



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

2022 INTERIM REPORT



致力世人 润泽苍生

买跨境好药 就上金活健康之家
香港直邮-进口医药-品质好货



微信公众号



京东旗舰店



天猫旗舰店

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Corporate Information

DIRECTORS

Executive Directors

Mr. Zhao Li Sheng (*Chairman*)

Ms. Chan Lok San

Mr. Zhou Xuhua

Independent Non-executive Directors

Mr. Duan Jidong

Mr. Wong Cheuk Lam

Mr. Zhang Jianbin

COMPANY SECRETARY

Mr. Chan Hon Wan

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Mr. Chan Hon Wan

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Corporate Information

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AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

STOCK CODE

01110

WEBSITE ADDRESS

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Financial Highlights

	Six months ended 30 June		
	2022	2021	% Changes
	(unaudited) RMB'000	(unaudited) RMB'000	Increase/ (Decrease)
Financial Highlights			
Revenue	419,647	415,300	1.0%
Cost of sales	(285,951)	(281,729)	1.5%
Gross profit	133,696	133,571	0.1%
Gross profit margin	31.9%	32.2%	(0.3)% points
Profit for the period	35,103	34,285	2.4%
Profit attributable to owners of the Company	24,213	19,482	24.3%
Basic earnings per share (RMB cents)	3.99	3.21	24.3%
Liquidity and Gearing			
	As at	As at	% Changes
	30 June	31 December	Increase/ (Decrease)
	2022	2021	
	(unaudited)	(audited)	
Current ratio ⁽¹⁾	1.32	1.35	(2.2)%
Quick ratio ⁽²⁾	1.08	1.13	(4.4)%
Gearing ratio ⁽³⁾	(0.2)%	5.8%	(6.0)% points

Notes:

- (1) Current ratio is calculated as current assets divided by current liabilities.
- (2) Quick ratio is calculated as current assets less inventories divided by current liabilities.
- (3) Gearing ratio is calculated as total interest-bearing bank borrowings, less cash and cash equivalents, divided by total equity multiplied by 100%.

Management Discussion and Analysis

MARKET AND INDUSTRY REVIEW

1. A Chinese medicine market that shows favourable signs of recovery after the normalization of pandemic controls

With favourable related Chinese medicine policies and benefiting from the upgrading of domestic consumption, the enhancement of health awareness and refining of the fundamentals of Chinese medicinal pharmaceutical companies, the overall market of OTC Chinese medicine, which can be purchased or consumed by consumers, has experienced a significant growth in recent years. According to the 2021 Blueprint for Regulation on Chinese Medicine published under the guidelines released by National Medical Products Administration, there were 2,225 manufacturers of Chinese medicine products in China as at the end of 2021; the Chinese medicine industry in China saw a steady growth in 2021, with an operating income of RMB691.9 billion for the year, representing a year-on-year increase of 12.4% when compared to 2020. The rapid development of the overall market has also provided growth drivers for the Chinese medicine business. With higher public awareness on health issues resulting from the impact of novel coronavirus (COVID-19) (the “Pandemic”), there is growing attention on Chinese medicines, which is expected to make increasing contribution to our business results in the future.

In 2022, affected by the economic downward trend, medicine industry encountered a weak growth in general, Chinese medicine has provided a direction for the Group to succeed in the pharmaceutical retail market. Chinese medicine has been the focus of the Group for over 20 years, with a number of world-renowned proprietary Chinese medicine products that have a history of over 100 years and are well known to the industry players and consumers. Benefitting from related favourable policies, the Group is expected to achieve better development.

Management Discussion and Analysis

Since the outbreak of the Pandemic, certain local governments have imposed restrictions on four categories of drugs including cough, fever, antiviral drugs and antibiotics in certain areas, which have been implemented through a tiered system of managing and controlling mechanisms including real-name registration and sales ban. After the normalization of Pandemic controls, restrictions on these four categories of drugs have been slightly relaxed during the six months ended 30 June 2022 (the "Reporting Period"). Since late May 2022, the local governments in various provinces including Zhejiang, Henan, Guangdong and Shaanxi have issued notices, pursuant to which pharmacies are allowed to sell these four categories of drugs through online and offline channels without real-name registration. Nin Jiom Chuan Bei Pei Pa Koa, for which the Group as the distributor, has good efficacy of cough relieving and throat nourishing, and is effective in prevention of diseases. During the Pandemic, it is on the list of essential medicines for families. However, the sales performance of these four categories of drugs were adversely affected by the restrictions during the Pandemic. The lifting of the restrictions by the local governments means that the restrictions will be eased to a certain extent. Meanwhile, as the Pandemic control measures continue to bear fruit, economic development of various industries has shown a positive trend of recovery and growth. In light of the development, the Group has continued to keep pace with the trends and has rapidly expanded the approved business scope into medical devices including antigen test kits.



Management Discussion and Analysis

2. *Slower population growth shows low fertility rate and population aging will become the norm*

Under the negative population growth, low fertility rate and population aging will become the norm. Firstly, the effect of negative population growth accumulated over a long period of time will be further unleashed, resulting in a significant slowdown in population growth and a negative growth during the “14th Five-Year Plan” period. Secondly, there is a continuous drop in the birth rate, with a total fertility rate fell below 1.3. Low fertility rate has become the most significant risk affecting the balanced development of the population in China. Thirdly, with an increase in the aging population, it is expected that China’s population aging will enter a serious stage around 2035 (over 30 percent of the total population will be over 60 years old). Fourthly, the trend of small family. The average number of family members decreased by 0.48 person from 2010 to 2.62 persons in 2020, resulting in diminished roles of elderly care and childcare. In response to this trend, the Group has adjusted its product mix by introducing healthcare products for adolescents and children including life’s DHA algae product series, as well as nutrient and healthcare products for adults and healthcare products for aging and chronic disease such as Enalapril Maleate and Folic Acid Tablets (“Enalapril”), which have achieved growth.

3. *Online pharmaceutical retail and rapid development of e-commerce*

According to the Group’s industry analysis, “Online, OTC of prescription drugs, and autonomous consumption” have become the 3 keywords in the pharmaceutical retail industry in China. In the era of Internet+, pharmaceutical e-commerce has achieved rapid development with increasing online sales. The sales of online pharmaceutical market in the year of 2021 grew by 51.5% as compared to the year of 2020, with the lifting of restrictions on online sales of prescription drugs. Driven by effects of various factors such as post-Pandemic era and the availability of prescription drugs in online pharmacies, physical pharmacies have posted a decrease in in-store customers and drug sales, while online pharmacies have posted an increase in online purchases and drug sales.

The Pandemic has boosted the rapid growth of online shopping, and in particular a rapid growth of two product categories, daily necessities and healthcare products, during the first half of 2022. In terms of channels, physical pharmacies have recorded a lower growth in retail sales, while e-commerce pharmacies have recorded a higher growth in retail sales. During the first quarter of 2022, physical pharmacies have recorded a sales revenue of RMB73.15 billion, representing an increase of 3.8% as compared to the corresponding period of 2021, while e-commerce pharmacies have recorded a significant growth in sales revenue.

Management Discussion and Analysis

According to the data released by Sinohealth, the annual sales revenue from e-commerce pharmacies on business-to-consumer (B2C) market in China amounted to RMB125.9 billion in 2021, representing a year-on-year increase of 49.0% compared with 2020. The B2C market showed a “2+N” pattern, with both JD Health and Alibaba Health accounting for more than 70.0% of the market share. In terms of online-to-offline (O2O), the sales revenue from O2O in the first quarter of 2022 was approximately RMB 2.97 billion, representing a year-on-year increase of 69.1% compared with the corresponding period of 2021. The sales revenue from O2O accounted for 4.0% of the retail market of physical pharmacies, representing an increase of 2 percentage point compared with the corresponding period of 2021, and the market share doubled. Changes in the Pandemic situation have greatly affected the development of product category structure and led to further division of product categories. The emergence of new healthy consumption concepts, coupled with the continuous introduction of new products and services, has sparked a boom in online health product consumption. Taking advantage of the development trend of e-commerce, the Group has established cooperative relationships with domestic online pharmaceutical e-commerce companies and developed O2O channels. The Group’s investment in pharmaceutical e-commerce over the years has also achieved significant growth during the Reporting Period.



Management Discussion and Analysis

BUSINESS REVIEW

The three major business segments of the Group in the pharmaceutical and healthcare industry are:

Pharmaceutical products segment:	acting as an agent and distributor of high-quality and well-known pharmaceutical products in China and overseas, including the acclaimed Nin Jiom (京都念慈菴) product series and the Taiko Seirogan (喇叭牌正露丸), and Enalapril;
Healthcare products and beauty segment:	distributing high-quality and well-known healthcare products in China and overseas, including the flagship Culturelle (康萃樂) probiotics product series, Life's DHA Algae, the "CARMEX" lipstick series and product series of medicated oils for external use; and
Medical devices segment:	undertaking research and development (R&D), manufacturing and production of medical devices such as infrared thermometers and distributing medical supplies such as medical masks.

During the Reporting Period, revenue from the pharmaceutical products segment amounted to approximately RMB222,402,000, representing a period-on-period increase of 3.0% and accounting for 53.0% of the Group's total revenue; revenue from the healthcare products and beauty segment was approximately RMB57,856,000, representing a period-on-period increase of 1.5% and accounting for 13.8% of the Group's total revenue; and revenue from the medical devices segment amounted to approximately RMB139,389,000, representing a period-on-period decrease of 2.1% and accounting for 33.2% of the Group's total revenue.

Highlights of pharmaceutical products segment

The Group has a comprehensive commercialisation system and has proven successful experience in market access, brand planning, retail management, new media promotion, government affairs, and business cooperation. It has created a professional brand image and a good sales record for many brands in China, Hong Kong and Macau markets, and has been recognised by domestic and overseas partners. Pharmaceutical products distribution has been one of the key businesses of the Group for many years, including various well-known brands, such as Nin Jiom product series, Enalapril and the Taiko Seirogan. During the Reporting Period, Zhuhai City Jinming Medicine, a subsidiary of the Company, was appointed by Eu Yan Sang Hong Kong as its exclusive distributor for the distribution and sales of Bao Ying Dan products (余仁生保嬰丹系列).

Management Discussion and Analysis

Despite the changing Pandemic conditions and the restrictions on four types of medicines for colds, coughs and fever in some areas in China, the Group's Nin Jiom Pei Pa Koa still achieved a year-on-year growth of 6.6%. During the Reporting Period, Enalapril, the national second-class innovative drug introduced by the Group, made a breakthrough in the market, and the sales for the first half of 2022 achieved remarkable results, with a year-on-year growth of three times when compared to same period of 2021. During the Reporting Period, the Group's pharmaceutical distribution closely followed the changes in the OTC market channels, and adopted different marketing strategies for various consumer groups and scenarios, including:



Management Discussion and Analysis

1. *Deeply cultivate key markets, enter markets with development potentials and strengthen the development of channel network layout*

In 2021, the concentration of chain stores in the domestic pharmaceutical industry further increased, with chain stores accounting for 57.2%. Meanwhile, over-the-counter (OTC) growth in Tier 1 and Tier 2 cities was slower than growth in Tier 3 and Tier 4 markets. Therefore, the Group has continuously strengthened and deepened various cooperation models with pharmaceutical chain enterprises to jointly build a win-win partnership between industry and commerce. At the same time, relying on the resources of business partners and chain enterprises, as well as strengthening the expansion and investment of the Tier 3 and Tier 4 markets, the pipeline network has been further extended to increase the market penetration rate and sales volume of products. As of 30 June 2022, the number of pharmaceutical OTC customers of the Group were as follows: Tier 1 customers: 229; Tier 2 customers: 284; chain customers: 1,975; retail pharmacies (including chain and individual pharmacies): 147,275; primary medical institutions, clinics and hospitals: 36,369; cities covered: 416. Among them, the number of chain headquarters, chain pharmacies and individual pharmacies increased by nearly 10.0% year-on-year, and the number of primary medical institutions increased by 11.0% year-on-year.

In the Hong Kong and Macau markets, relying on a professional and efficient operation team, the Group continued to explore new markets, manage channels, strengthen publicity and promotion, maintain communication with retailers, timely understand and meet the needs of retailers, and improve service quality and satisfaction. After re-examining the layout and optimising the process, the Hong Kong Fat Chi marketing channel network has taken shape, and the in-depth cooperation with a chain retail store named CRcare, a subsidiary of China Resources Pharmaceutical Group, has upgraded the relationship and trust. The cooperation products between the two parties have gradually increased from 2 products to 16 products. The number of pharmacies selling Hong Kong Fat Chi's products has increased from dozens to more than hundred, and sales have gradually achieved good results, increased by more than 15.0% year-on-year.



Management Discussion and Analysis

2. *Actively explore new marketing models for prescription drugs in the OTC pipeline and gradually achieve success*

Enalapril is a chronic cardiovascular and cerebrovascular prescription drug introduced by the Group in recent years. This product is a class I innovative drug independently developed in China, and is a state-approved standard treatment drug for type H hypertension. This product is an individualised treatment drug for the diagnosis of common cardiovascular diseases in Chinese patients with a high incidence of stroke. According to large-scale clinical studies, Enalapril can significantly reduce the risk of stroke while taking anti-hypertension treatment.

After implementing the chronic disease prescription drug marketing model for more than a year, the Group has accumulated a set of effective marketing methods and identified partners through the Company's SMART information system analysis and customer evaluation system. The Group has conducted different training, healthcare education and practice for different customer groups, and raises consumers' awareness of the hazards of H-type hypertension through public welfare activities and new media (such as WeChat Official Accounts, Baidu, Zhihu, Xiaohongshu, etc.). The Group has also strengthened the dissemination of healthcare knowledge and value-added services for people with hypertension to enhance the reputation of its products.

In addition, the Group has repeatedly researched areas with high incidence of hypertension through big data, focused on developing the OTC market following the latest development of the prescription drug market, and cultivated "star" single stores. During the Reporting Period, the rapid sales growth of Enalapril prompted the Group to develop a new model for chronic disease health management. In the future, the Group will look for more high-quality prescription drug cooperation, further enrich the existing product portfolio, and enhance the sales scale and the efficiency of the marketing team.



Management Discussion and Analysis



3. *Integrate online and offline activities to build a good brand image*

The promotion of high-quality products also needs to follow changes in consumer behaviour, so that more consumers can understand and experience the products. In order to grasp the changing trends of consumption scenarios, consumption behaviours and consumption habits, the Group has not only established an internal data analysis SMART system, but also purchased various analysis data in the industry, strengthened cooperation with top domestic new media, and further enhanced brand awareness. During the Reporting Period, Nin Jiom cooperated with iQIYI to launch pop-up advertisements in its exclusive TV drama series "A Lifelong Journey (人世間)", "Vacation of Love (假日暖洋洋)" and "Life Is A Long Quiet River (心居)", and gained a group of young fans. In addition, the Group also used live broadcasts to lift geographical restrictions, and cooperated with chain pharmacies and JD.com to carry out scientific popularisation activities such as live broadcast of health lectures, and gradually increase the product awareness of the Group. The Group actively participated in activities such as product roadshows at the online cloud expo in the industry, which integrated various online resources and offline promotional activities to promote common development and was well received by various partners.

Management Discussion and Analysis

During the Pandemic, the number of offline shoppers decreased. Therefore, the Group cooperated with offline stores in various regions to provide consumers with interesting real life scenario-themed activities, which improved the brand image of the Group and its products, enhanced the emotional connection between the brand and consumers, and demonstrated the positive brand image. For example, on Women's Day on 8 March, the Group cooperated with chain stores to hold flower arranging activities and 10.5° "sweet" (10.5° "甜"念膏) DIY cold drinks activities, which were extremely popular among pharmacies and consumers. As for the traditional Chinese Dragon Boat Festival, the Group cooperated with pharmacies and communities to carry out a unique activity of making rice dumplings, which not only promoted traditional culture, but also increased the interaction between consumers and chains and brands, brightening consumers' daily routine. Some themed activities, such as the pop-up of Lung Care China Tour (養肺中國行), and the high blood pressure public welfare screening activities have become popular activities in the Group's cooperation with chain stores. In addition, through WeChat sharing, TikTok and other forms, the Group also attracted more people to participate in such offline activities and set off interactive topics, which received enthusiastic responses.

During the Pandemic, pharmaceutical e-commerce developed rapidly. The Group is optimistic about the development potential of pharmaceutical e-commerce, and vigorously expands the depth and breadth of pharmaceutical e-commerce channels. With 2 (JD.com and Ali) as the core, the Group strengthens the cooperation with other pharmaceutical e-commerce companies (Jianke, Yuanxin Miaoshou (圓心妙手), 111, Inc. and other vertical pharmaceutical platforms), and at the same time strengthens short video live broadcast promotion to jointly build a positive brand image.



Management Discussion and Analysis

Highlights of healthcare products and beauty segment

With the continuous improvement of living standards, people put forward higher requirements for a better life and a healthy life. Especially after the outbreak of the Pandemic, more and more people pay attention to physical health and improve immunity. Nutritional healthcare products and daily chemical products are another important business segment of the Group. In addition to pharmaceuticals, the Group also distributes well-known health care products and daily chemical products from all over the world, including Culturelle, the No. 1 selling probiotic in the United States, American Carmex lip balm series that sells 170 sticks per minute, as well as Life's DHA algal oil series and topical oil series and other products.

During the Reporting Period, the performance of Culturelle probiotic products for children was affected by factors such as the severe impact of the Pandemic and the decline in the birth rate in Hong Kong. However, the Group's Hong Kong team adjusted its strategies in a timely manner and kept up with the trend of adults' demand for improving immunity, strengthened the promotion, marketing and publicity of probiotic products for adult, and also launched new probiotic products for women in the market. As for market promotion, the Group not only increased the advertising in traditional media, such as subway station light box advertisements, newspaper advertisements and TV advertisements, but also strengthened the cooperation with local key opinion leader ("KOL") and key opinion customer ("KOC") in Hong Kong. Through the personal experience and influence of KOLs and KOCs, the Group has attracted the attention and interest of consumers, enhanced brand awareness and promoted application scenarios. During the Reporting Period, the sales of Culturelle products in the local market in Hong Kong increased by 7% as compared to the same period last year, still leading among similar products.

Affected by the continuous decline in fertility rate, the gradual decrease in the number of newborns, and the increasingly fierce competition in the maternal and infant consumer market in China, consumers pay more attention to product quality. The Group's newly introduced algal oil pioneer, Life's DHA, is a high-quality DHA extracted from seaweed. Life's DHA uses NASA space technology, and its algal oil varieties are widely used in more than 600 products around the world, with more than 200 human clinical studies, which are safe and secure. Long-term consumption of DHA can effectively promote the development of the brain, nervous system and retina of infants and young children, improve intelligence and vision, and help babies grow up healthily. With its excellent brand effect and product quality, the Group's Life's DHA achieved outstanding sales performance and quickly seized the market, which was well received by consumers. During the Reporting Period, sales of Life's DHA increased by 213.2% as compared to the same period last year.

The demand for external medicines for orthopaedic injury is rising due to the aging of society. The Group has further developed a series of related products for the elderly, and enhanced the popularity of its products by promoting application scenarios. The Group's Kingworld Imada Red Flower Oil product series continued to grow steadily, recording an increase of 23.9% as compared to the same period last year. During the Reporting Period, the Group focused on consumer needs and usage, and made full use of the internet to conduct various marketing activities based on product ingredients and efficacy.

Management Discussion and Analysis

1. *Strictly control the quality of products to build up a professional image and protect public health*

The Group's products, including healthcare products, are international high-quality healthcare products with unique ingredients and remarkable efficacy. For example, a global study found that Culturelle probiotics contain the most LGG ingredients; Life's DHA uses algae to extract DHA, which is known as the algae oil with the highest content of algae; Kingworld Imada Red Flower Oil is a safflower oil rich in real safflower and dragon's blood. Due to the uniqueness, remarkable efficacy and high safety of product ingredients and raw materials, it is easier to be recognised and recommended by professionals. During the Reporting Period, the Group cooperated with professionals such as orthopedic surgeons and pediatricians to promote nutrition, health and health care knowledge to consumers, and also conducted scientific popularisation videos with professional doctors who are also internet celebrities on TikTok. The above professional endorsements have established a professional image for the Group's products and achieved satisfactory results. Among them, two videos about Red Flower Oil by doctor on TikTok received nearly one million views within a week.



Management Discussion and Analysis

2. Leverage platform traffic to create popular products

During the Reporting Period, the Group continued to strengthen its business development on platforms such as Tmall, JD.com, DX Mama (丁香媽媽), Nico Mama, TikTok and Kuaishou, etc., and seized opportunities in the strong development trend of live broadcast business. The Group explored new marketing channels through short video and live broadcast platforms, thereby enhancing its marketing capabilities, including word-of-mouth of KOLs and KOCs, community marketing, information flow, etc., to help enhance brand awareness and create popular products. Life's DHA algal oil series achieved a total exposure of more than 10 million in the first half of the year by linking to the accounts of Nico Mama, DX Mama (丁香媽媽), TikTok and Kuaishou, endorsement by celebrities, and promotion by internet celebrities on Xiaohongshu and Weibo. By strengthening the pipeline operations of TikTok and Kuaishou, and cooperating with the top and midstream live broadcasters in live broadcast production, brand exposure and transactions have increased, thereby increasing sales and driving life's DHA to quickly seize market share.



3. Actively develop new pipelines with favourable policies

The Group is consumer-oriented and cooperates with partners to gradually establish a complete upstream and downstream supply chain system for the pharmaceutical and healthcare industry. Over the past 20 years, the Group has further expanded the market, and has established a pharmaceutical distribution network covering more than 200,000 stores across the country, as well as a pipeline of health care products and daily chemical products covering supermarkets, large department stores, mother and baby products stores and cosmetic stores. During the Reporting Period, according to the relevant plan of "Deepening the Reform of" Simplifying Procedures, Decentralizing Powers, Combining Decentralization with Appropriate Control, and Optimizing Services" and Optimizing the Business Environment Nationwide 《全國深化「放管服」改革優化營商環境》" issued by General Office of the State Council, in order to support the development of convenient drug purchase services, many provinces and cities in China have approved setting up convenience medicine cabinets to sell Class B non-prescription drugs in chain convenience stores with 24-hour service capabilities and many branches. Seizing the opportunity, the Group continued to penetrate into the market and actively developed the new channel of convenience stores. The Group's Kingworld Imada Red Flower Oil has been put on the shelves in the first batch of convenience stores with pharmaceutical management qualifications in Fujian and Jiangxi, providing consumers with more convenient services, further improving people's quality of life, and making it easier for people to buy medicines. In the future, the Group will continue to strengthen cooperation with convenience stores.

Management Discussion and Analysis

4. *Actively expand e-commerce business to fully open up online and offline channels and chains*

With its excellent global supply chain network, understanding of consumer demand and product selection capabilities, the Group has established cross-border OTC flagship stores on mainstream e-commerce platforms such as Tmall Global, JD.com and Pinduoduo by gathering high-quality overseas pharmaceuticals and healthcare products. Through online cross-border sales, we can meet consumers' demand for overseas high-quality OTC household medicines and healthcare products. Since the Group's overseas flagship store of Home of Kingworld officially entered the overseas pharmaceutical category of Tmall Global in March 2021, it has reached cooperation with more than 40 internationally renowned brands on nearly 100 products, covering children's nutrition, gastrointestinal health, rheumatism bone injury, cold and cough, antipyretic and analgesic, nourishing and health care, skin medicine, beauty and other major categories, among which key products such as Wood Lock Medicated Balm of Wong To Yick, Ricqles, Mopidick and Beauluck A Gastro-Resistant Tablets performed well. In the first half of 2022, the Tmall overseas flagship store of Home of Kingworld ranked 22nd in the international pharmaceutical category.

In order to establish a professional e-commerce team and better motivate the e-commerce team to increase the scale of sales and profit contribution, based on the rapid development of cross-border e-commerce business and planning for the future, the Group established a brand new operating mechanism – the quasi-department system, to support the cross-border business of Home of Kingworld Health, by providing independent operation rights within a certain extent to better operate the cross-border business, responding to market demand rapidly, and expanding into business-to-consumers and business-to-business business comprehensively. In future, the Group will also extend the cross-border business of Home of Kingworld Health to major offline chain partners to further satisfy the needs for upgrading consumption and expanding the categories of chain products.

In addition to the operation of cross-border OTC flagship stores, the Group is also responsible for the operation of flagship stores for certain brands and self-operated stores. During the Reporting Period, the Group continued to expand its online platform distribution by leveraging on brand operation and promotion of its flagship stores, adopted a direct supply model for mainstream e-commerce platforms, and established a matrix of platform segments with TDI, Koala, Ali Health, Vipshop, and Nico Mama as core products, and opened up the "online + offline" full-channel and full-chain marketing promotions and channels, using big data to accurately locate target groups and their demand and preferences to promote the sales conversion rates, while reducing pipeline costs at the same time, enhancing interaction with consumers and improving the loyalty of customers.



Management Discussion and Analysis

Highlights of the medical devices segment

With improvement in domestic medical and health awareness and intensification of the aging population, the domestic rehabilitation industry has favourable policies, Dong Di Xin, a non-wholly owned subsidiary of the Company, is determined to become the world's leading supplier of physical rehabilitation equipment.

1. Production

During the Reporting Period, Dong Di Xin continued to increase investment in the project of precision machining centre, carried out several optimizations of organizational processes, added more automated equipment, continued to carry out the semi-automation transformation of production, and improved production efficiency and cost savings. Therefore, in the first half of 2022, the product quality system, after-sales service system and risk control system were improved, laying a solid foundation for better serving global customers.

2. Sales

Impact of the Pandemic continued in the first half of 2022, sales of the Company's infrared thermometers declined year-on-year. However, the Company actively developed customers and conducted marketing through multiple channels and various methods, the series of professional desktop therapeutic apparatus products continued to grow rapidly year-on-year, which further improved the company's gross profit margin. Meanwhile, the Company increased investment in domestic market in China and marketing promotions, achieving greater progress. During the Reporting Period, our market coverage was more than 20 provinces and cities nationwide, and the Group's products have successfully entered more than 100 domestic first-class hospitals as well as numerous outpatient, rehabilitation and physiotherapy institutions through bidding.



Management Discussion and Analysis

3. Research and development

As of 30 June 2022, the Company owned a total of 3 valid invention patents, 24 valid utility model licenses, 1 valid design license, and 13 software copyrights. During the Reporting Period, the review of application for the status of national high-tech enterprises was completed, and approval would be expected in the second half of 2022.

In addition, the Group obtained the medical device business license issued by the Shenzhen Municipal Market Supervision and Administration Bureau in May 2022, in which the new business scope of “Diagnostic reagents which does not require low temperature refrigerated transportation and storage”. Under the circumstances that mutation of the Pandemic was still continuing and uncertainties existed in the international and domestic situations, the antigen diagnostic kit was expected to become a routine test in future. Meanwhile, the Group predicted that with the development of technology and the public awareness of health, there would be broad development prospect in the home-use self-testing market, which was in line with the direction of the Group’s commitment to be a provider of home healthcare products and services.



Management Discussion and Analysis

MANAGEMENT REVIEW

1. *Guided by the Fifth Five-Year Strategic Development Plan, steady and healthy development of the Group was driven*

During the Reporting Period, the Group is committed to becoming a world-class outstanding enterprise in the pharmaceutical and healthcare industry under the guidance of the Fifth Five-Year Strategic Development Plan. Adhering to the business philosophy of being proactive, sincere and altruistic, through continuous technological innovations, the Group provided safe and effective pharmaceutical and healthcare products and services to customers around the world, gained the trust of customers, continued to expand the market, and developed steadily and healthily, and assumed social responsibility.

Under the guidance of the Fifth Five-Year Strategic Development Plan, the Group focused on industry development trends and the evolution of consumer groups. Through industry analysis reports and accumulated experience of more than 20 years in the industry, the Group had determined the development direction and business theme. In the future, the Group would continue to cultivate in the healthcare industry in a long run and focus on four industrial clusters, namely the pharmaceutical industry, the medical industry, the health supplement industry and the health management service. During the Reporting Period, the Group continued to improve its overall profitability, build its core competitiveness, cultivate and develop its own brand, and create a good brand image by focusing on the development concept of its "prominent core business and diversified relevant businesses".

2. *Utilize the capital power of being a listed company, help to develop the Company's principal business, and increase the return on capital*

The Group makes full use of the capital power of being a listed company to seek suitable investment targets, by firstly focusing on the upstream production enterprises in the industry, while making financial investments in non-related industries with bright future prospects. During the Reporting Period, the Group proceeded with the transfer of shares in Lanzhou Foci and became the second largest shareholder of Hong Kong Fat Chi. This will further enrich the Group's product portfolio in Hong Kong, Macau and overseas markets and will enhance local sales and profit contribution. At the same time, the long-established Minshan brand products will show that the Company will further consolidate the sales network by building a base to attract more talents, and attract more high-quality products, strengthen the relationship with cooperative partners, enhancing the development of marketing scale of the Group's principal businesses.

According to the guidance of the Fifth Five-Year Strategic Development Plan, the Group is committed to become a world-class outstanding enterprise in the pharmaceutical and healthcare industry. To this end, the Group has stepped up the merger and acquisition project with the French Innopharm, and all investment and merger work are expected to be completed in the second half of the year. Innopharm was founded in 1983 by Dr. Jacques Noury, a French doctor of medicine and one of the founders of the international drug in the CRO field. The merger and acquisition will facilitate the Group to acquire a timely understanding and analysis of the market trends in Europe, research and development and subsequent entry of products into the European market, laying the foundation for the Company to deal with and serve global customers.

Moreover, according to the documents of Shenzhen Stock Exchange, the review status of the Group's investment in IGBT BYD Semiconductor Company Limited has been changed to approval by the Listing Committee meeting, which will also bring considerable financial investment returns to the Group upon listed.

Management Discussion and Analysis

3. *Enriching the product portfolio continuously and promoting sustainable development of the principal businesses*

During the Reporting Period, the Group continued to rely on the overseas pipeline resources accumulated over the years, as well as a mature product evaluation system and an efficient international supply chain system. The Group continued to strictly select global high-quality healthcare products with accurate efficacy and high quality according to high standards, and continued to enrich the product categories in online and offline businesses, currently stock keeping unit of operating products have reached nearly a hundred.

The Group conducts different channel layouts according to different product characteristics and different consumer profiles, focusing on pure sales in the local market. It actively grasps the upgraded demand for high-quality products in the mainland market, provides products online and offline, and enriches product portfolios and categories. At the same time, the Group pays equal attention to its own brands and imported products. While introducing high-quality products, it vigorously builds its own brands and independently pursues research and develops products that conform to consumer trends and consumption habits of young groups. Currently, derivative products of the Group's Kingworld Imada Red Flower Oil are under research and will be launched to the market soon. Several other self-developed products are also preparing for launching in market.

In addition, the Group's overseas original equipment manufacturer ("OEM") self-owned brands have also completed product formulation design and packaging design; product trademarks have also been registered and applied for registration in many countries, and are expected to be marketed soon to serve public health.



Management Discussion and Analysis

4. Longde Health Industrial Park is about to be topped out, and Hong Kong medicine is making progress

During the Reporting Period, the Group's Longde Health Industrial Park received inspection and guidance from various parties including the government, various associations and institutions, and its leading role in the Chinese medicine life and health industry sector in Longgang District, Shenzhen was fully affirmed. The goal is to build it into a highland of traditional Chinese medicine in the Guangdong-Hong Kong-Macao Greater Bay Area and a national-level demonstration platform for the incubation and transformation of life and health science and technology achievements in traditional Chinese medicine. Its completion will accelerate the innovation and transformation of life and health science and technology achievements in traditional Chinese medicine and will strengthen external interflow and cooperation in traditional Chinese medicine, and will help more Chinese medicines to "go global", launching high-quality Chinese patent medicines around the world and disseminating Chinese medicine culture and products. In addition, Longde Health Industrial Park has also entered into a letter of intent on strategic cooperation in relation to the application of nanocrystalline magnetic beads, intending to apply this latest scientific research technology in the detection technology of traditional Chinese medicine and improve the extraction standards and methods of traditional Chinese medicine.

Shenzhen is adjacent to Hong Kong and modern service industries such as technological innovation and finance are well-developed. The traditional Chinese medicines marketed in Hong Kong, Macau and Taiwan have high safety standards and the target customers are Chinese. Owing to complementary geographical advantages with the mainland, sharing the same origin and source of resources, the habits of drug usage and suitability for the population are highly consistent. During the Reporting Period, the Group made progress in the implementation of Hong Kong drugs: the research team of the Shenzhen Decision Advisory Committee on the Hong Kong Drug Implementation visited the Group for research and guidance, and successfully held the research and communication meeting on the topic of "Constructing the Shenzhen-Hong Kong Cooperation Pilot Demonstration Zone for Traditional Chinese Medicine". As a founding unit, the Group actively participated in the project of the implementation of Hong Kong medicine, and carried out plan presentation and in-depth discussion on the development direction and progress of traditional Chinese medicine in Shenzhen. Since 2016, the Group has been studying the implementation of Hong Kong medicines and vigorously developing the field of traditional Chinese medicine, keeping up with government policies, moving from offline sales to online cross-border e-commerce, and constantly striving to promote the century-old Hong Kong medicines expand to mainland China. Through the Longde Health Industry Complex, the Group will further provide more comprehensive hardware equipment and facilities for the Hong Kong Medicines Project. The Longde Health Industrial Park is expected to be topped out in the second half of the year. Upon completion, it will further enhance the Group's comprehensive strength and competitiveness and build a professional platform for the Group's strategic integration of industry, commerce and finance.

Management Discussion and Analysis

5. *Reshaping corporate culture and stimulating talents via shares award scheme*

The Group's business concepts and philosophy are "being proactive, sincere and altruistic", advocating a positive and progressive fighting spirit, humanistic feelings of virtue and benevolence, and constantly fostering a positive and enterprising spirit, to motivate employees to strive for reaching higher goals continuously, thereby driving sustainable development of the Group.

During the Reporting Period, the Group strengthened training and development of existing talents, guided by the value of corporate cultural soft power and equity incentives, built an enterprise with values as the core, and reshaped the corporate culture system. In addition to keeping the existing talents close, the Group also attracted outstanding talents to join. To this end, at the beginning of the year, the Group granted a total of 1,556,000 awarded shares to 73 selected participants at zero consideration under the share award scheme. In March 2022, the Group increased the individual limit of the share award scheme by 10 times. In July 2022, the Board decided to further increase the limit of the scheme to 46,000,000 shares. These are the Group's actions to motivate key talents and attract outstanding external talents. More talents are included in the scope of equity incentives, so that every employee who grows with the Company becomes a partner, this will fully stimulate labour initiatives, strengthen the sense of ownership, encourage all employees to work hard, fully complete the Company's strategic business goals, and make more contributions to society together.



Management Discussion and Analysis

6. Participating in philanthropic activities and benefitting the world

During the Reporting Period, the Group continued to uphold the corporate mission of “Serving community and benefiting the world (效力世人·潤澤蒼生)”, actively fulfilled its social responsibilities, and strived to build a harmonious and beautiful life community. During the Reporting Period, the Group worked together to fight the Pandemic, and donated funds and anti-Pandemic medical supplies such as Kingworld disposable medical masks, Kingworld Imada Red Flower Oil and Pu Ji Kang Gan Granules (普濟抗感顆粒) to areas severely affected by the Pandemic, such as Shenzhen, Hong Kong, Yan’an City in Shaanxi Province, Baise City in Guangxi Province, and Inner Mongolia, totalling millions of dollars. When the Pandemic in Hong Kong was severe, the Group responded to the government’s call and actively mobilised forces from all walks of life to support the fight against the Pandemic. The Group has cooperated with familiar organizations and associations such as the Friends of Hong Kong Association Ltd., the Hong Kong International Teochew Federation, Shenzhen Chaoshan Youth Association and the Shenzhen Golf Association (深圳市高爾夫協會) to make multiple donations, which have been praised and appreciated by the society. The Group also assisted iHealth (Hong Kong) Labs Limited to donate more than 200,000 new coronavirus rapid test kits, with a total value of HK\$14 million, to Hong Kong to support the anti-Pandemic action, and received a certificate of appreciation from the Friends of Hong Kong Association Ltd., which was awarded by President Henry Tang Ying-yen.

During the Reporting Period, upholding the spirit of poverty alleviation, the Group made a donation to the Jieyang University Student Development Foundation (揭陽市大學生發展基金會) with the aim of assisting the talent development of university students. The Group has continued to donate daily medicines during the monks’ meditation period according to the custom of Vassa, so as to keep the monks and the audience healthy and pray for society. During the Reporting Period, the Group’s Kingworld Healthcare Foundation was awarded the AAA-level social organization certificate.



Management Discussion and Analysis



Management Discussion and Analysis

HONOURS

During the Reporting Period and up to the date of this report, the Group received the following honours and awards:

- In January 2022, Kingworld Medicines continued to be selected as a key logistics company of Shenzhen;
- In May 2022, the Group was awarded two honorary awards of “Fighting Pandemic-Love Contribution Award (抗擊疫情•愛心貢獻獎)” and “Outstanding Member” by Shenzhen Health Industry Promotion Association (深圳市健康產業促進會);
- In June 2022, Shenzhen Kingworld Healthcare Foundation was awarded the AAA-level social organization;
- In June 2022, Kingworld Medicines was authorised as the designated sponsor of topical oil by the 2nd Mind Sports Games in Zhejiang Province;
- In June 2022, Mr. Zhao Li Sheng, Chairman of the Board of the Group, was appointed as the Honorary Chairman of the 18th Committee of Shantou Overseas Chinese Federation (汕頭市僑聯第十八屆委員會);
- In July 2022, Nin Jiom has been included in several lists, such as “Chinese Medicine-Brand List (中國醫藥•品牌榜)”, “Top 100 Chinese Traditional Medicine Enterprises (中國中藥企業 TOP100)” and “The Most Valuable Items of Chinese Chain Pharmacies (中國連鎖藥店最具合作價值單品)”; and
- In July 2022, Mr. Zhao Kin Wai, Assistant to the chairman of the Group, as a representative of outstanding young people of Hong Kong’s Chinese medicine sector, was featured on CCTV International’s CGTN channel feature film “I am a post-90s youth, I speak for Chinese medicine” on the 25th anniversary of Hong Kong’s handover.



Management Discussion and Analysis



Management Discussion and Analysis

FINANCIAL REVIEW

1. Revenue

Revenue of the Group for the six months ended 30 June 2022 amounted to approximately RMB419,647,000, representing an increase of approximately RMB4,347,000 or 1.0% compared to approximately RMB415,300,000 for the six months ended 30 June 2021. The increase was mainly due to the increase in the revenue from distribution of imported branded pharmaceutical and healthcare products in China for the Reporting Period as compared to the six months ended 30 June 2021 as a result of the market recovery from the outbreak of the Pandemic. Such increase was partially offset by the decrease in sales of medical devices, including infrared thermometer, manufactured by Dong Di Xin. The decrease was mainly due to the drop in sales of anti-Pandemic devices.

2. Cost of sales and gross profit margin

For the six months ended 30 June 2022, cost of sales of the Group amounted to approximately RMB285,951,000, representing an increase of approximately RMB4,222,000 or 1.5% compared to approximately RMB281,729,000 for the six months ended 30 June 2021. The increase in cost of sales was mainly due to the increase in sales volume and the change of product mix. Gross profit margin decreased from 32.2% for the six months ended 30 June 2021 to 31.9% for the six months ended 30 June 2022 as a result of the decrease in proportion of revenue from products with relatively higher margin, in particular the medical device products from Dong Di Xin, during the Reporting Period. Besides, the gross profit margin of Dong Di Xin also decreased from 42.8% for the six months ended 30 June 2021 to 41.6% for the Reporting Period. The decrease was mainly due to the drop in unit selling price of the anti-Pandemic medical device as the demand declined due to the control of the Pandemic during the Reporting Period.

3. Other revenue, income and other net loss

Other revenue, income and other net loss mainly included rental income, interest income, promotion service income, government grants, change in fair value of financial assets at fair value through profit or loss, investment gain and exchange gain. For the six months ended 30 June 2022, other revenue, income and other net gains amounted to approximately RMB14,540,000, representing an increase of approximately RMB3,498,000 or 31.7% compared to approximately RMB11,042,000 for the six months ended 30 June 2021. Such increase was mainly due to the increases in exchange gain and change in fair value of financial assets at fair value through profit or loss, and was partially offset by the decrease in government grants during the Reporting Period. Details of other revenue, income and other net loss are set forth in Note (7) to the unaudited interim financial report.

Management Discussion and Analysis

4. Selling and distribution costs

For the six months ended 30 June 2022, selling and distribution costs amounted to approximately RMB49,401,000, representing an increase of approximately RMB1,667,000 or 3.5% compared to approximately RMB47,734,000 for the six months ended 30 June 2021. This increase was mainly due to the increases in delivery expenses and storage fee as a result of the increase in sales volume for the Reporting Period.

5. Administrative expenses

For the six months ended 30 June 2022, administrative expenses amounted to approximately RMB45,313,000, representing an increase of approximately RMB1,769,000 or 4.1% compared to approximately RMB43,544,000 for the six months ended 30 June 2021. This increase was mainly due to the increase in research and development cost during the Reporting Period.

6. Profit from operations

For the six months ended 30 June 2022, profit from operations for the Group amounted to approximately RMB46,737,000, representing an increase of approximately RMB187,000 or 0.4% compared to approximately RMB46,550,000 for the six months ended 30 June 2021. The increase in profit from operations was mainly due to the increase in other revenue, income and other net loss, which were partially off-set by the increase in selling and distribution costs and administrative expenses during the Reporting Period.

7. Finance costs

For the six months ended 30 June 2022, finance costs amounted to approximately RMB8,659,000, representing an increase of approximately RMB970,000 or 12.6% compared to approximately RMB7,689,000 for the six months ended 30 June 2021. The increase in finance costs was mainly due to the increase in interest charged on bank loans as a result of an increase in the average bank borrowings.

8. Profit before taxation

For the six months ended 30 June 2022, profit before taxation for the Group amounted to approximately RMB42,229,000, representing an increase of approximately RMB1,686,000 or 4.2% compared to approximately RMB40,543,000 for the six months ended 30 June 2021. The increase in profit before taxation was mainly due to the increase in profit from operations and share of profit of a joint venture.

Management Discussion and Analysis

9. Income tax

For the six months ended 30 June 2022, income tax for the Group amounted to approximately RMB7,126,000, representing an increase of approximately RMB868,000 or 13.9% compared to approximately RMB6,258,000 for the six months ended 30 June 2021. The effective tax rate during the Reporting Period was 16.9%, compared to 15.4% for the six months ended 30 June 2021. Details of income tax are set forth in Note (9) to the unaudited interim financial report.

10. Profit for the period

As a result of the foregoing, for the six months ended 30 June 2022, profit for the period of the Group amounted to approximately RMB35,103,000, representing an increase of approximately RMB818,000 or 2.4% compared to approximately RMB34,285,000 for the six months ended 30 June 2021.

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

For the six months ended 30 June 2022, profit for the period attributable to owners of the Company amounted to approximately RMB24,213,000, representing an increase of approximately RMB4,731,000 or 24.3% compared to approximately RMB19,482,000 for the six months ended 30 June 2021. The increase was mainly due to the fact that profit for the period was mainly derived from operation belongs to owners of the Company.

12. Liquidity and capital resources

The Group has met its working capital needs mainly through cash generated from operations and various short-to-long term bank borrowings. During the Reporting Period, the effective interest rate for fixed rate loans ranged from 2.05% to 6.32%. Taking into account the cash flow generated from operations and the bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least twelve months from the date of publication of this report.

As at 30 June 2022, the Group had cash and cash equivalents of RMB237,820,000 (as at 31 December 2021: approximately RMB187,925,000) mainly generated from operations of the Group.

13. Cash flows

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

During the Reporting Period, the Group's cash and cash equivalents increased by approximately RMB49,895,000, which mainly comprised the net cash generated from operating activities with the amount of approximately RMB98,385,000, net cash used in investing activities with the amount of approximately RMB44,737,000, net cash used in financing activities with the amount of approximately RMB2,469,000, and the net negative effect of foreign exchange of approximately RMB1,284,000. The cash flow details of the Group are set out in page 49 under "Condensed Consolidated Statement of Cash Flows" in this report.

Management Discussion and Analysis

14. Capital structure

Indebtedness

The total amount of the borrowings of the Group which will be due within one year as at 30 June 2022 was approximately RMB236,591,000. During the Reporting Period, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

Gearing ratio

As at 30 June 2022, the Group's gearing ratio, calculated as the total interest-bearing bank borrowings, less cash and cash equivalents, divided by total equity multiplied by 100%, was (0.2)% (as at 31 December 2021: 5.8%). The decrease in gearing ratio was mainly due to the increase in cash and cash equivalents.

Pledge of assets

As at 30 June 2022, 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 RMB107,600,000, RMB56,920,000, RMB18,801,000 and RMB95,200,000, respectively (as at 31 December 2021: 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 RMB107,600,000, RMB55,558,000, RMB18,801,000 and RMB85,130,000, respectively).

Capital expenditure

The capital expenditures of the Group primarily included purchase of property, plant and equipment. The Group's capital expenditures amounted to approximately RMB37,978,000 and RMB5,337,000 for the Reporting Period and the six months ended 30 June 2021, respectively.

Foreign exchange risk

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

Management Discussion and Analysis

15. Contingent liabilities, legal and potential proceedings

As at 30 June 2022, the Group did not have any material legal proceedings or potential proceedings.

References are made to the paragraph headed “Litigation” in the 2015 Annual Report, the 2016 Annual Report, the 2017 Annual Report, the 2018 Annual Report, the 2019 Annual Report, the 2020 Annual Report and 2021 Annual Report of the Company, the paragraph headed “Contingent liabilities, legal and potential proceedings” in the 2016 Interim Report, the 2017 Interim Report, the 2018 Interim Report, the 2019 Interim Report, the 2020 Interim Report and the 2021 Interim Report of the Company, the announcement of the Company dated 24 October 2016 (the “Announcement”), the announcement of the Company dated 31 October 2016 (the “Second Announcement”), the announcement of the Company dated 10 August 2018 (the “Third Announcement”), the announcement of the Company dated 2 August 2019 (the “Fourth Announcement”) and the announcement of the Company dated 17 January 2022 (the “Fifth Announcement”) in relation to update on litigation. Unless otherwise defined, capitalised terms used in this paragraph shall have the same meanings as those defined in the Announcement, the Second Announcement, the Third Announcement, the Fourth Announcement and the Fifth Announcement. Based on the judgment (the “2021 Judgment”) handed down by the Intermediate Court on 31 December 2021, the Intermediate Court ruled to dismiss all claims of the plaintiff of the first instance that the Substantial Shareholder shall not be required to transfer his 15% equity interest in Dong Di Xin to the plaintiff of the first instance, and Dong Di Xin shall not be required to undertake relevant assistance obligations.

The Company confirms that the 2021 Judgment did not and will not have any material adverse impact on the ordinary operations and financial positions of the Company and its subsidiaries. Please refer to the Fifth Announcement for further details. In June 2022, the Company received notification that the plaintiff applied to High People’s Court of Guangdong Province for re-trial. As at the date of this report, the case was at the stage of retrial filing and undergoing review by the High People’s Court of Guangdong Province for re-trial.

16. Major acquisitions and disposals

For the six months ended 30 June 2022, the Group did not make any material acquisition or disposal.

17. Going concern

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

Management Discussion and Analysis

FUTURE OUTLOOK

2022 is the first year of the Group's Fifth Five-Year Strategic Plan. At this important turning point, the Group will continue to keep pace with the times, embark on the high-quality development of China's economy, and firmly grasp the development opportunities brought by Shenzhen as a pioneering demonstration area for socialism and the growing need for health services due to an ageing population. In the second half of 2022, the Group will focus on the following work:

1. Consolidate and strengthen brand operation business to lay the foundation for development

The Group will further strengthen market management, actively promote innovative forms of marketing, and create more star brands in various fields with different categories and strategies. The Group will continue to consolidate the key markets of major products such as Nin Jiom, Taiko Seirogan, Kingworld Imada Red Flower Oil and Culturelle Probiotics, to strengthen the market distribution rate and promote terminal sales. The Group will also develop potential products such as Life's DHA, Enalapril, and Fat Chi (Hong Kong) series of Minshan Brand (岷山牌佛慈(香港)系列), and further increase market share by promoting market expansion, intensifying development efforts and strengthening brand promotion.

2. Strengthen and expand e-commerce business

With a keen market sense and abundant resources of excellent foreign suppliers, the Group will further realise the diversification and innovative marketing model of e-commerce. In the second half of 2022, the Group will continue to expand its e-commerce sales, build a professional e-commerce operation team, respond quickly to market conditions, continue to strengthen the integration of its cross-border e-commerce system with its offline business and strive to achieve its operational strategic plan of rising in the overall ranking of the industry.

3. Introduce more and better products and promote the development of the Group's own brands

Relying on the overseas pipeline resources accumulated by its subsidiaries for many years, a mature product evaluation system and an efficient international supply chain system, the Group has the strength as the general agent of famous brands, and continues to introduce more high-quality brand products, optimise product portfolio and create popular products in order to provide safe and effective medical and healthcare products and services to customers worldwide. The Group will also accelerate the launch of extended self-branded products of Red Flower Oil and overseas OEM brand products in the market and promote the launch of other independent products to further provide professional guidance and services on consumers' health needs and safeguard consumers' health.

4. Use more scientific methods to manage investment and financing to help enterprises achieve sustainable development

The Group will further enhance its own financing capabilities, optimise the corporate capital structure, and strengthen the management of joint ventures and mergers and acquisitions such as Dong Di Xin Technology and Hong Kong Fat Chi. The Group will speed up its industrial layout, take advantage of Longde Health Industrial Park to establish an integrated and intelligent service platform for the pharmaceutical supply chain, and continuously improve and optimise the construction of the comprehensive health business system.

Management Discussion and Analysis

5. Continue to strengthen risk control and build an efficient risk management system

In the face of uncertain factors such as the fluctuating Pandemic situation and the turbulence in world politics, the Group will continue to adhere to the management idea of “saving costs and increasing efficiency”, strengthen the management of accounts receivable, and enhance the Group’s comprehensive capabilities of risk early warning, monitoring, prevention and control.

6. Increase incentives to promote the Company’s long-term development

The Group will continue to consolidate its existing business position, develop independent research and development capabilities, and take the opportunity of Longde Health Industrial Park to realise the strategy of integrating industry, business and finance. The Group will establish a short-term, medium-term and long-term incentive mechanism to attract talents with a good career development environment, stabilise and develop the talent team, and continuously improve the talent development platform to promote the long-term stable development of the Company.



Management Discussion and Analysis

HUMAN RESOURCES AND TRAINING

As at 30 June 2022, the Group had a total of 1,032 employees, of which 131 worked at the Group's headquarters in Shenzhen, and 391 were stationed in 34 other regions mainly responsible for sales and marketing, and 510 worked at Dong Di Xin. For the six months ended 30 June 2022, the Group's total remuneration paid to employees was approximately RMB74,722,000. The Group releases an annual sales guideline on a yearly basis, setting out the annual sales targets and formulating quarterly sales strategies, so as to provide sales and marketing guidelines for all representative offices and their staff to observe. The Group has a management team with extensive industry experience (including sales directors and product managers). They are responsible for coordinating front-line sales and marketing teams to meet the annual sales targets.

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

DISCLOSURE OF INTERESTS

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

As at 30 June 2022, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required (i) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

(i) Interests in the shares in the Company

Name of Directors	Capacity/Nature of Interest	Number of shares in the Company held	Approximate percentage of the Company's total issued share capital
Zhao Li Sheng ^(Note 1)	Beneficial owner	20,372,000	3.27%
	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	318,184,250	51.11%
	Interest of a controlled corporation	90,000,000	14.46%
Zhou Xuhua ^(Note 3)	Beneficial owner	36,000	0.01%
	Interest of spouse	2,380,000	0.38%
Zhang Jianbin	Beneficial owner	36,000	0.01%

Notes:

1. In addition to 20,372,000 shares which are beneficially owned by Mr. Zhao Li Sheng ("Mr. Zhao"), Mr. Zhao is deemed (by virtue of the SFO) to be interested in 388,556,250 shares in the Company. These shares are held in the following capacities:
 - (a) 297,812,250 shares are held by Golden Land International Limited ("Golden Land"). Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Mr. Zhao is deemed to be interested in the 297,812,250 shares held by Golden Land. Mr. Zhao is also the sole director of Golden Land.
 - (b) 744,000 shares are held by Ms. Chan Lok San ("Ms. Chan"), the spouse of Mr. Zhao, in her own name and 90,000,000 shares are held by Golden Morning International Limited ("Golden Morning"). Ms. Chan is the beneficial owner of the entire issued share capital of Golden Morning, therefore, Mr. Zhao is also deemed to be interested in the 744,000 shares held by Ms. Chan and 90,000,000 shares held by Golden Morning.

Other Information

2. Ms. Chan is deemed (by virtue of the SFO) to be interested in 408,928,250 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) 20,372,000 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 20,372,000 shares held by Mr. Zhao and the 297,812,250 shares held by Golden Land.
3. 36,000 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 2,380,000 shares in the Company held by his spouse, Ms. Huang Xiaoli.

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

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

As at 30 June 2022, save as disclosed above, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

Save as disclosed above, as at 30 June 2022, none of the Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Other Information

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

As at 30 June 2022, 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	20,372,000	3.27%
	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	318,184,250	51.11%
	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 20,372,000 shares which are beneficially owned by Mr. Zhao, Mr. Zhao is deemed (by virtue of the SFO) to be interested in 388,556,250 shares in the Company. These shares are held in the following capacities:
 - (a) 297,812,250 shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Mr. Zhao is deemed to be interested in the 297,812,250 shares held by Golden Land. Mr. Zhao is also the sole director of Golden Land.
 - (b) 744,000 shares are held by Ms. Chan, the spouse of Mr. Zhao, in her own name and 90,000,000 shares are held by Golden Morning. Ms. Chan is the beneficial owner of the entire issued share capital of Golden Morning, therefore, Mr. Zhao is also deemed to be interested in the 744,000 shares held by Ms. Chan and 90,000,000 shares held by Golden Morning.

Other Information

2. Ms. Chan is deemed (by virtue of the SFO) to be interested in 408,928,250 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) 20,372,000 shares are held by Mr. Zhao, the spouse of Ms. Chan, in his own name and 297,812,250 shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Ms. Chan is also deemed to be interested in the 20,372,000 shares held by Mr. Zhao and the 297,812,250 shares held by Golden Land.
3. Pursuant to the share purchase agreement entered into between Golden Land and Sinopharm Capital Limited dated 16 September 2014 (as supplemented by the supplemental agreements dated 7 November 2014 and 15 December 2014), Sinopharm Capital Limited designated Sinopharm Healthcare Fund L.P. as its nominee to acquire 62,187,750 shares of the Company from Golden Land for a consideration of HK\$133,703,662.50.
4. The corporate substantial shareholder notice filed by Sinopharm Capital Limited indicated that it controlled 1.64% interest in Sinopharm Healthcare Fund L.P..
5. The corporate substantial shareholder notice filed by Sun Hill Capital Investments Limited indicated that it controlled 100% interest in Sinopharm Capital Limited and indirectly controlled 1.64% interest in Sinopharm Healthcare Fund L.P..
6. The individual substantial shareholder notice filed by Wu Aimin indicated that he controlled 70% interest in Sun Hill Capital Investments Limited, indirectly controlled 100% interest in Sinopharm Capital Limited and 1.64% interest in Sinopharm Healthcare Fund L.P..

Save as disclosed above, to the best knowledge of the Directors of the Company, as at 30 June 2022, no person (other than the Directors) had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or any interest or short positions recorded in the register kept by the Company under section 336 of the SFO.

SHARE OPTION SCHEME

The Company operates the Share Option Scheme for the purpose of providing incentives and rewards to eligible participants, including Directors, eligible employees, consultants, suppliers, customers, any shareholder of each member of the Group or associated company or any of their respective associates, who contribute to the success of the Group. The Share Option Scheme was conditionally approved by a written resolution of the shareholders of the Company dated 5 November 2010. Details of the Share Option Scheme are set out in the prospectus of the Company dated 12 November 2010. Upon the expiration of the Share Option Scheme on 4 November 2020, on 20 August 2021, the Company has adopted the new share option scheme (the “New Share Option Scheme”) to provide incentives or rewards to eligible participants for their contribution to the Group and/or to enable the Group to recruit and retain high calibre employees and attract human resources that are available to the Group. For details of the New Share Option Scheme, please refer to the circular of the Company dated 27 July 2021.

On 23 April 2018, the Company granted to certain eligible participants, a total of 18,368,000 share options (the “**Share Options**”) to subscribe for a total of 18,368,000 ordinary shares of HK\$0.10 each in the capital of the Company under the Share Option Scheme.

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 16,000,000 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. The Board resolved to grant the Award with an aggregate of 1,556,000 Awarded Shares on 21 January 2022 to 73 Selected Participants under the Share Award Scheme at nil consideration, among which 384,000 Awarded Shares were granted to 12 Selected Participants who are Connected Grantees and 1,172,000 Awarded Shares were granted to 61 Selected Participants who are Non-connected Grantees. The Awarded Shares represent approximately 0.25% of the total issued share capital of the Company as at the Date of Grant (being 622,500,000 Shares). The closing price of the Shares on the Date of Grant was HK\$0.690 per Share and the average closing price of the Share for the five business days immediately preceding the Date of Grant was HK\$0.702 per Share. Subject to the acceptance by the Grantees, the Awarded Shares shall be vested in the Grantees on 21 January 2022. Please refer to the announcement of the Company dated 21 January 2022 for further details.

As disclosed in the announcement of the Company dated 13 July 2022, in order to provide further incentives for the Participants, the Board has resolved to further increase the Scheme Limit to 46,000,000 Shares (being approximately 7.39% of the issued share capital of the Company as at the date of the announcement) with effect from 13 July 2022. Please refer to the announcement of the Company dated 13 July 2022 for further details.

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.

Other Information

CAPITAL COMMITMENT

As at 30 June 2022, the Group had capital commitment of approximately RMB275,109,000 (as at 31 December 2021: approximately RMB325,069,000).

PUBLIC FLOAT

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

DIVIDENDS

Pursuant to a resolution passed by the shareholders of the Company on 27 May 2022, the Company declared a final dividend for the year ended 31 December 2021 of HK\$2.39 cents per share, amounting to approximately HK\$14,878,000 (equivalent to approximately RMB12,138,000) to the shareholders of the Company. The dividend was fully paid on 29 June 2022 by the internal cash resources of the Company.

The Board resolved not to recommend the payment of any interim dividend for the six months ended 30 June 2022 (2021: nil).

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

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

CORPORATE GOVERNANCE PRACTICES

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

During the Reporting Period, the Company complied with the code provisions as set out in the CG Code, other than code provision C.2.1 of the CG Code.

Other Information

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the “Model Code”) as its own code governing securities transactions of the Directors. After having made specific enquiries with all Directors, all Directors have confirmed that they have complied with the required standards set out in the Model Code during the Reporting Period.

Other Information

AUDIT COMMITTEE

The Company established an audit committee (the “Audit Committee”) on 5 November 2010 and has formulated its written terms of reference, which have from time to time been modified, in accordance with the prevailing provisions of the CG Code. The primary duties of the Audit Committee are (among other things) to provide an independent review and supervision of financial reporting, and examine the effectiveness of the internal controls of the Group and to ensure the external auditor is independent and the audit process is effective. The Audit Committee examines all matters relating to the accounting principles and policies adopted by the Group, auditing functions, internal controls, risk management and financial reporting. The Audit Committee also serves as a channel of communication between the Board and the external auditor. The Audit Committee currently comprises of three members, namely Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam. Mr. Wong Cheuk Lam, who has appropriate professional qualifications and experience in accounting matters, has been appointed as the chairman of the Audit Committee.

The financial information in this interim report has not been audited by the auditor of the Company. The Audit Committee has reviewed the unaudited condensed consolidated interim financial statements, the unaudited results announcement and this interim report of the Company for the six months ended 30 June 2022 with the management of the Group and agreed with the accounting treatments adopted by the Company, and was of the opinion that the preparation of the financial statements in this interim report complies with the applicable accounting standards and the requirements under the Listing Rules and adequate disclosures have been made.

EVENTS AFTER THE REPORTING PERIOD

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

DISCLOSURE OF INFORMATION

The interim report for the six months ended 30 June 2022 will be duly dispatched to shareholders of the Company and published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.kingworld.com.cn>).

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

Hong Kong, 31 August 2022

Consolidated Statement of Profit or Loss

FOR THE SIX MONTHS ENDED 30 JUNE 2022 - UNAUDITED
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2022 (unaudited) RMB'000	2021 (unaudited) RMB'000
Revenue	4	419,647	415,300
Cost of sales		(285,951)	(281,729)
Gross profit		133,696	133,571
Other revenue, income and other net loss	7	14,540	11,042
Selling and distribution costs		(49,401)	(47,734)
Administrative expenses		(45,313)	(43,544)
Amortisation of intangible assets		(6,785)	(6,785)
Profit from operations		46,737	46,550
Finance costs	8(a)	(8,659)	(7,689)
Share of profit of a joint venture		4,113	1,662
Share of profit of an associate		38	20
Profit before taxation	8	42,229	40,543
Income tax	9	(7,126)	(6,258)
Profit for the period		35,103	34,285
Attributable to:			
Owners of the Company		24,213	19,482
Non-controlling interests		10,890	14,803
Profit for the period		35,103	34,285
Earnings per share	11		
Basic (RMB cents)		3.99	3.21
Diluted (RMB cents)		3.99	3.21

The accompanying notes form part of these unaudited interim financial report.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE SIX MONTHS ENDED 30 JUNE 2022 - UNAUDITED
(Expressed in Renminbi)

	Six months ended 30 June	
	2022 (unaudited) RMB'000	2021 (unaudited) RMB'000
Profit for the period	35,103	34,285
Other comprehensive income for the period		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside the PRC	(1,284)	5,814
	(1,284)	5,814
Total comprehensive income for the period (net of tax)	33,819	40,099
Attributable to:		
Owners of the Company	22,929	25,296
Non-controlling interests	10,890	14,803
Total comprehensive income for the period	33,819	40,099

The accompanying notes form part of these unaudited interim financial report.

Consolidated Statement of Financial Position

AS AT 30 JUNE 2022 - UNAUDITED
(Expressed in Renminbi)

	Note	30 June 2022 (unaudited) RMB'000	31 December 2021 (audited) RMB'000
Non-current assets			
Right-of-use assets	12(a)	106,676	107,896
Property, plant and equipment	12(b)	140,860	102,039
Investment properties	13	121,800	121,800
Interest in a joint venture		89,810	85,697
Interest in an associate		8,433	8,395
Goodwill		90,693	90,693
Intangible assets		6,919	13,703
Financial assets at fair value through profit or loss		6,461	6,461
Financial assets at fair value through other comprehensive income		38,702	37,490
		610,354	574,174
Current assets			
Inventories		122,724	106,744
Trade and other receivables	14	293,812	334,506
Financial assets at fair value through profit or loss		16,119	10,480
Cash and cash equivalents		237,820	187,925
		670,475	639,655
Current liabilities			
Contract liabilities		63,962	71,730
Trade and other payables	15	187,811	152,490
Bank loans		236,591	229,922
Lease liabilities		8,257	7,584
Tax payable		10,591	11,897
		507,212	473,623
Net current assets		163,263	166,032
Total assets less current liabilities		773,617	740,206
Non-current liabilities			
Lease liabilities		1,569	1,450
Deferred tax liabilities		17,595	18,122
		19,164	19,572
NET ASSETS		754,453	720,634
CAPITAL AND RESERVES			
Share capital	16	53,468	53,468
Reserves		586,358	563,429
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		639,826	616,897
NON-CONTROLLING INTERESTS		114,627	103,737
TOTAL EQUITY		754,453	720,634

The accompanying notes form part of these unaudited interim financial report.

Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2022 - UNAUDITED
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company									
	Share capital RMB'000	Share premium RMB'000	Statutory and discretionary reserves RMB'000	Fair value reserve RMB'000	Exchange reserve RMB'000	Capital reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non- Controlling interests RMB'000	Total RMB'000
At 1 January 2022	53,468	152,700	48,641	2,969	(25,712)	(10,099)	394,930	616,897	103,737	720,634
Changes in equity for the six months ended 30 June 2022										
Profit for the period	—	—	—	—	—	—	24,213	24,213	10,890	35,103
Other comprehensive loss for the period	—	—	—	—	(1,284)	—	—	(1,284)	—	(1,284)
Total comprehensive income for the period	—	—	—	—	(1,284)	—	24,213	22,929	10,890	33,819
At 30 June 2022 (unaudited)	53,468	152,700	48,641	2,969	(26,996)	(10,099)	419,143	639,826	114,627	754,453
At 1 January 2021	53,468	152,700	48,641	4,531	(22,894)	(12,555)	367,912	591,803	86,707	678,510
Changes in equity for the six months ended 30 June 2021										
Profit for the period	—	—	—	—	—	—	19,482	19,482	14,803	34,285
Other comprehensive income for the period	—	—	—	—	5,814	—	—	5,814	—	5,814
Total comprehensive income for the period	—	—	—	—	5,814	—	19,482	25,296	14,803	40,099
Dividends (note 10(b))	—	—	—	—	—	—	(3,373)	(3,373)	—	(3,373)
At 30 June 2021 (unaudited)	53,468	152,700	48,641	4,531	(17,080)	(12,555)	384,021	613,726	101,510	715,236

The accompanying notes form part of these unaudited interim financial report.

Condensed Consolidated Statement of Cash Flows

FOR THE SIX MONTHS ENDED 30 JUNE 2022 - UNAUDITED
(Expressed in Renminbi)

	Six months ended 30 June	
	2022 (unaudited) RMB'000	2021 (unaudited) RMB'000
Net cash generated from operating activities	98,385	48,894
Net cash used in investing activities	(44,737)	(3,774)
Net cash used in financing activities	(2,469)	(42,030)
Net increase in cash and cash equivalents	51,179	3,090
Cash and cash equivalents at 1 January	187,925	250,818
Effect of foreign exchange rate changes	(1,284)	5,969
Cash and cash equivalents at 30 June	237,820	259,877

The accompanying notes form part of these unaudited interim financial report.

Notes to the Unaudited Interim Financial Report

FOR THE SIX MONTHS ENDED 30 JUNE 2022 - UNAUDITED
(Expressed in Renminbi unless otherwise indicated)

1. GENERAL INFORMATION

Kingworld Medicines Group Limited (the “Company”) was incorporated as an exempted company in the Cayman Islands with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised of the Cayman Island on 10 July 2008. The Company is an investment holding company whereas its subsidiaries (together with the Company, the “Group”) are principally engaged in (i) distribution sales of branded imported pharmaceutical and healthcare products, and (ii) manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices in the People’s Republic of China (the “PRC”) and Hong Kong.

2. BASIS OF PREPARATION

The unaudited interim financial report has been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and Hong Kong Accounting Standard 34 Interim Financial Reporting (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

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

This unaudited interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of the events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2021 annual financial statements. The condensed consolidated financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which term collectively includes HKASs and Interpretations issued by the HKICPA.

The interim financial report is unaudited, but has been reviewed by the Company’s audit committee.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and financial assets at fair value through profit or loss are stated at fair value.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2021, except as described below.

The Group has applied the following amendments to HKFRSs issued by the HKICPA to this interim financial report for the current accounting period:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 – 2020 Cycle

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

Notes to the Unaudited Interim Financial Report

FOR THE SIX MONTHS ENDED 30 JUNE 2022 - UNAUDITED
(Expressed in Renminbi unless otherwise indicated)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

The application of the above amendments in the Reporting Period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

Save as disclosed in the annual report for the year ended 31 December 2021, the Directors of the Company anticipate that the application of the other new and revised standards and amendments issued but not yet effective will have no material impact on the results and financial position of the Group.

4. REVENUE

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

	Six months ended 30 June	
	2022 (unaudited) RMB'000	2021 (unaudited) RMB'000
Sales of		
– pharmaceutical products	222,402	215,976
– healthcare products	57,856	57,001
– medical devices	139,389	142,323
	419,647	415,300
Timing of revenue recognition		
– A point in time	419,647	415,300

5. SEGMENT INFORMATION

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

1. Distribution sales of pharmaceutical and healthcare products: this segment distributes and sells branded imported pharmaceutical and healthcare products primarily in Hong Kong and the PRC.
2. Manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices: this segment manufactures and sells electrotherapeutic and physiotherapeutic devices and general medical examination devices. Currently, the Group's activities in this regard are primarily carried out in the PRC.

Notes to the Unaudited Interim Financial Report

FOR THE SIX MONTHS ENDED 30 JUNE 2022 - UNAUDITED
(Expressed in Renminbi unless otherwise indicated)

5. SEGMENT INFORMATION (Continued)

(a) Segment results, assets and liabilities

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

	Distribution sales of pharmaceutical and healthcare products				Manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices		Total	
	Hong Kong		PRC		PRC			
	2022 (unaudited) RMB'000	2021 (unaudited) RMB'000	2022 (unaudited) RMB'000	2021 (unaudited) RMB'000	2022 (unaudited) RMB'000	2021 (unaudited) RMB'000	2022 (unaudited) RMB'000	2021 (unaudited) RMB'000
For the six months ended 30 June								
Revenue from external customers	22,679	20,883	257,579	252,094	139,389	142,323	419,647	415,300
Inter-segment revenue	2,571	2,332	3,318	3,280	—	—	5,889	5,612
Reportable segment revenue	25,250	23,215	260,897	255,374	139,389	142,323	425,536	420,912
Reportable segment profit/(loss) (adjusted EBITDA)	(3,011)	(3,514)	40,989	35,695	39,895	42,211	77,873	74,392
	30 June 2022 (unaudited) RMB'000	31 December 2021 (audited) RMB'000	30 June 2022 (unaudited) RMB'000	31 December 2021 (audited) RMB'000	30 June 2022 (unaudited) RMB'000	31 December 2021 (audited) RMB'000	30 June 2022 (unaudited) RMB'000	31 December 2021 (audited) RMB'000
Reportable segment assets	34,039	33,602	630,976	594,324	439,656	409,742	1,104,671	1,037,668
Reportable segment liabilities	6,110	6,026	290,885	268,246	89,739	85,341	386,734	359,613

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

(b) Reconciliations of reportable segment profit or loss

	Six months ended 30 June 2022 (unaudited) RMB'000	2021 (unaudited) RMB'000
Reportable segment profit derived from the Group's external customers and joint venture	77,873	74,392
Depreciation and amortisation	(21,934)	(21,193)
Finance costs	(8,659)	(7,689)
Unallocated head office and corporate expenses	(5,051)	(4,967)
Consolidated profit before taxation	42,229	40,543

Notes to the Unaudited Interim Financial Report

FOR THE SIX MONTHS ENDED 30 JUNE 2022 - UNAUDITED
(Expressed in Renminbi unless otherwise indicated)

6. SEASONALITY OF OPERATIONS

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

7. OTHER REVENUE, INCOME AND OTHER NET LOSS

	Six months ended 30 June	
	2022 (unaudited) RMB'000	2021 (unaudited) RMB'000
Other revenue:		
Total interest income on financial assets not at fair value through profit or loss:		
Bank interest income	182	220
Interest income from financial assets at fair value through other comprehensive income	239	291
Gross rental income from investment properties	1,093	1,449
Promotional service income	3,486	3,009
	5,000	4,969
Other income and other net loss:		
Government grants (note below)	966	4,018
Change in fair value of financial assets at fair value through profit or loss	5,036	3,497
Exchange gain/(loss), net	3,603	(1,660)
Others	(65)	218
	14,540	11,042

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

Notes to the Unaudited Interim Financial Report

FOR THE SIX MONTHS ENDED 30 JUNE 2022 - UNAUDITED
(Expressed in Renminbi unless otherwise indicated)

8. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2022 (unaudited) RMB'000	2021 (unaudited) RMB'000
a) Finance costs		
Total interest expense on financial liabilities not at fair value through profit or loss:		
Interest on bank loans	8,155	7,207
Interest on lease liabilities	504	482
Total finance costs	8,659	7,689
b) Other items		
Amortisation of intangible assets	6,785	6,785
Cost of inventories	285,951	281,729
Staff costs	74,722	72,183
Depreciation of property, plant and equipment	5,972	5,582
Amortisation of right-of-use assets	5,023	6,073
Rental income from investment properties less direct outgoings of RMB169,000 (six months ended 30 June 2021: RMB172,000)	(924)	(1,277)
Research and development cost	8,084	6,208
Payment for share award scheme expense	687	—

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9. INCOME TAX

	Six months ended 30 June	
	2022 (unaudited) RMB'000	2021 (unaudited) RMB'000
Hong Kong Profits Tax		
Current period	(827)	(965)
PRC Enterprise Income Tax		
Current period	7,953	7,223
	7,126	6,258
Deferred tax		
Origination and reversal of temporary differences	—	—
	7,126	6,258

Notes:

- i) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.
- ii) On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of assessable profits of qualifying corporations will be taxed at 8.25%, and assessable profits above HK\$2 million will be taxed at 16.5%. The assessable profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. The two-tiered profits tax rates regime is applicable to the Group for the six months ended 30 June 2022 and 2021.
- iii) The PRC Enterprise Income Tax charge of the Group during the six months ended 30 June 2022 and 2021 represented mainly the PRC Enterprise Income Tax charge on the Group's PRC subsidiaries, Shenzhen Kingworld Medicine Company Limited, and Shenzhen Dong Di Xin Technology Company Limited ("Dong Di Xin") are based on a statutory rate of 25% (six months ended 30 June 2021: 25%), except for Dong Di Xin, which is based on a preferential income tax rate of 15% (six months ended 30 June 2021: 15%).
- iv) Under the New EIT Law and its implementation rules, dividends receivable by non-PRC resident enterprises from PRC resident enterprises are subject to withholding tax at a rate of 10% unless reduced by tax treaties or agreements. Under the Agreement between the Mainland China and Hong Kong Special Administration Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion, or Mainland China/HKSAR DTA, Hong Kong corporate tax residents which hold 25% or more of a PRC enterprise are entitled to a reduced dividend withholding tax rate of 5%. Pursuant to CaiShui [2008] No. 1 Notice on Certain Preferential Enterprise Income Tax Policies, undistributed profits generated prior to 1 January 2008 are exempted from such withholding tax. Accordingly, dividends receivable by the Group's investment holding company in Hong Kong from the PRC subsidiaries in respect of profits earned since 1 January 2008 will be subject to 5% withholding tax.

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10. DIVIDENDS

- a) The Company's directors do not recommend the payment of an interim dividend for the six months ended 30 June 2022 and 2021.
- b) Dividends payable to owners of the Company attributable to the previous financial year, approved and paid during the Reporting Period:

	Six months ended 30 June	
	2022 (unaudited) RMB'000	2021 (unaudited) RMB'000
Final dividend in respect of the previous financial year ended, approved and paid during the Reporting Period, of HK2.39 cents (equivalent to approximately RMB1.95 cents) (2021: HK0.65 cents (equivalent to approximately RMB0.55 cents))	12,138	3,424

11. EARNINGS PER SHARE

(a) Basic earnings per share

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

i) Profit attributable to owners of the Company

	Six months ended 30 June	
	2022 (unaudited) RMB'000	2021 (unaudited) RMB'000
Profit for the period attributable to owners of the Company	24,213	19,482
Earnings for the purpose of basic earnings per share	24,213	19,482

ii) Weighted average number of ordinary shares

	Six months ended 30 June	
	2022 (unaudited)	2021 (unaudited)
Weighted average number of ordinary shares in issue	622,500,000	622,500,000
Weighted average effect of shares repurchased and held under share award scheme	(14,957,503)	(16,000,000)
Weighted average number of ordinary shares for the purpose of basic earnings per share	607,542,497	606,500,000

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11. EARNINGS PER SHARE *(Continued)*

(b) Diluted earnings per share

Diluted earnings per share for the six months ended 30 June 2022 and 2021 was the same as the basic earnings per share because that the exercise price of the share options granted was higher than the weighted average market price of the Company's shares during the six months ended 30 June 2022 and 2021. As the conversion or exercise of the share options would have an anti-dilutive effect on earnings per share, the calculation of diluted earnings per share does not assume conversion or exercise of potential ordinary shares of the share options.

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

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

During the six months ended 30 June 2022, the Group entered into a number of lease agreements for use of warehouses, plant and offices, and therefore recognised the additions to right-of-use assets of RMB78,000 (six months ended 30 June 2021: RMB1,507,000).

(b) Acquisitions of property, plant and equipment

During the six months ended 30 June 2022, the Group acquired items of property, plant and equipment with a cost of approximately RMB37,978,000 (six months ended 30 June 2021: RMB5,337,000).

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13. INVESTMENT PROPERTIES

	RMB'000
Fair value	
At 1 January 2021	121,000
Fair value adjustment	800
At 31 December 2021 (audited), 1 January 2022 and 30 June 2022 (unaudited)	121,800

- a) The Group's investment properties were revalued as at 31 December 2021 on an open market value basis calculated by reference to (i) comparable market transactions in the relevant markets or (ii) net rental income allowing for reversionary income potential. The valuations were carried out by independent firms of qualified valuers, Cushman & Wakefield Limited, who amongst their staff have members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The Group's property manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results when the valuations are performed at annual reporting date.

The Group's investment properties were not revalued as at 30 June 2022 by independent valuers. The directors were aware of the changes in the conditions of the property market. However, they considered that the carrying amount of the Group's investment properties did not differ significantly from the fair values as at 31 December 2021 carried out by independent qualified professional valuers. Consequently, no change in fair value of investment properties has been recognised in the current period.

- b) The Group's investment properties are held under medium-term leases in the PRC.
- c) The Group's investment property with a carrying amount of RMB107,600,000 (as at 31 December 2021: RMB107,600,000) have been pledged to secure general banking facilities granted to the Group (Note 17).

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14. TRADE AND OTHER RECEIVABLES

The Group generally granted credit terms ranging from 30 days to 120 days to its customers. As of the end of the Reporting Period, the ageing analysis of trade and bills receivables (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

	At 30 June 2022 (unaudited) RMB'000	At 31 December 2021 (audited) RMB'000
0-90 days	116,031	134,256
91-120 days	2,738	1,691
121-180 days	186	245
181-365 days	206	278
Total trade receivables, net of allowance for doubtful debts	119,161	136,470
Bills receivables	73,216	101,361
Other receivables	44,259	37,599
Amounts due from related parties	—	286
Amounts due from an associate	1,451	4,378
Amounts due from a joint venture	—	2
Financial assets at amortised cost	238,087	280,096
Prepayments	19,906	18,276
Trade and other deposits	7,375	5,805
Trade deposits to related parties	28,444	30,329
	293,812	334,506

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15. TRADE AND OTHER PAYABLES

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

	At 30 June 2022 (unaudited) RMB'000	At 31 December 2021 (audited) RMB'000
0-90 days	112,654	105,924
91-180 days	3,568	174
Total trade payables	116,222	106,098
Accruals	6,319	6,522
Amounts due to related parties	3,633	3,267
Other payables	57,760	32,252
Financial liabilities measured at amortised cost	183,934	148,139
Value-added tax payable	3,877	4,351
	187,811	152,490

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16. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000	Amount equivalent to RMB'000
Authorised:			
Ordinary shares of HK\$0.1 each			
At 1 January 2021, 31 December 2021 (audited), 1 January 2022 and 30 June 2022 (unaudited)	10,000,000	1,000,000	877,900
Issued and fully paid:			
Ordinary shares of HK\$0.1 each			
At 1 January 2021, 31 December 2021 (audited), 1 January 2022 and 30 June 2022 (unaudited)	622,500	62,250	53,468

17. PLEDGE OF ASSETS

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

	Note	At 30 June 2022 (unaudited) RMB'000	At 31 December 2021 (audited) RMB'000
Investment property	13	107,600	107,600
Right-of-use assets		56,920	55,558
Property, plant and equipment		18,801	18,801
Trade receivables		95,200	85,130

The Group's bank loans amounted to RMB82,679,000 as at 30 June 2022 (as at 31 December 2021: RMB79,679,000) were secured by Group's investment property. The Group's bank loans amounted to RMB110,243,000 as at 30 June 2022 (as at 31 December 2021: RMB105,243,000) were secured by the Group's right-of-use assets, property, plant and equipment and bank deposits and/or guaranteed by Mr. Zhao Li Sheng, the ultimate controlling party and a director of the Company, and Ms. Chan Lok San, a director of the Company.

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18. FINANCIAL INSTRUMENTS

Fair value

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the unaudited interim financial report approximate their fair values.

Fair value hierarchy

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

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

	Fair value measurements as at 30 June 2022 categorised into				Fair value measurements as at 31 December 2021 categorised into			
	Fair value at 30 June 2022 RMB'000 (unaudited)	Level 1 RMB'000 (unaudited)	Level 2 RMB'000 (unaudited)	Level 3 RMB'000 (unaudited)	Fair value at 31 December 2021 RMB'000 (audited)	Level 1 RMB'000 (audited)	Level 2 RMB'000 (audited)	Level 3 RMB'000 (audited)
Recurring fair value measurements								
Assets:								
Financial assets at fair value through other comprehensive income (non-recycling)								
– Unlisted equity investments	38,702	—	27,338	11,364	37,490	—	26,126	11,364
Financial assets at fair value through profit or loss								
– Unlisted equity investments	6,461	—	—	6,461	6,461	—	—	6,461
– Listed securities	16,119	16,119	—	—	10,480	10,480	—	—

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18. FINANCIAL INSTRUMENTS (Continued)

Fair value (Continued)

Fair value hierarchy (Continued)

During the six months ended 30 June 2022 and the year ended 31 December 2021, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of the fair value hierarchy as at the end of the Reporting Period in which they occur.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

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

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The following table presents the changes in level 3 instruments for the six months ended 30 June 2022 and 2021.

	Financial assets at fair value through other comprehensive income		Financial assets at fair value through profit or loss	Total
	Unlisted equity investments	Bank wealth management products	Unlisted equity investments	
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2021	11,458	—	6,257	17,715
Proceeds from sales	—	—	—	—
Additions	—	—	—	—
Exchange adjustment	—	—	(9)	(9)
At 30 June 2021 (unaudited)	11,458	—	6,248	17,706
At 1 January 2022	11,364	—	6,461	17,525
Proceeds from sales	—	—	—	—
Additions	—	—	—	—
Exchange adjustment	—	—	—	—
At 30 June 2022 (unaudited)	11,364	—	6,461	17,525

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18. FINANCIAL INSTRUMENTS (Continued)

Fair value (Continued)

Fair value hierarchy (Continued)

The fair value of the unlisted equity investment was valued as at 31 December 2021 with reference to valuation performed by an independent valuer, Hong Kong Appraisal Advisory Limited based on the median of the market multiples of market comparable companies after adjusting for lack of marketability and control discount.

The directors considered that the carrying amount of the aforesaid financial instruments as at 30 June 2022 did not differ significantly from the fair value as at 31 December 2021 carried out by independent qualified professional valuers. Consequently, no change in fair value has been recognised in current period.

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

19. CAPITAL COMMITMENTS

Capital commitments of the Group at the six months ended 30 June 2022 are as follows:

	At 30 June 2022 (unaudited) RMB'000	At 31 December 2021 (audited) RMB'000
Contracted but not provided for in respect of		
– Property, plant and equipment	10,750	—
Authorised but not contracted for	288,500	325,069
	299,250	325,069

Apart from the above, the Group did not have other significant capital commitments as at 30 June 2022 and 31 December 2021.