))	The PRC	85% (2019: Nil)	Registered capital	RMB5,000,000 (2019: Nil)	Distribution sales of chinese medicine and technology transfer

15. SUBSIDIARIES *(Continued)*

Notes:

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

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

c) Limited liability company established in the PRC. 舒心堂is regarded as an indirect non-wholly subsidiary of the Company since the Company can control the majority of votes of its board of director.

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

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

	Longde		**Dong Di Xin***	
	2020	2019	**2020**	2019
	RMB'000	RMB'000	**RMB'000**	RMB'000
NCI Percentage	**10%**	10%	**45%**	45%
Current assets	**1,262**	1,826	**245,528**	149,768
Non-current assets	**46,254**	42,981	**34,952**	32,339
Current liabilities	**(20,148)**	(16,542)	**(120,072)**	(67,289)
Non-current liabilities	**–**	–	**(1,185)**	(4,190)
Net assets	**27,368**	28,265	**159,223**	110,628
Carrying amount of NCI	**2,736**	2,826	**84,023**	69,609
Revenue	**–**	–	**370,264**	193,114
Profit/(loss) for the year	**(896)**	(189)	**95,196**	15,374
Total comprehensive income/(loss)	**(896)**	(189)	**93,665**	15,374
Profit/(loss) allocated to NCI	**(90)**	(19)	**39,637**	7,060
Total comprehensive income/(loss) allocated to NCI	**(90)**	(19)	**38,948**	7,060
Dividend paid to NCI (note f)	**–**	–	**24,534**	9,925
Cash flows from operating activities	**3,428**	11,516	**113,241**	45,996
Cash flows from investing activities	**(3,273)**	(11,490)	**(3,617)**	(6,925)
Cash flows from financing activities	**–**	–	**(54,150)**	(10,847)

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

15. SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

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

	2020 **RMB'000**	2019 RMB'000
Dividends declared and approved during the financial year:		
To non-controlling shareholders of Dong Di Xin		
– paid during the year	**22,500**	7,883
To non-controlling shareholders of a subsidiary of Dong Di Xin		
– paid during the year	**2,034**	2,042
	24,534	9,925

16. GOODWILL

	RMB'000
Cost	
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	90,693
Accumulated impairment losses	
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	–
Carrying amount	
At 31 December 2020	90,693
At 31 December 2019	90,693

The goodwill arose from acquisition of Dong Di Xin during the year ended 31 December 2015. The goodwill represented the expected future profitability of Dong Di Xin as an established business at the acquisition date. The reportable segment adjusted EBITDA of Dong Di Xin was approximately RMB123,913,000 (2019: RMB35,841,000) for the year (Note 5 (a)).

Impairment testing on Dong Di Xin

The recoverable amount of Dong Di Xin as the identified cash-generating unit ("**CGU**") has been determined based on a value in use calculations. At 31 December 2020, the recoverable amount of the CGU, to which goodwill and other intangible assets (Note 19) are allocated, is determined taking into account the valuation performed by Hong Kong Appraisal Advisory Limited, an independent firm of qualified valuers not connected to the Group and with qualification and experiences in valuing similar assets, based on the cash flows forecasts derived from the most recent financial budgets for the next 5 years (2019: 5 years) approved by the management using the pre-tax discount rate of 18.7% (2019: 19.6%) per annum which reflects current market assessments of the time value of money and the risks specific to the CGU. Other key assumptions for the value in use calculations are the budgeted growth rate of -32% to 5% (2019: 5% to 10.2%) for the next 5 years and budgeted gross margin of 45% (2019: 44% to 46%), which are determined based on past performance, management's expectations for the market development and market growth forecasts.

Based on the results of the valuation, the recoverable amount of the CGU has been assessed as being higher than its carrying amount. Accordingly, no impairment (2019: Nil) on goodwill and other intangible assets (Note 19) was considered necessary at the both reporting period ends.

The management believes that any reasonably possible change in the key assumptions would not cause the carrying amount of the goodwill and other intangible assets (Note 19) to exceed its recoverable amount.

17. INTEREST IN ASSOCIATES

	2020 RMB'000	2019 RMB'000
Share of net assets	**2,588**	2,566

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

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

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

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

	2020 RMB'000	2019 RMB'000
Gross amounts of the associate	**2,587**	2,565
Current assets	**6,602**	5,258
Non-current assets	**–**	–
Current liabilities	**(1,300)**	–
Non-current liabilities	**–**	–
Equity	**5,302**	5,258
Revenue	**–**	–
Profit/(loss) for the year	**44**	(2,995)
Post-tax profit or loss from discontinued operations	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**44**	(2,995)
Dividend received from the associate	**–**	–
Reconciled to the Group's interest in the associate		
Gross amounts of net assets of the associate	**5,302**	5,258
Group's effective interest	**48.78%**	48.78%
Group's share of net assets of the associate	**2,587**	2,565
Carrying amount in the consolidated financial statements	**2,587**	2,565
Profit/(loss) shared by the Group	**22**	(1,460)

17. INTEREST IN ASSOCIATES *(Continued)*

Aggregate information of an associate that is individually not material:

	2020 RMB' 000	2019 RMB' 000
Aggregate carrying amount of individually immaterial associate in the consolidated financial statements	**1**	1
Aggregate amounts of the Group's share of these associate's		
Profit from continuing operations	**–**	–
Post-tax profit or loss from discontinued operations	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**–**	–

18. INTEREST IN A JOINT VENTURE

	2020 RMB' 000	2019 RMB' 000
Share of net assets	**84,969**	72,588

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

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

Notes:

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

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

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

The Group shares control with the joint venture partner over the operating and financial decision-making of the joint venture which has been accounted for using equity method in the consolidated financial statements.

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

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

	2020 **RMB'000**	2019 RMB'000
Gross amounts of Zhuhai Jinming		
Current assets	**68,576**	77,695
Non-current assets	**183,114**	170,883
Current liabilities	**(52,533)**	(77,305)
Non-current liabilities	**(29,218)**	(26,097)
Equity	**169,939**	145,176
Included in the above assets and liabilities:		
Cash and cash equivalents	**16,470**	4,351
Current financial liabilities (excluding trade and other payables)	**(10,026)**	(33,069)
Non-current financial liabilities (excluding deferred tax liabilities)	**–**	(219)
Revenue	**168,923**	212,936
Profit from continuing operations	**24,763**	20,018
Other comprehensive income	**–**	–
Total comprehensive income	**24,763**	20,018
Included in the above profit:		
Valuation gain on investment property (note a)	**13,360**	2,863
Depreciation	**(2,483)**	(1,835)
Interest income	**93**	42
Interest expense	**(1,191)**	(2,125)
Income tax expense	**(5,716)**	(7,106)
Reconciled to the Group's interest in Zhuhai Jinming		
Gross amounts of Zhuhai Jinming's net assets	**169,939**	145,176
Group's effective interest	**50%**	50%
Carrying amount in the consolidated financial statements	**84,969**	72,588
Profit shared by the Group	**12,381**	10,009
Other comprehensive income shared by the Group	**–**	–
Total comprehensive income shared by the Group	**12,381**	10,009

Note:

a) The fair value gain of the investment property located in Xiangzhou District of Zhuhai arose mainly attributable to the local government's recent announcements before 31 December 2020 for the redevelopment plans for the areas in which the investment property of Zhuhai Jinming is situated.

(Expressed in Renminbi)

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

The fair value of Zhuhai Jinming's investment properties as at 31 December 2020 and 2019 were determined on an open market value basis calculated by reference to net rental income allowing for reversionary income potential, which is categorised under Level 3 fair value measurements. The valuations at 31 December 2020 and 2019 were carried out by an independent firm of qualified valuers, Cushman & Wakefield Limited, who amongst their staff have members of the Hong Kong Institute of Surveyors with recent experience in the location and category of properties being valued.

Information about Level 3 fair value measurements is as follows:

	Valuation techniques	Unobservable input	Range
Investment properties: – Commercial – PRC	Discounted cash flow	Risk-adjusted discount rate (i.e. market rental yield)	5.8% (2019: 6%)
		Expected market rental growth	5.8% (2019: 6%)
		Expected occupancy rate	100% (2019: 100%)

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

19. OTHER INTANGIBLE ASSETS

	Customer relationships (note a) RMB'000	Patents (note b) RMB'000	Total RMB'000
Cost			
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	104,727	28,700	133,427
Accumulated amortisation and impairment losses			
At 1 January 2019	51,273	22,482	73,755
Charge for the year	13,091	5,740	18,831
At 31 December 2019	64,364	28,222	92,586
At 1 January 2020	64,364	28,222	92,586
Charge for the year	13,091	478	13,569
At 31 December 2020	77,455	28,700	106,155
Carrying amount			
At 31 December 2020	27,272	–	27,272
At 31 December 2019	40,363	478	40,841

Notes:

(a) The customer relationships have a finite useful life and are amortised on a straight-line basis over 8 years.

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

Impairment test on the impairment of other intangible assets are disclosed in Note 16. Based on the results of the assessment, the recoverable amount of the CGU, to which these other intangible assets are allocated, has been assessed as being higher than its carrying amount. Accordingly, no impairment on the other intangible assets was considered necessary at 31 December 2020 (2019: Nil).

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

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Note	**2020** **RMB'000**	2019 RMB'000
Financial assets at fair value through other comprehensive income (non-recycling)			
– Unlisted Equity Investments, at fair value			
Non-current	(a) and (b)	**39,962**	33,697
Current	b(ii)	**94**	–

Notes:

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

(b) Included in unlisted equity investments measured at fair value at 31 December 2020 and 2019 are:

(i) Investment in 5.99% interest in Sinopharm Healthcare Fund L. P. (the "**Fund**") which are designated as financial assets at fair value through other comprehensive income (non-recycling) and has no fixed maturity date or coupon rate. Pursuant to a partnership agreement signed on 24 June 2015, the Group has committed to invest US$5,000,000 (equivalent to approximately RMB33,930,000) to subscribe approximately 5.52% of the aggregate initial limited partners' interest of the Fund. At the same contributed, the Fund holds approximately 9.99% of the total issued share capital of the Company. The fair value of the Group's interest in the Fund is determined taken into account the valuation performed by Hong Kong Appraisal Advisory Limited, an independent valuer not connected to the Group, based on the quoted prices of equity instruments for which the Fund invested in. During the year ended 31 December 2020, the decrease in fair value amounting to RMB1,392,000 has been recognised to other comprehensive income. As at 31 December 2020, the fair value of the investment is approximately HK$33,939,000 (equivalent to RMB28,598,000) (2019: HK$35,503,000 (equivalent to RMB31,768,000)). The Group does not intend to dispose it in the near future.

A cross-holding position has been existing between the Fund and the Company. The Group's interest in the Fund is 5.99% and the Fund held in aggregate 9.99% of the issued share capital of the Company as at 31 December 2020 and 2019.

(ii) Investment in 15% interest in Dong Hua Tong Investments Limited which are designated as financial assets at fair value through other comprehensive income (non-recycling) and has no fixed maturity date or coupon rate. The fair value of the investment was also determined with reference to valuation performed by Hong Kong Appraisal Advisory Limited based on market value of Dong Hua Tong Investments Limited's asset and liabilities (2019: the median of the market multiples of market comparable companies after adjusting for lack of marketability and control discount). As at 31 December 2020, the fair value of the investment is approximately HK$112,000 (equivalent to RMB94,000) (2019: HK$1,820,000 (equivalent to RMB1,629,000)). As at 31 December 2020, the Group intends (2019: did not intend) to dispose it in the near future.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME *(Continued)*

(iii) Investment in an unlisted equity security which is designated as fair value through other comprehensive income and has no fixed maturity date or coupon rate. At the reporting period end, the directors of the Company assessed and determined its fair value to be approximately RMB300,000 (2019: RMB300,000) by reference to the entitlement to the net assets of the investee.

(iv) Investment in 88.5% interest in 深圳國新南方三號投資合夥企業(有限合夥) which are designated as financial assets at fair value through other comprehensive income (non-recycling) and has no fixed maturity date or coupon rate. During the year ended 31 December 2020, the Group has contributed RMB10 million into the Fund. The fair value of the investment was also determined with reference to valuation performed by Hong Kong Appraisal Advisory Limited based on the median of the market multiples of market comparable companies. As at 31 December 2020, the fair value of the investment is approximately RMB11,064,000. The Group does not intend to dispose it in the near future. The Group is not the controlling entity nor the management of the Fund. The investment in the Fund is classified as financial assets at fair value though other comprehensive income.

21. INVENTORIES

	2020 **RMB'000**	2019 RMB'000
Raw materials	**20,920**	13,030
Work in progress	**7,249**	4,427
Finished goods	**102,052**	187,664
	130,221	205,121

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

	2020 **RMB'000**	2019 RMB'000
Carrying amount of inventories sold (note 7(c))	**465,229**	710,525
Write-down of inventories (note 7(c))	**33,562**	1,576

During the year ended 31 December 2020, write-down on those slow moving inventories of approximately RMB33,562,000 (2019: RMB1,576,000) were recognised, taking into account their remaining valid period due to expire shortly after the reporting period end.

22. TRADE AND OTHER RECEIVABLES

	2020 **RMB'000**	2019 RMB'000
Trade and bills receivables	**252,558**	285,272
Less: Allowance for lifetime expected credit losses (note (c) below)	**(6,367)**	(5,405)
	246,191	279,867
Other receivables (note 31(a))	**46,154**	37,923
Other loan (note (e) below)	**–**	46,825
Amounts due from related parties (note (f) below& note 35(b))	**295**	15
Amount due from an associate (note (f) below & note 35(b))	**4,244**	4,220
Amount due from a joint venture (note (f) below & note 35(b))	**2**	–
Loans and receivables	**296,886**	368,850
Prepayments	**18,224**	17,804
Trade and other deposits	**5,395**	2,336
Trade deposits to related parties (note 35(b))	**2,555**	2,526
	323,060	391,516

a) All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

b) Ageing analysis

Included in trade and other receivables are trade and bills receivables (net of allowance for lifetime expected credit losses) with the following ageing analysis based on invoice date, as of the end of the reporting period:

	2020 **RMB'000**	2019 RMB'000
0-90 days	**232,354**	248,333
91-120 days	**4,061**	18,070
121-180 days	**1,735**	8,038
181-365 days	**8,041**	2,706
More than 1 year	**–**	2,720
	246,191	279,867

The Group generally granted credit terms ranging from 30 days to 120 days to its customers. Further details on the Group's credit policy are set out in note 31(a).

The Group does not hold any collateral over these balances.

22. TRADE AND OTHER RECEIVABLES *(Continued)*

c) *Impairment of trade and bills receivables*

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly.

Movements in the allowance for lifetime expected credit losses during the year are as follows:

	2020 RMB'000	2019 RMB'000
At 1 January	**5,405**	5,575
Impairment losses recognised during the year (note 7(c))	**962**	–
Impairment losses reversed during the year (note 7(c))	**–**	(170)
At 31 December	**6,367**	5,405

As at 31 December 2020, allowance for lifetime expected credit losses on trade and bills receivables amounting to RMB6,367,000 (2019: RMB5,405,000) were determined according to the expected credit loss rates, as further detailed in Note 31(a).

22. TRADE AND OTHER RECEIVABLES *(Continued)*

d) As at 31 December 2020, the trade receivables amounted to RMB123,629,000 (2019: Nil) were pledged for a short-term bank loan of the Group amounted to RMB50,000,000 (2019: Nil) (note 27).

e) As at 31 December 2019, the amount represents shareholders' loan of HK$52.3 million (equivalent to RMB46.8 million) to Dong Hua Tong Investments Limited in which the Group has held 15% interests as further detailed in note 20(b)(ii). The amount is unsecured, interest-free and repayable on demand. During the year ended 31 December 2020, Dong Hua Tong Investments Limited fully repaid the shareholders' loan of HK$52.3 million (equivalent to RMB46.5 million) to the Group.

f) The balances with related parties, an associate and a joint venture are unsecured, interest free and repayable on demand. The directors of the Company considered that there has been no significant change in the credit risk of these related parties and default risk for the amounts due from them was considered to be low.

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Note	**2020** **RMB'000**	2019 RMB'000
Non-current			
Unlisted Equity Investments, at fair value	(a)	**6,257**	5,739
Current			
Listed securities			
– Chuangmei Pharmaceutical Co., Ltd. ("**Chuangmei**")	(b)	**10,552**	15,325

The above financial assets at 31 December 2020 and 2019 were upon initial recognition, designated by the Company at fair value through profit or loss.

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

(a) The Group have invested in 10% interest in Shenzhen Qianhai Industry Internet Co., Ltd.. The fair value of the investment was determined with reference to valuation performed by Hong Kong Appraisal Advisory Limited based on the median of the market multiples of market comparable companies after adjusting for lack of marketability and control discount. As at 31 December 2020, the fair value of the investment is approximately RMB6.3 million (2019: RMB5.7 million). The Group does not intend to dispose it in the near future.

(b) Chuangmei was incorporated in the PRC and the shares of which are listed on the Main Board of the Stock Exchange of Hong Kong Limited. As at 31 December 2020 and 2019, a total of 2,302,000 ordinary shares of Chuangmei were held by the Company, representing 2.13% of Chuangmei's total issued ordinary shares. As at 31 December 2020 and 2019, the fair value of investment in Chuangmei ordinary shares was determined with reference to the closing market price of its shares on that date.

24. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	2020 **RMB'000**	2019 RMB'000
Bank balances	**250,581**	113,239
Cash on hand	**237**	256
Cash and cash equivalents in the consolidated statement of cash flows and consolidated statement of financial position	**250,818**	113,495
Pledged bank deposits (note a)	**–**	8,549
Total cash and bank balances	**250,818**	122,044

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

a) As at 31 December 2020, the Group's pledged bank deposits for letter of credit with use restrictions amounted to RMB Nil (2019: RMB3,315,000) (Note 26).

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

b) Reconciliation of liabilities arising from financing activities

	Dividend payable to NCI RMB'000	Accrued interest RMB'000	Lease liabilities RMB'000	Bank loans RMB'000	Total liabilities from financing activities RMB'000
At 1 January 2020	**–**	**271**	**17,489**	**214,327**	**232,087**
Interest recognised in profit or loss	**–**	**14,368**	**793**	**–**	**15,161**
Dividends declared and payable to non–controlling interests	**24,534**	**–**	**–**	**–**	**24,534**
Changes from financing cash flows					
– Proceeds from new bank loans	**–**	**–**	**–**	**421,867**	**421,867**
– Repayment of bank loans	**–**	**–**	**–**	**(330,902)**	**(330,902)**
– Capital element of lease rental paid	**–**	**–**	**(9,578)**	**–**	**(9,578)**
– Dividends paid to non–controlling interests	**(24,534)**	**–**	**–**	**–**	**(24,534)**
Finance costs paid	**–**	**(14,639)**	**(793)**	**–**	**(15,432)**
Increase in lease liabilities from entering into a new lease during the period	**–**	**–**	**1,498**	**–**	**1,498**
COVID-19 related rent concessions received (note 13)	**–**	**–**	**(142)**	**–**	**(142)**
Exchange adjustments	**–**	**–**	**(28)**	**(8,754)**	**(8,782)**
At 31 December 2020	**–**	**–**	**9,239**	**296,538**	**305,777**
At 1 January 2019	–	–	15,803	336,676	352,479
Interest recognised in profit or loss	–	14,252	1,232	–	15,484
Dividends declared and approved to non–controlling interests	9,925	–	–	–	9,925
Changes from financing cash flows					
– Proceeds from new bank loans	–	–	–	216,620	216,620
– Repayment of bank loans	–	–	–	(341,742)	(341,742)
– Capital element of lease rentals paid	–	–	(6,294)	–	(6,294)
– Dividends paid to non–controlling interests	(9,925)	–	–	–	(9,925)
Finance costs paid	–	(13,981)	(1,232)	–	(15,213)
Increase in lease liabilities from entering into new leases during the period	–	–	7,982	–	7,982
Exchange adjustments	–	–	(2)	2,773	2,771
At 31 December 2019	–	271	17,489	214,327	232,087

Note: (a) Major non-cash transactions

During the year ended 31 December 2020, the Group entered into lease arrangements with a total present value of future lease payments at the inception of the leases of approximately RMB1,498,000 (2019: RMB7,982,000), which were included in the right-of-use assets.

25. CONTRACT LIABILITIES

	2020 **RMB'000**	2019 RMB'000
Trade deposits received from customers:		
– Security deposits received	**33,915**	58,701
– Receipts in advance	**22,581**	13,641
	56,496	72,342

Security deposits are received from the Group's distributors/customers as protection against non–performance (i.e. the default in payment for the goods transferring to customers) of the obligations by the distributors/customers under the relevant master distributorship agreements which were entered into between the Group and the relevant distributors/customers, which would be applied as settlement for future sales orders if the customers fail to pay on the specified date (after transferring the goods to the customers) under these orders, and thus classified as contract liabilities. Receipts in advance are collected from the distributors/customers of the Group when they placed the orders for purchase of goods from the Group. These security deposits and receipts in advance from the distributors/customers are not intended and regarded as a financing arrangement under the relevant master distributorship agreements.

Movements in contract liabilities	**2020** **RMB'000**	2019 RMB'000
Balance at 1 January	**72,342**	72,718
Increase in contract liabilities as a result of receiving deposits from the customers during the year	**56,247**	35,657
Decrease in contract liabilities as a result of recognising revenue during the year that was included in contract liabilities at the beginning of the year	**(72,043)**	(36,060)
Exchange difference	**(50)**	27
Balance at 31 December	**56,496**	72,342

26. TRADE AND OTHER PAYABLES

	2020 **RMB'000**	2019 RMB'000
Trade and bills payables (note (c))	**101,537**	227,524
Accruals	**6,763**	7,219
Other payables	**48,276**	31,718
Amount due to a joint venture (note (d) and 35(b))	**–**	415
Amount due to related parties (note (d) and 35(b))	**22,243**	4,035
Financial liabilities measured at amortised cost	**178,819**	270,911
Value–added tax payable	**9,172**	2,501
	187,991	273,412

a) All of the trade and bills payables and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

b) As at 31 December 2020, the pledged bank deposit amounted to RMB Nil (2019: RMB8,549,000) was used for the issuance of letters of credit to the trade payables amounted to RMB Nil (2019: RMB3,315,000).

c) Ageing analysis

Included in trade and other payables are trade and bills payables with the following ageing analysis (presented based on invoice date) as of the end of the reporting period.

	2020 **RMB'000**	2019 RMB'000
0–90 days	**98,158**	226,757
91–180 days	**3,379**	767
	101,537	227,524

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

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

27. BANK LOANS

At 31 December 2020, the bank loans were repayable as follows:

	2020	2019
	RMB'000	RMB'000
Within 1 year or on demand	**296,538**	214,327

At 31 December 2020, the bank loans were as follows:

	2020	2019
	RMB'000	RMB'000
Bank loans		
– secured (note c)	**296,538**	214,327
– unsecured	**–**	–
Total bank loans	**296,538**	214,327

a) All of the bank loans are carried at amortised cost.

b) The range of effective interest rates on the Group's bank loans are as follows:

	2020	2019
Effective interest rates:		
Fixed rate loans	**2.16%–6.23%**	3.59%–6.53%

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

	2020	2019
	RMB'000	RMB'000
Investment properties (note 14)	**107,000**	108,900
Property, plant and equipment (note 13)	**19,893**	20,984
Right-of-use assets (note 13)	**56,923**	58,287
Trade receivables (note 22)	**123,629**	–

The Group's bank loans amounted to RMB96,550,000 as at 31 December 2020 were secured by Group's investment property. The Group's bank loans amounted to RMB149,988,000 as at 31 December 2020 were secured by Group's right-of-use assets and property, plant and equipment and/or guarantee by Mr. Zhao Li Sheng, the ultimate controlling party and director of the Group, and Ms. Chan Lok San, the director of the Group. The Group's bank loan amounted to RMB50,000,000 was secured by Group's trade receivables.

28. LEASE LIABILITIES

At 31 December 2020, the lease liabilities were payable as follows:

	2020 RMB'000	2019 RMB'000
Within 1 year	**8,003**	9,115
After 1 year but within 2 years	**1,236**	7,259
After 2 years but within 5 years	**–**	1,115
	1,236	8,374
	9,239	17,489

29. CURRENT AND DEFERRED TAX

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

	2020 **RMB'000**	2019 RMB'000
At 1 January	**7,173**	4,123
Provision for the year		
– Hong Kong Profits Tax	**300**	2,380
– PRC Enterprise Income Tax	**22,160**	19,982
	22,460	22,362
Paid during the year	**(23,010)**	(19,312)
At 31 December	**6,623**	7,173

b) *Deferred tax liabilities recognised*

The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Amortisation of intangible assets RMB'000	**Revaluation of investment properties** RMB'000	**Total** RMB'000
At 1 January 2019	8,953	16,304	25,257
Credited to consolidated statement of profit or loss (note 8(a))	(2,824)	–	(2,824)
At 31 December 2019	6,129	16,304	22,433
At 1 January 2020	**6,129**	**16,304**	**22,433**
Credited to consolidated statement of profit or loss (note 8(a))	**(2,038)**	**(420)**	**(2,458)**
At 31 December 2020	**4,091**	**15,884**	**19,975**

c) *Deferred tax assets and liabilities not recognised*

Save as disclosed in note 8(c), there were no significant unrecognised deferred tax assets and liabilities of the Group and the Company as at 31 December 2020 and 2019.

30. SHARE CAPITAL AND RESERVES

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of the equity between the beginning and the end of the year are set out below:

	Share capital RMB'000 (note a)	Share premium RMB'000 (note b)	Contributed surplus RMB'000 (note d)	Exchange reserve RMB'000 (note f)	Capital reserve RMB'000 (note g)	Retained profits/ (accumulated loss) RMB'000	Total RMB'000
At 1 January 2020	**53,468**	**152,700**	**–**	**6,894**	**(5,530)**	**5,077**	**212,609**
Change in equity:							
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(14,674)**	**(14,674)**
Other comprehensive income for the year	**–**	**–**	**–**	**(11,617)**	**–**	**–**	**(11,617)**
Total comprehensive (loss)/ income for the year	**–**	**–**	**–**	**(11,617)**	**–**	**(14,674)**	**(26,291)**
Equity settled share–based transactions	**–**	**–**	**–**	**–**	**(7,025)**	**–**	**(7,025)**
Dividends (note 9)	**–**	**–**	**–**	**–**	**–**	**(12,274)**	**(12,274)**
At 31 December 2020	**53,468**	**152,700**	**–**	**(4,723)**	**(12,555)**	**(21,871)**	**167,019**
At 1 January 2019	53,468	152,700	95,863	2,982	8,454	(176,645)	136,822
Change in equity:							
Profit for the year	–	–	–	–	–	89,938	89,938
Other comprehensive income for the year	–	–	–	3,912	–	–	3,912
Total comprehensive income/ (loss) for the year	–	–	–	3,912	–	89,938	93,850
Shares repurchased for the share award scheme	–	–	–	–	(5,530)	–	(5,530)
Transfer of reserve upon the expiry of share options	–	–	–	–	(8,454)	8,454	–
Dividends (note 9)	–	–	–	–	–	(12,533)	(12,533)
Transfer of reserve	–	–	(95,863)	–	–	95,863	–
At 31 December 2019	53,468	152,700	–	6,894	(5,530)	5,077	212,609

30. SHARE CAPITAL AND RESERVES *(Continued)*

a) *Share Capital*

	Number of shares '000	Amount HK$'000	Amount equivalent to RMB$'000
Authorised:			
Ordinary shares of HK$0.1 each			
At beginning and end of the year	10,000,000	1,000,000	877,900
Issued and fully paid:			
Ordinary shares of HK$0.1 each			
At beginning and end of the year	622,500	62,250	53,468

b) *Share premium*

The application of the share premium account of the Company is governed by the Companies Law of the Cayman Islands.

c) *Statutory and discretionary reserves*

The Group's PRC subsidiaries are required to transfer 10% of their net profits as determined in accordance with the PRC regulations to the statutory reserve until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders.

The transfer of net profits to the discretionary reserve of the Group's PRC subsidiaries is determined by the shareholders in general meetings in accordance with the articles of association and the PRC regulations.

The statutory and discretionary reserves are non–distributable. They can be used to reduce previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

30. SHARE CAPITAL AND RESERVES *(Continued)*

d) *Contributed surplus*

The Group's contributed surplus represents the difference between the nominal value of the shares issued by the Company and the aggregate of the share capital and share premium of the subsidiaries acquired upon a group reorganisation (the "**Reorganisation**") which was completed on 3 November 2010 in preparation for listing of shares of the Company on the Main Board of the Stock Exchange and rationalising the Group's structure.

The Company's contributed surplus represents the excess of total net assets of the subsidiaries acquired, pursuant to the Reorganisation, over the nominal value of the Company's shares issued in exchange thereof.

e) *Fair value reserve*

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

f) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of the Group's operations outside the Mainland China. The reserve is dealt with in accordance with the accounting policies set out in note 2(s).

g) *Capital reserve*

The portion of the grant date fair value of unexercised share options granted to employees of the Company that has been recognised in accordance with the accounting policies adopted for share–based payments in note 2(w)(ii), and costs of the Company's shares purchased for the share award scheme (note 37) less the fair value of share-based payments in respect of any of shares awarded to the employees which are vested at award date and recognised in accordance with the accounting policy as set out in note 2(w) (iii).

30. SHARE CAPITAL AND RESERVES *(Continued)*

h) Distributable reserves of the Company

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

ii) At 31 December 2020, the aggregate amount of reserves available for distribution to owners of the Company was RMB130,829,000 (2019: RMB157,777,000). After the end of the reporting period, the directors proposed a final dividend of HK0.65 cents (equivalent to RMB0.55 cents) (2019: HK2.34 cents (equivalent to RMB2.09 cents)) per share amounting to RMB3,424,000 (2019: RMB13,010,000) (note 9). The proposed final dividend has not been recognised as a liability at the end of the reporting period.

i) Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while structure regularly. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt.

The Group monitors its capital structure on the basis of net debt to equity ratio. The Group defines net debt as interest–bearing bank loans, less pledged bank deposits and cash and cash equivalents. Equity comprises all components of equity.

30. SHARE CAPITAL AND RESERVES *(Continued)*

i) *Capital management* *(Continued)*

The Group's net debt to equity ratio at 31 December 2020 and 2019 were as follows:

	31 December 2020 (Note) RMB'000	31 December 2019 (Note) RMB'000
Current liabilities		
Bank loans	**296,538**	214,327
Lease liabilities	**8,003**	9,115
Non-current liabilities		
Lease liabilities	**1,236**	8,374
Total debt	**305,777**	231,816
Less: Cash and bank balances (including pledged bank deposits)	**(250,818)**	(122,044)
Adjusted net debt	**54,959**	109,772
Total equity	**678,510**	673,190
Net debt to equity ratio	**8.10%**	16.31%

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements in either the current or prior years.

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

The Group's major financial instruments include cash and cash equivalents, financial assets at fair value through other comprehensive income, trade and other receivables and payables, financial assets at fair value through profit or loss, pledged bank deposits, other financial asset and liabilities, and bank loans. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, interest rate risk, currency risk and business risk. The policies on how to mitigate these risks are set out as below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Financial instruments by categories

Financial assets at the end of the reporting period are as follows:

	2020	2019
	RMB'000	RMB'000
Trade and bills receivables	**246,191**	279,867
Other loan and other receivables (excluding deposits and prepayments and value added tax receivables)	**46,154**	84,748
Amounts due from related parties	**295**	15
Amounts due from an associate	**4,244**	4,220
Amounts due from a joint venture	**2**	–
Pledged bank deposits	**–**	8,549
Cash and cash equivalents	**250,818**	113,495
Loans and receivables at amortised cost	**547,704**	490,894
Financial assets at fair value through profit or loss	**16,809**	21,064
Financial assets at fair value through other comprehensive income	**40,056**	33,697
Financial assets at fair value	**56,865**	54,761

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

Financial instruments by categories *(Continued)*

Financial liabilities at the end of the reporting period are as follows:

	2020	2019
	RMB'000	RMB'000
Bank loans	**296,538**	214,327
Trade and bill payables	**101,537**	227,524
Accruals and other payables (excluding value-added-tax payables, receipts in advance and warranty provision)	**55,039**	34,845
Amount due to a joint venture	**–**	415
Amount due to related parties	**22,243**	4,035
Lease liabilities	**9,239**	17,489
Financial liabilities at amortised cost	**484,596**	498,635

a) *Credit risk*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group.

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

a) *Credit risk (Continued)*

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on year-end staging classification. The amounts presented are net carrying amounts after provision for ECLs for financial assets.

Maximum exposure and year-end staging as at 31 December 2020

	2020				
	12-month ECLs		Lifetime ECLs		
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade and bills receivables (note (i))	–	–	–	246,191	246,191
Other receivables (note (ii))	46,154	–	–	–	46,154
Amount due from related parties (note (ii))	295	–	–	–	295
Amount due from an associate (note (ii))	4,244	–	–	–	4,244
Amount due from a joint venture (note (ii))	2	–	–	–	2
Cash and cash equivalents (note (iii))	250,818	–	–	–	250,818
	301,513	–	–	246,191	547,704

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

a) *Credit risk* ***(Continued)***

Maximum exposure and year-end staging as at 31 December 2019

	2019				
	12-month ECLs		Lifetime ECLs		
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade and bills receivables (note (i))	–	–	–	279,867	279,867
Other receivables (note (ii))	37,923	–	–	–	37,923
Other loan receivable (note (ii))	46,825	–	–	–	46,825
Amount due from related parties (note (ii))	15	–	–	–	15
Amount due from an associate (note (ii))	4,220	–	–	–	4,220
Pledged bank deposits (note (iii))	8,549	–	–	–	8,549
Cash and cash equivalents (note (iii))	113,495	–	–	–	113,495
	211,027	–	–	279,867	490,894

(i) Trade and bills receivables

The Group has established a credit risk management policy under which individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 120 days from the date of billing. Debtors with balances that are more than 4 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group has no significant concentration of credit risk in industries or countries in which the customers operate. Significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 8.3% (2019: 6.77%) and 30.28% (2019: 27.52%) of the total trade and bills receivables were due from the Group's largest customer and the five largest customers respectively.

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

a) *Credit risk* *(Continued)*

(i) Trade and bill receivables (Continued)

(i) The Group measures loss allowances for trade and bills receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

For trade and bills receivables, the Group applies the simplified approach for measuring the lifetime ECLs on individual basis if the amounts are significant, or collective basis using the provision matrix, as disclosed below.

The ageing analysis of trade and bills receivables (net of allowance for doubtful debts) that are neither individually nor collectively considered to be impaired is as follows:

	As at 31 December 2020				
	Lifetime ECL %	**Gross carrying amount RMB'000**	**Lifetime ECL RMB'000**	**Net carrying amount RMB'000**	**Credit impaired Yes/No**
Not past due	**0.02%**	**210,400**	**(49)**	**210,351**	**No**
Past due:					
0-90 days	**0.04%**	**26,128**	**(10)**	**26,118**	**No**
91-180 days	**0.64%**	**4,039**	**(26)**	**4,013**	**No**
181-365 days	**14.12%**	**6,648**	**(939)**	**5,709**	**No**
Over 365 days	**100%**	**5,343**	**(5,343)**	**–**	**Yes**
		252,558	**(6,367)**	**246,191**	

	As at 31 December 2019				
	Lifetime ECL %	Gross carrying amount RMB'000	Lifetime ECL RMB'000	Net carrying amount RMB'000	Credit impaired Yes/NO
Not past due	–%	227,955	–	227,955	No
Past due:					
0-90 days	–%	40,617	–	40,617	No
91-180 days	0.89%	8,297	(74)	8,223	No
181-365 days	9.14%	3,381	(309)	3,072	No
Over 365 days	100%	5,022	(5,022)	–	Yes
		285,272	(5,405)	279,867	

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

a) *Credit risk (Continued)*

(i) Trade and bills receivables (Continued)

(i) (Continued)

Expected loss rates are based on actual loss experience over the past 4 years as adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, patterns of settlement history of the customers, current conditions at the reporting period and the forward looking information such as forecast future economic conditions over the expected lives of the receivables.

Receivables that were neither past due nor impaired relate to a wide range of customers for which there was no recent history of default.

Receivables that were past due but not impaired relate to a number of individual customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the carrying balances are still considered fully recoverable. The Group does not hold any collateral over these carrying balances.

(ii) In respect of other receivables, amount due from related parties, other loan receivable, amount due from an associate and amount due from a joint venture, for which there was no significant increase in credit risk as at 31 December 2020 and 2019 by reference to the information available on the financial position of the respective debtors, past payment history, current conditions and other forward looking factors. No allowance for ECLs of these receivables was required as at 31 December 2020 and 2019, as the probability of default for these receivables is considered as low.

(iii) The Group’s cash and cash equivalents (2019: cash and cash equivalents and pledged bank deposit) are placed with creditworthy banks with high credit ratings and the Group has limited exposure to any of these banks and no allowance for ECLs on them at the reporting period end.

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

b) *Liquidity risk*

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to board approval. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following liquidity risk tables set out the remaining contractual maturities at the end of the reporting period of the Group's non–derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current rates at the end of the reporting period) and the earliest date the Group is required to pay:

	Within 1 year or on demand RMB'000	After 1 year but within 2 years RMB'000	After 2 years but within 5 years RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amount RMB'000
2020					
Non–derivative financial liabilities					
Trade and bills payables	**101,537**	**–**	**–**	**101,537**	**101,537**
Accruals	**6,763**	**–**	**–**	**6,763**	**6,763**
Other payables (excluding value–added–tax payables)	**48,276**	**–**	**–**	**48,276**	**48,276**
Amount due to related parties	**22,243**	**–**	**–**	**22,243**	**22,243**
Bank loans	**320,589**	**–**	**–**	**320,589**	**296,538**
Lease liabilities	**8,240**	**1,342**	**–**	**9,582**	**9,239**
	507,648	**1,342**	**–**	**508,990**	**484,596**
2019					
Non–derivative financial liabilities					
Trade and bills payables	227,524	–	–	227,524	227,524
Accruals	7,219	–	–	7,219	7,219
Other payables (excluding value-added-tax payables)	31,718	–	–	31,718	31,718
Amount due to a joint venture	415	–	–	415	415
Amount due to related parties	4,035	–	–	4,035	4,035
Bank loans	220,910	–	–	220,910	214,327
Lease liabilities	9,384	7,922	1,292	18,598	17,489
	501,205	7,922	1,292	510,419	502,727

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

c) *Interest rate risk*

The Group's interest rate risk arises primarily from borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts.

i) ***Interest rate risk profile***

The following table, as reported to the management of the Group, details the interest rate risk profile of the Group's lease liabilities, bank loans, bank balances and deposits at the end of the reporting period:

	2020		2019	
	Effective interest rates %	**RMB'000**	Effective interest rates %	RMB'000
Fixed rate borrowings:				
Lease liabilities	**4.30%-6.00%**	**9,239**	6.00%	17,489
Bank loans	**2.16%-6.23%**	**296,538**	3.59%-6.53%	214,327
Variable rate borrowings:				
Bank loans	**–**	**–**	–	–
Total borrowings		**305,777**		231,816
Net fixed rate borrowings as a percentage of total borrowings		**100%**		100%
Fixed rate pledged bank deposits		**–**		8,549
Variable rate bank balances		**250,818**		113,495

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

c) *Interest rate risk* *(Continued)*

ii) *Sensitivity analysis*

All bank loans and pledged deposits of the Group which are fixed rate instruments are insensitive to any change in interest rates. A change in interest rates at the end of the reporting period would not affect profit or loss.

At 31 December 2020, it is estimated that a general increase/decrease of 100 basis points in interest rates for bank balances, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately RMB2,508,000 (2019: RMB1,135,000). Other components of consolidated equity would not change in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for non–derivative financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until end of next annual reporting period. The analysis is performed on the same basis for the 2019.

d) *Currency risk*

The Group is exposed to currency risk primarily through purchases which give rise to trade and other payables, cash and cash equivalents, trade and other receivables and bank loans. The carrying values of these financial assets and liabilities are denominated in foreign currencies other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily US$, HK$ and Euro and RMB to the extent that they are not the functional currency of the operations to which the transactions and balances related. The management monitors foreign exchange exposure by closely reviewing the movement of the foreign currency rate and consider hedging significant foreign currency exposure should the need arise.

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

d) *Currency risk (Continued)*

i) *Exposure to currency risk*

	2020	2019
	RMB'000	RMB'000
Assets/(liabilities)		
Cash and cash equivalents		
US$	**123,245**	46,423
HK$	**97**	83
RMB	**373**	203
Euro	**3,850**	9,335
Trade and other receivables		
US$	**42,011**	26,433
Trade and other payables		
US$	**(1,024)**	(9,040)
HK$	**(69,167)**	(188,205)
Euro	**–**	(136)
NOK	**–**	(3,197)
Contract liabilities		
US$	**(15,615)**	(9,345)
Bank loans		
HK$	**(36,550)**	(4,020)
US$	**–**	(22,508)
Total assets		
US$	**165,256**	72,856
HK$	**97**	83
RMB	**373**	203
Euro	**3,850**	9,335
Total liabilities		
US$	**(16,639)**	(40,893)
HK$	**(105,717)**	(192,225)
Euro	**–**	(136)
NOK	**–**	(3,197)

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

d) *Currency risk* *(Continued)*

ii) *Sensitivity analysis*

The following table indicates the approximate change in the Group's profit after tax (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of the reporting period.

	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
At 31 December 2020			
US$	**5%**	**7,431**	**–**
	(5%)	**(7,431)**	**–**
HK$	**5%**	**(5,281)**	**–**
	(5%)	**5,281**	**–**
RMB	**5%**	**19**	**–**
	(5%)	**(19)**	**–**
Euro	**5%**	**193**	**–**
	(5%)	**(193)**	**–**
At 31 December 2019			
US$	5%	2,065	–
	(5%)	(2,065)	–
HK$	5%	(9,607)	–
	(5%)	9,607	–
RMB	5%	10	–
	(5%)	(10)	–
Euro	5%	460	–
	(5%)	(460)	–
NOK	5%	(160)	–
	(5%)	160	–

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

d) *Currency risk* ***(Continued)***

ii) ***Sensitivity analysis (Continued)***

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the group entities' profit or loss after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

e) *Business risk*

The Group has a certain concentration of business risk as 24.4% (2019: 48.0%) of its total turnover during the year from a principal product, Nin Jiom Pei Pa Koa (京都念慈庵蜜煉川貝枇杷膏), which was purchased from a sole supplier that is the designated distributor of the manufacturer of Nin Jiom Pei Pa Koa. In November 2013, the Group entered into a four–year period distribution agreement with the manufacturer and the supplier of Nin Jiom Pei Pa Koa, pursuant to which the Group is entitled the non–exclusive distribution right to sell Nin Jiom Pei Pa Koa in certain provinces in the PRC and is granted the credit terms of 60 days. The distribution agreement was renewed in April 2017 for four–year period. If there is any change in consumer taste and demand of the product, or the supplier does not further renew the purchase agreement, the Group's turnover and profitability will be adversely affected.

f) *Fair value*

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities, recorded at amortised cost, in the consolidated financial statements approximate their fair values.

Fair value hierarchy

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

- Level 1 valuations: Fair value measured using only Level 1 inputs, that is,unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: Fair value measured using Level 2 inputs, that is, observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

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

f) Fair value *(Continued)*

Fair value hierarchy (Continued)

The Group uses independent valuers to perform valuations of financial instruments which are categorised into Level 2 and Level 3 of the fair value hierarchy. Valuation reports with analysis of changes in fair value measurement are prepared by the independent valuer at each interim and annual reporting date, and are reviewed and approved by the financial controller. Discussion of the valuation process and results with the financial controller is held twice a year to coincide with the reporting dates.

		Fair value measurements as at 31 December 2020 categorised into				Fair value measurements as at 31 December 2019 categorised into		
	Fair value at 31 December 2020	Level 1	Level 2	Level 3	Fair value at 31 December 2019	Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurements								
Assets:								
Financial assets at fair value through other comprehensive income (non–recycling)								
– Unlisted equity investments	**40,056**	**–**	**28,598**	**11,458**	33,697	–	31,768	1,929
Financial assets at fair value through profit or loss								
– Unlisted equity investments	**6,257**	**–**	**–**	**6,257**	5,739	–	–	5,739
– Listed securities	**10,552**	**10,552**	**–**	**–**	15,325	15,325	–	–

During the years ended 31 December 2020 and 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.

(Expressed in Renminbi)

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

f) Fair value *(Continued)*

Fair value hierarchy (Continued)

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

Note:

1. The valuation techniques and key inputs used of unlisted equity investments for level 3 fair value measurement at the end of the reporting period are as follows:

2020	Valuation technique	Significant unobservable inputs	Range
Financial assets at fair value through other comprehensive income – unlisted equity investment	Net asset value	N/A	N/A
	Asset–based Approach	Industry growth rate	14.42%
Financial assets at fair value through profit or loss – unlisted equity investment		Discount for lack of control	21.22%
	Asset–based Approach	Discount for lack of marketability	20.20%
2019	**Valuation technique**	**Significant unobservable inputs**	**Range**
Financial assets at fair value through other comprehensive income	Net asset value	N/A	N/A
– unlisted equity investment	Asset–based Approach	Discount for lack of control	23.08%
		Discount for lack of marketability	20.89%
Financial assets at fair value through profit or loss – unlisted equity		Discount for lack of control	21.22%
investment	Asset–based Approach	Discount for lack of marketability	22.00%

The increase in discount for lack of control and discount for lack of marketability would result in decrease in fair value measurement of unlisted equity investments. No sensitivity analysis is disclosed for the impact of changes in discount for lack of control and discount for lack of marketability as the exposure is insignificant to the Group.

2. The valuation techniques and key inputs used of unlisted equity investments for level 2 fair value measurement are as follows:

   The fair value of unlisted equity investments is assessed to approximate the share of net asset values of the investees, which take into consideration the fair value of the assets held by the investees.

3. For fair value of other financial instruments for level 2 and level 3, the valuation techniques and key inputs used included discount for lack of marketability and change in share price of comparable companies. No sensitivity analysis is disclosed for the impact of changes as the management considers that the exposure is insignificant to the Group.

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

f) Fair value *(Continued)*

Fair value hierarchy (Continued)

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The following table presents the changes in level 3 instruments for the years ended 31 December 2020 and 31 December 2019.

	Financial assets at fair value through other comprehensive income Unlisted equity investments RMB'000	Financial assets at fair value through profit or loss Unlisted equity investments RMB'000	Total RMB'000
At 1 January 2019	1,708	5,549	7,257
Fair value gain recognised in profit or loss	–	190	190
Fair value gain recognised in other comprehensive income	194	–	194
Exchange difference	27	–	27
At 31 December 2019	1,929	5,739	7,668
At 1 January 2020	**1,929**	**5,739**	**7,668**
Addition	**10,000**	**–**	**10,000**
Fair value gain recognised in profit or loss	**–**	**518**	**518**
Fair value loss recognised in other comprehensive income	**(457)**	**–**	**(457)**
Exchange difference	**(14)**	**–**	**(14)**
At 31 December 2020	**11,458**	**6,257**	**17,715**

32. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set forth in note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

a) *Depreciation and amortisation*

Property, plant and equipment and right-of-use assets are depreciated or amortised on a straight–line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. Intangible assets are amortised on a straight–line basis over the estimated useful lives. Both the period and method of amortisation are reviewed annually. The depreciation and amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

b) *Impairment of assets*

If circumstances indicate that carrying value of the Group's property, plant and equipment, deposit paid for property, plant and equipment, right-of-use assets, goodwill (also see (i) below) and other intangible assets may not be recoverable, the assets may be considered impaired, and an impairment loss may be recognised in profit or loss. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs of disposal and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volumes, sales revenue and amount of operating costs.

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

c) *Valuation of investment properties*

Investment properties are included in the consolidated statement of financial position at their open market value, which is assessed annually by independent qualified valuers, after taking into consideration on an open market value basis calculated by reference to recent market transactions in comparable properties or the net rental income allowing for reversionary income potential.

The assumptions adopted in the property valuations are based on the market conditions existing at the end of the reporting period, with reference to current market sales prices and the appropriate capitalisation rate.

d) *Provision for ECLs on trade and bills receivables*

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

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

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

e) *Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the historical experience of selling merchandise of similar nature. It could change significantly as a result of changes in customer taste or competitor actions. The Group reassesses these estimates at the end of the reporting period.

f) *PRC corporate income tax*

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

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

g) *Investments in subsidiaries*

Investments in subsidiaries are carried at cost less any impairment. Judgement is required when determining whether an impairment existed. In making this judgement, historical data and factors such as industry, sector performance and financial information regarding the subsidiaries are taken into account.

h) *Fair value of financial instruments*

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

i) *Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash–generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash–generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2020 was RMB90,693,000 (2019: RMB90,693,000). Further details of impairment testing of goodwill are disclosed in note 16 to the financial statements.

j) *Share–based payments*

Share options granted during the year were measured at fair value on the date of grant (note 37). In assessing the fair values of the share options, the generally accepted option pricing models were used to calculate the fair values of the share options. The option pricing models require the input of subjective assumptions, including the expected volatility and expected life of options. Any changes in these assumptions can significantly affect the estimate of the fair values of the share options.

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

k) *Dong Di Xin Litigation*

As at 31 December 2020, a claim has been filed by the former Chief Executive Officer of Dong Di Xin (the "**Plaintiff**") against the minority shareholder of Dong Di Xin (the "**Minority Shareholder**") and Dong Di Xin. The related appeal has been lodged by Dong Di Xin (the "**Appeal**") to Shenzhen Intermediate People's Court of Guangdong Province (廣東省深圳市中級人民法院) (the "**Court**") against the judgement handed down by Shenzhen Nanshan District People's Court of Guangdong Province (廣東省深圳市南山區人民法院) (the"**Judgement**") ordering: (1) the Minority Shareholder to transfer his 15% equity interest in Dong Di Xin to the Plaintiff (the "**Equity Transfer**"); (2) the Minority Shareholder and Dong Di Xin to assist in all relevant procedures for completing the Equity Transfer; and (3) the litigation fee of RMB2,900 shall be borne by the Minority Shareholder and Dong Di Xin. On 30 July 2018, the Intermediate Court, among other things, set aside the Judgement of the Court and ruled the case to be returned to the Court for re–trial (the "**Re–trial**"). According to the judgement for the re-trial dated 19 June 2019 handed down by the Court ("**2019 Judgement**"), the Court ordered that (i) the Equity Transfer shall be effected; and (ii) Dong Di Xin shall provide relevant assistance for completing the Equity Transfer and dismissed the claims and counterclaims of the Minority Shareholder. The Company has been informed that each of the Minority Shareholder and Dong Di Xin has lodged an appeal against the 2019 Judgement. As at the date of this report, no hearing date of the 2019 Appeal has been set.

The 2019 Judgement will not have any material adverse impact on the Group's ordinary operations and financial positions as the Company will not bear any liability or any significant litigation fee being ordered to pay and there will be no dilutive effect on the Group's holding in the equity interest in Dong Di Xin.

l) *Leases – Estimating the incremental borrowing rate*

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

m) *Functional currency of the Company*

The Company is carrying out its operating activities and making management decisions in Hong Kong dollar, amongst others, on raising finance in Hong Kong dollars and has a significant degree of autonomy from its subsidiaries in the Mainland China in the way its business is managed. Hong Kong dollar is the currency of the transactions and events of the Company for which the Company primarily receives and expends. In the opinion of the Directors of the Company, its functional currency is Hong Kong dollar.

33. COMMITMENTS

Capital Commitments

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

	2020	2019
	RMB'000	RMB'000
Contracted but not provided for in respect of		
– property, plant and equipment	**593**	–
Capital commitment for the investment in a fund	**–**	10,000
Capital commitment for the investments in associate	**–**	5,000
	593	15,000
Authorised but not contracted for	**357,354**	156,827
	357,947	171,827

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

34. EMPLOYEE RETIREMENT BENEFITS

The Group participates in a state–managed scheme. The employees of the Group's subsidiaries in the PRC are members of a state–managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

Defined contribution retirement plan

The Group also operates a Mandatory Provident Fund Scheme ("**the MPF scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000 (2019: HK$30,000). Contributions to the plan vest immediately.

The total expense recognised in profit or loss of RMB6,160,000 (2019: RMB11,322,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

35. RELATED PARTY TRANSACTIONS

a) During the year, the directors are of the opinion that the following companies and parties are related parties of the Group:

Name of related parties	**Relationship**
Mr. Zhao Li Sheng ("**Mr. Zhao**")	The Company's director and the ultimate controlling party of the Group. Mr. Zhao is the sole shareholder of the ultimate holding company of the Company.
Ms. Chan Lok San ("**Ms. Chan**")	The Company's director and the wife of Mr. Zhao
Morning Gold Medicine Company Limited ("**Morning Gold**")	Wholly owned by both Mr. Zhao and Ms. Chan
Yuen Tai Pharmaceuticals Limited ("**Yuen Tai**")	Subsidiary of Morning Gold
深圳金活利生藥業有限公司 Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited ("**SZ Kingworld Lifeshine**")	Subsidiary of Morning Gold
深圳市金活實業有限公司 Shenzhen Kingworld Industry Company Limited ("**SZ Industry**")	Indirectly wholly owned by both Mr. Zhao and Ms. Chan
Golden Morning International Limited	Shareholder of Kingworld Medicines Group Limited
Golden Land International Limited	Shareholder of Kingworld Medicines Group Limited
Kingworld Bright Future Limited	Common director of Kingworld Medicines Group Limited
Kingkok International Enterprises Limited	Wholly owned by both Mr.Zhao and Ms.Chan
Ming VitaMed Enterprise III Limited ("**Ming VitaMed**")	Associate of the Group
珠海市金明醫藥有限公司 Zhuhai City Jinming Medicine Company Limited ("**Zhuhai Jinming**")	Joint venture of the Group

Notes:

i) The English names of the above PRC incorporated entities are for identification purpose only.

35. RELATED PARTY TRANSACTIONS *(Continued)*

b) *Related party transactions and balances*

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Note	2020 RMB'000	2019 RMB'000
Purchases of goods			
SZ Kingworld Lifeshine	(i)	**20,285**	15,427
Yuen Tai	(i)	**1,661**	–
Zhuhai Jinming	(i)	**1,298**	370
		23,244	15,797
Rental expenses			
SZ Industry	(i)	**266**	257
		266	257
Advertising expenses			
SZ Industry	(i)	**138**	137
		138	137
Interest income from a shareholder loan			
Ming VitaMed (note 6)	(iv)	**(128)**	(131)
		(128)	(131)

	Note	2020 RMB'000	2019 RMB'000
Trade deposits included in trade and other receivables			
Yuen Tai (note 22)	(ii)	**2,555**	2,526
		2,555	2,526
Amount due from/(to) related parties			
Golden Morning International Limited (note 26)	(iii)	**(613)**	(695)
Golden Land International Limited (note 26)	(iii)	**(2,761)**	(2,485)
Kingworld Bright Future Limited (note 22)	(iii)	**–**	15
Kingkok International Enterprises Limited (note 22)	(iii)	**295**	(45)
SZ Kingworld Lifeshine (note 26)	(iii)	**(18,869)**	(810)
Amount due from an associate (note 22)	(iv)	**4,244**	4,220
Amount due from/(to) a joint venture (note 22&26)	(iii)	**2**	(415)

Notes:

i) The transactions were based on the terms mutually agreed between the Group and the respective related parties. In the opinion of the Company's directors, these related parties transactions were conducted in the ordinary course of business.

ii) The amounts are unsecured and interest–free and will be set–off against the Group's purchases from the respective related parties in next twelve months after the end of the reporting period.

iii) The amount is unsecured, interest–free and repayable on demand.

iv) The amount represents shareholders' loan of US$600,000 (equivalent to RMB4.0 million) (2019: US$600,000 (equivalent to RMB4.2 million)) to Ming VitaMed Enterprise III Limited in which the Group held 24% interest as further detailed in note 17 and loan interest receivables. The loan is interest bearing with 2.75% per annum. The amount is unsecured and repayable on demand. The directors of the Company considered that no impairment on the amount is necessary, taking into account of the financial position of Ming VitaMed Enterprise III Limited as at 31 December 2020.

35. RELATED PARTY TRANSACTIONS *(Continued)*

c) *Key management personnel remuneration:*

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 11, certain of the highest paid employees as disclosed in note 12, and the senior management of the Group is as follows:

	2020	2019
	RMB'000	RMB'000
Short–term employee benefits	**5,893**	7,981
Post employment benefits	**100**	125
	5,993	8,106

36. IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

The directors consider the immediate holding company of the Group as at 31 December 2020 to be Golden Land International Limited, a company incorporated in the BVI which does not produce financial statements available for public use, and the ultimate controlling party of the Group as at 31 December 2020 to be Zhao Li Sheng, an executive director of the Company.

37. EQUITY–SETTLED SHARE–BASED TRANSACTIONS

Share option schemes

The Company has a share option scheme which was adopted on 5 November 2010 whereby the directors of the Company are authorised, at their discretion, to grant options to subscribe for shares in the Company to eligible participants ("**Eligible Participants**"), including directors, eligible employees, consultants, suppliers, customers, and shareholders of any member of the Group or associated company or any of their respective associates, who contributed to the success of the Group. The share option scheme shall be valid and effective for a period of ten years ending on 4 November 2021, after which no further options will be granted.

Options granted on 23 April 2018 to the directors and employees vest after one to three years from the date of grant and are then exercisable within a period of one year.

Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

(Expressed in Renminbi)

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

Share option schemes (Continued)

(a) The terms and conditions of the outstanding grants at 31 December 2020 and 2019 are as follows:

	Number of instruments 2020	Number of instruments 2019	**Vesting conditions**	**Contractual life of options**
Options granted to directors:				
– on 23 April 2018	**1,691,000**	2,416,000	One to three years from the date of grant provided that the prescribed profit levels are achieved	6 years
Options granted to employees:				
– on 23 April 2018	**9,613,000**	15,952,000	One to three years from the date of grant provided that the prescribed profit levels are achieved	6 years
Total share options granted	**11,304,000**	18,368,000		

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

	2020		2019	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
Outstanding at the beginning of the period	**HK$1.26**	**18,368,000**	HK$1.81	37,394,000
Granted during the period	**–**	**–**	–	–
Lapsed during the period	**HK$1.26**	**(7,064,000)**	HK$2.35	(19,026,000)*
Outstanding at the end of the period	**HK$1.26**	**11,304,000**	HK$1.26	18,368,000
Exercisable at the end of the period	**–**	**–**	–	–

* granted in 2015 and lapsed in 2019.

The share options outstanding at 31 December 2020 had an exercise price of HK$1.26 (2019: HK$1.26) and a weighted average remaining contractual life of 0.9 years (2019: 2.2 years).

(Expressed in Renminbi)

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

Share option schemes (Continued)

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured by reference to valuations performed by Hong Kong Appraisal Advisory Limited, independent professional valuer not connected to the Group, based on the Binomial Option Pricing Model. The contractual life of the share option is used as an input into this model.

Fair value of share options and assumptions

	On 23 April 2018		
Fair value at measurement date	HK$0.506	HK$0.453	HK$0.425
Share price	HK$1.190	HK$1.190	HK$1.190
Exercise price	HK$1.260	HK$1.260	HK$1.260
Risk–free interest rate (based on Exchange Fund Notes)	2.023%	2.023%	2.023%
Expected Life:	6 years	6 years	6 years
Expected volatility	59.86%	59.86%	59.86%
Expected dividends Yield:	3.73%	3.73%	3.73%
Early Exercise Behavior:	280%	280%	220%
Valuation method used	Binomial Option Pricing Model	Binomial Option Pricing Model	Binomial Option Pricing Model

The expected volatility of the underlying security of the Share Options was determined with reference to the historical volatility of the Company, as extracted from Bloomberg Terminal; The expected dividend yields of the underlying security of the Share Options was determined by the historical dividend yield of the underlying security of the Company, as extracted from Bloomberg Terminal. Changes in the subjective input assumptions could materially affect the fair value estimate.

The fair value of the share options granted to the consultants are measured at fair values of options granted as these participants are providing services that are similar to those rendered by employees.

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

Share award scheme

The Company's share award scheme has 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 2020, the trustee purchased 10,000,000 (2019: 6,000,000) shares of the Company at a total cost (including related transaction costs) of approximately RMB7,025,000 (2019: RMB5,530,000) which had been deducted from equity. None of these purchased shares of the Company was awarded to any of the eligible employees during the year ended 31 December 2020. At 31 December 2020, the trustee held 16,000,000 (2019: 6,000,000) shares of the Company purchased but not yet awarded under the share award scheme.

38. COMPANY–LEVEL STATEMENT OF FINANCIAL POSITION

	2020 RMB'000	2019 RMB'000
Non–current assets		
Investments in subsidiaries	**231,733**	246,081
Right-of-use assets	**689**	1,615
	232,422	247,696
Current assets		
Other receivables	**3,140**	1,835
Amount due from subsidiaries	**345,507**	361,725
Cash and cash equivalents	**5,963**	6,185
	354,610	369,745
Current liabilities		
Other payables	**1,421**	1,720
Amounts due to subsidiaries	**267,920**	263,750
Bank loans	**149,988**	137,799
Lease liabilities	**684**	738
	420,013	404,007
Net current liabilities	**(65,403)**	(34,262)
Total assets less current liabilities	**167,019**	213,434
Non–current liabilities		
Lease liabilities	**–**	825
NET ASSETS	**167,019**	212,609
CAPITAL AND RESERVES		
Share capital	**53,468**	53,468
Reserves	**113,551**	159,141
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	**167,019**	212,609

(Expressed in Renminbi)

39. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2020

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, Insurance contracts, which are not yet effective for the year ended 31 December 2020 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 16, Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to HKAS 37, Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to HKFRSs 2018 – 2020 Cycle	1 January 2022

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

40. EVENT AFTER THE REPORTING PERIOD

a) On 7 January 2021, the Company, as purchaser, entered into the agreement with an independent third party ("**Vendor A**"), pursuant to which the Company agreed to acquire a property (the "**Property**") from Vendor A at a purchase price of HK$8,550,000 (equivalent to RMB 7,132,000). The acquisition of the Property was completed on 1 April 2021. The Company intends to use the Property as the Group's office in Hong Kong.

b) Subsequent to the reporting period end and on 18 March 2021, the Group entered into a conditional agreement with an independent third party ("**Vendor B**"), pursuant to which the Group agreed to acquire and Vendor B agreed to sell 45.3125% of the equity interests in a company established in Hong Kong (the "**Target Company**") at the consideration of approximately RMB4,914,000. The Target Company is engaged in the import, export, distribution, manufacture and sale of pharmaceutical products. The transaction has not yet been completed at the date of approval of the consolidated financial statements.

41. COMPARATIVE FIGURES

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

Financial Summary

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

	For the year ended 31 December				
	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results					
Revenue	**745,383**	977,928	1,078,843	1,031,488	1,053,527
Profit before taxation	**70,891**	69,809	70,380	83,327	89,044
Income tax	**(20,002)**	(19,538)	(18,621)	(16,795)	(21,638)
Profit for the year	**50,889**	50,271	51,759	66,532	67,406
Attributable to:					
Owners of the Company	**11,716**	43,427	41,005	51,060	46,966

	As at 31 December				
	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Asset and Liabilities					
Total assets	**1,255,372**	1,280,366	1,296,715	1,332,398	1,393,739
Total liabilities	**576,862**	607,176	658,485	690,763	755,089
Equity attributable to owners of the Company	**591,803**	603,343	565,792	553,094	523,815
Non-controlling interests	**86,707**	69,847	72,438	88,541	114,835

Particulars of Key Properties

Address	Use	Lease Term	Approximate gross floor area	Group's interest
Unit 801-804 and 901-904, Block A, Majialong Innovation Building, Daxin Road, Nanshan District, Shenzhen, Guangdong Province, the PRC	Commercial	Medium-term lease	5,631sqm	100%
A parcel of land, No. 6 Cuilong Road, Baolong Industrial City, Longgang District, Shenzhen, Guangdong Province, the PRC	Commercial	Medium-term lease	10,000sqm	90%
Part of the basement of Kingworld Department Store, Jiefang Road, Luohu District, Shenzhen, Guangdong Province, the PRC	Retail	Medium-term lease	956sqm	100%
Unit B on Level 9 West, Yong Xing Office Building, No. 22, Lane 376 Yan'an Road West, Jing'an District, Shanghai, the PRC	Commercial	Medium-term lease	204sqm	100%
Flat F on Level 21 and Flat E on Level 7, Weifu Building, Tai Bai Road, Luohu District, Shenzhen, Guangdong Province, the PRC	Residential	Medium-term lease	73sqm/ 100sqm	55%
The building erected on Lot No. 3-1-2, Qianshan Industrial Zone, Xiangzhou District, Zhuhai, Guangdong Province, the PRC	Commercial	Medium-term lease	26,197sqm	50%