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

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

2022
Annual Report

扫一扫 立即购买

微信公众号 京东旗舰店 天猫旗舰店


Culturelle
Kids
life's DHA
kids
CARMEX
NIN JIOM
PEI PA KOA
医用退热贴
普济抗感颗粒
健妇膠囊
医用口罩
六味地黄丸
知柏八味丸

CONTENTS

Corporate Information

DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Mr. Chan Hon Wan

AUTHORISED REPRESENTATIVES

Mr. Zhao Li Sheng
Mr. Chan Hon Wan

REGISTERED OFFICE

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Cayman Islands

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The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

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Corporate Information

PRINCIPAL BANKS

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AUDITOR

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STOCK CODE

01110

WEBSITE ADDRESS

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Financial Highlights

	For the year ended 31 December		Changes
	2022	2021	Increase/
	RMB'000	RMB'000	(Decrease)
Financial Highlights			
Revenue	**957,701**	847,386	13.0%
Cost of sales	**(680,074)**	(583,788)	16.5%
Gross profit	**277,627**	263,598	5.3%
Profit before exchange loss, valuation loss on investment properties and taxation	**80,692**	71,722	12.5%
Profit before taxation	**67,584**	69,434	(2.7)%
Profit for the year	**43,542**	51,211	(15.0)%
Profit attributable to owners of the Company	**22,741**	30,319	(25.0)%
Basic earnings per share (RMB cents)	**3.75**	5.00	(25.0)%
Proposed final dividends per share (HK cents)	**2.47**	2.39	3.3%

	As at 31 December		Changes Increase/
	2022	2021	(Decrease)
Liquidity and Asset-liability Ratio			
Current ratio [(1)]	**1.15**	1.35	(14.8)%
Quick ratio [(2)]	**1.00**	1.13	(11.5)%
Gearing ratio [(3)]	**4.2%**	5.8%	(27.6)%

Notes:

(1) Current ratio is calculated as total current assets divided by total current liabilities as at the relevant year end.

(2) Quick ratio is calculated as total current assets less inventories divided by total current liabilities as at the relevant year end.

(3) Gearing ratio is calculated as total interest-bearing bank borrowings, less cash and cash equivalents, divided by total equity as at the end of relevant year and multiplied by 100%.

Chairman's Statement

Dear Shareholders,

On behalf of Kingworld Medicines Group Limited (the "**Company**") and its subsidiaries (together, the "**Group**"), I would like to express my sincere gratitude to all shareholders (the "**Shareholders**") and stakeholders for your continuing attention, support and encouragement to the Group. For the year ended 31 December 2022 (the"**Year Under Review**"), to the Group, from January to November, faced with frequent outbreaks of the novel coronavirus (COVID-19) (the "**Pandemic**") across China, strict control over four types of drugs and the impact on supply chain, the Group seized the opportunity of stable recovery from the Pandemic, focused on the development of the Group's core business, looked for sales opportunities, followed closely on the adjustment of the Pandemic policies, and made response strategies in advance. In December 2022, with the change of the national Pandemic prevention policies, the Group quickly expanded its channels to meet the market demand and solidify the strength of the Group. With the ability of all our staff to excel at the most challenging times and the constant efforts of reducing costs and increasing efficiency, the business of the Group was positively improved and achieved good growth as compared to last year.

MARKET REVIEW

An aging society increases the demand for long-term chronic disease drugs

With the gradual rise of aging society from 2000, the aging population in China has continued to aggravate. The arrival of an aging society will bring about a huge pharmaceutical consumption market. The number of patients suffering from cardiovascular diseases, chronic respiratory system, skeletal system and other diseases continues to rise, and the demand for medical consumption has increased sharply, which became a major development opportunity for the industry. Currently, the chronic non-communicable

Chairman's Statement

diseases in China generally present a phenomenon of "two highs and three lows" with high occurrence and disability rates; and low rates of awareness, treatment, and control. According to the Progress of Disease Prevention and Control in China (《中國疾病預防控制工作進展》) issued by the National Health and Family Planning Commission (國家衛計委), the prevalence of chronic diseases in China has reached 23%. The increase in the prevalence of chronic diseases lead to long-term medication and disease scientific management costs, resulting in an increase in medical expenses. Among which, cardiovascular disease is one of the most important chronic diseases in China.

According to the 2021 China Cardiovascular Health and Disease Report (《中國心血管健康與疾病報告》), the prevalence of cardiovascular diseases in China is on the rise. In 2021, there were 13 million cases of stroke, 11.39 million cases of coronary heart disease, 8.9 million cases of heart failure, 5 million cases of pulmonary heart disease, 4.87 million cases of atrial fibrillation, 2.5 million cases of rheumatic heart disease, 2 million cases of congenital heart disease, 45.3 million cases of lower extremity arterial diseases, and 245 million cases of hypertension, of which 75% of hypertension cases in China is H-type hypertension. A large-scale clinical study, the China Stroke Primary Prevention Trial (CSPPT), confirmed that taking Enalapril Maleate and Folic Acid Tablets ("**Enalapril**") in hypertensive patients significantly reduced the risk of first stroke by 21% compared to the simple antihypertensive treatment. After nearly a year of practical exploration of prescription drugs in OTC market, the Group has concluded a set of effective methods and achieved certain results, laying the foundation for the introduction of more prescription drugs into OTC channel sales in the future and cultivated a professional marketing team. During the Year Under Review, Enalapril achieved a growth of 175% as compared to the same period of last year. Meanwhile, Kingworld Imada Red Flower Oil, the Nin Jiom series of products operated by the Group, are medicines for the treatment of chronic respiratory and skeletal diseases, with promising future development prospects.

Promising development prospect of traditional Chinese medicine industry in the Greater Bay Area is favourable to the implementation of the Group's Hong Kong medicine projects

In 2022, a number of policies related to traditional Chinese medicine were issued, including the 14th Five-Year Plan for the Development of Traditional Chinese Medicine (《"十四五"中醫藥發展規劃》), the Development Plan for Promoting the High-quality Integration of Traditional Chinese Medicine and the Joint Construction of the Belt and Road Initiative (2021-2025) (《推進中醫藥高品質融入共建"一帶一路"發展規劃(二零二一年至二零二五年)》), the 14th Five-Year Plan for Talent Development of Traditional Chinese Medicine (《"十四五"中醫藥人才發展規劃》), Regulations on Protection of Traditional Chinese Medicines and the Regulations on the Protection of Chinese Medicines (Revised Draft for Comment) (《中藥品種保護條例(修訂草案徵求意見稿)》), have provided detailed guidance and planning on registration and classification, talent cultivation, variety protection, and the development of the Belt and Road Initiative. The report of the 20th National Congress of the Communist Party of China made important arrangements for promoting the construction of a healthy China, emphasising "the protection of people's health to be put in a strategic position for priority development, improving the policies for promoting people's health, implementing the national strategy to actively respond to population aging, and promoting the inheritance of traditional Chinese medicine, innovative development and sound public health system".

In the past three years, traditional Chinese medicine has played an important role in the prevention and fight against Pandemic, and has been widely recognised by the public. With the addition of the issues of aging and chronic disease management, the revitalisation and development of traditional Chinese medicine has entered an unprecedented period of opportunity. Unlike western medicine, traditional Chinese medicine rooted in China is more suitable for the prevention and treatment of chronic diseases in terms of cultural identity, treatment mechanism and treatment effect, giving traditional Chinese medicine unique treatment advantages in chronic diseases treatment. Thus, traditional Chinese medicine plays an important role in the prevention and rehabilitation of chronic diseases that are widely in demand in an aging society, and also plays an active role in promoting people's health. There are many long-established Chinese medicines and proprietary Chinese medicines in Hong Kong, which are treasures of China. However, many classic and century-old brands though not recognised by the public in China (due to the impact of policies and low brand awareness) may still have broad development prospects. The favourable policies of the traditional Chinese medicine industry in the Greater Bay Area present an important development opportunity to the Group's drug implementation project in Hong Kong which the Group has been working on for many years. In 2022, 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", which further promoted the development of the Hong Kong drug implementation project.

Strategically leading the layout and investment of the healthcare industry

2022 is the first year of the Group's Fifth Five-Year Plan. At this important turning point, the Group takes the Fifth Five-Year Plan as the outline and responds to changes in the internal and external environment through dynamic strategic analysis, formulation, decision-making, feedback and control mechanisms, to help the Group to cope with the ever-changing changes in the complex environment of an "Era of VUCA (Volatile, Uncertain, Complex, Ambiguous)".

During the Year Under Review, various sub-strategies of the Group were rolled out in an orderly manner, and the construction of Longde Health Industrial Park proceeded as planned and was successfully completed the topping out process. The Group is in the process of strengthening the professional talents of its operation team, focusing on the positioning of a "featured boutique type health industrial park" and four major functional centers, taking advantage of the advantageous location of the Greater Bay Area and the preferential policies of Shenzhen. The Longde Health Industrial Park actively sought for industrial partners with sustainable development and core competitiveness, and gave priority to enterprises with advanced technology, strong research and development capabilities and capable of achieving industrialisation. At the same time, the Group screened and established relationships with potential partners, understanding their needs and negotiating terms. Meanwhile, the Group also improved the operation plan according to the actual situation, and gradually improved the health industry chain through utilisation of the platform of the industrial park to better promote the industrialisation and internationalisation of the Group's traditional Chinese medicine.

Chairman's Statement

Focusing on consumer demand, we seize the opportunity for recovery of the medical and healthcare market to overcome difficulties

In 2022, confronting the complex and ever-changing Pandemic situation, the Group focused on consumer demand, seized opportunities for recovery of the medical and healthcare market, adhered to digitalisation as the growth engine, strengthened precision marketing, and continued to consolidate the Group's distribution network. The increasing market share of the Group's products has enabled the Group to achieve positive results despite the difficult environment.

In recent years, the Group has been actively improving its business development layout, including not only regional market development, but also continuous enrichment of its product portfolio. In addition to acting as an agent for the ace brand products of well-known brands for many years, such as Nin Jiom Chuan Bei Pei Pa Koa, Taiko Seirogan, Kingworld Imada Red Flower Oil, etc., the Group has also been developing new product agents, introducing the 2021 new products of Rohto, Mentholatum and Culturelle probiotics product series, and acquired the online and offline distributor rights of Life's DHA, a leading brand of algae oil under DSM in China, including the right to operate its flagship store and the cross-border online and offline distribution rights in China. In addition, the Group has also increased its overseas acquisitions and completed the acquisition of Innopharm S.A. (Innopharm), a French company, paving the way for the future development of overseas markets and helping the Group to introduce high-quality healthcare food and brand products from Europe and develop its own brands. On the other hand, the Group is optimistic about the future development prospects of the healthcare industry. Therefore, the Group is also constantly improving its scientific research capabilities, conducting more research on the applicable diseases of existing products and further development. The Group has also established scientific research projects with well-known universities in Hong Kong to capture the health needs of the aging society and the development of the spectrum of diseases. The Group, with the power of science and technology, was able to provide a steady stream of excellent product portfolio for sustainable development.

Hong Kong and Macau markets are the window and bridge for the Group to be introduced and go global. Over the years, the Group has achieved excellent results in the Hong Kong and Macau markets for its children's probiotics, Culturelle probiotics product series, and is the top seller of children's probiotics in Hong Kong. During the Pandemic, due to the fact that Hong Kong and Macau were closed to mainland consumers and the local birth rate in Hong Kong was declining, Culturelle children's probiotics faced a serious challenge of shrinking market demand. Accordingly, the Hong Kong team stepped up the promotion, marketing and rollout of Culturelle 's adult immune probiotics, which achieved a good improvement in sales compared to the same period last year.

The mainland market is the key market that the Group has been cultivating for many years. Facing the strict prevention and control policies, the Group's marketing team, guided by the information platform of the Group's SMART system, located the entry point for marketing efforts through layered business analysis and implemented accurate marketing with the best results. At the same time, the Group also cooperated with business partners and chains to carry out various themed activities targeting traditional Chinese holidays, invited offline consumers to participate in the activities and experience the brand, and such activities were well received by many parties. The Group stays committed to communicating closely with customers by organising more activities to enhance consumer confidence, developing experiential marketing, establishing connections with consumers, developing new online and offline retail models, and actively embracing and participating in new marketing methods of social media. By cooperating with KOLs in live broadcasting, establishing the Group's own live broadcasting team, we grasped the opportunities and challenges brought about by change of consumption habits and development trends. The annual results achieved a significant recovery, with a year-on-year increase.

Synergetic Development of agent brands and self-owned brands

In 2022, despite the volatile macro environment, intensified geopolitical conflicts and economic downturn, we still adhere to our original aspiration to create a better life for the people and meet their demand for excellent products. Thus, the Group strengthened the operation of cross-border OTC flagship store of Home of Kingworld Health. Pandemic outbreak in Hong Kong have affected the logistic industry, under these circumstances, the Group adjusted the marketing strategies in a timely manner based on market conditions, took customers as the core and carry out various meticulous marketing and achieved good results. The ranking of the shop in Tmall International continues to grow.

In 2022, Shenzhen Dong Di Xin Technology Company Limited ("**Dong Di Xin**"), a non-wholly owned subsidiary of the Group, continued to enhance the automated transformation of production lines and steadily improved production efficiency. Dong Di Xin's products achieved balanced developments in the key American, European and Asia Pacific markets.

At the same time, the Group continued to increase investment in the research and development of proprietary products, attracted high-quality students from well-known engineering colleges to enrich the team of research and development talents. With continuous innovation, the research and development team has made considerable progress in product upgrades and new product research and development and jointly developed new technology products for pain physiotherapy with experts of Chinese University of Hong Kong in the field of medical rehabilitation.

Establish a platform for the common development of both the Company and the staff

In 2022, the Group have granted a total of 1,556,000 awarded shares to 73 selected participants in accordance with the 2021 Share Award Incentives Scheme at nil consideration. The share award incentives have boosted the staff morale and have improved the sense of belonging of all employees of the Group and enhanced the cohesion of the Group and its attractiveness to key employees as well. For better implementation of various tasks under the Fifth Five-Year Plan to achieve our strategic objective and to attract more outstanding talents, the Group increased the total amount of equity incentives and expanded the incentives scope. By encouraging key employees to continue growing together with the Group, establishing a good atmosphere for employees to work hard and be positive, and attracting outstanding talents from all walks of life to jointly promote the development of the Group, and lay a solid foundation for achieving the objectives of the Group's Fifth Five-Year Strategic Plan.

At the same time, the Group also attempted to build new business models by trying to build a prospective business division system within the Group which would allow front-line personnel to make decisions and react immediately to the market condition. The initiative was first piloted in the cross-border OTC flagship store of Home of Kingworld Health, which stimulated the proactive motivation of the team. The ranking of the store in Tmall International grow rapidly, ranking among top 20 stores in Tmall International. Looking ahead, we will adopt new mechanisms in more new projects, such as business division system and partnership system, to allow more capable talents to develop jointly with the Group and promote the expansion and enhancement of the Group together.

Chairman's Statement

FUTURE OUTLOOK

In 2023, the Group will continue to show insights on and analysis of the macro economic environment and industry development with a focus on the changes in people's demand for healthcare consumption in the post-Pandemic era, grasp the information in a timely manner, and formulate strategies for the long-term and stable development of the Company with the guidance of the Fifth Five-Year Plan.

In 2023, the Group will continue to focus on the contents of the Fifth Five-Year Strategic Plan and deepen the implementation of various detailed strategies, consolidate the original business position, formulate future strategic businesses, promote the development and launch of self-owned brand products, and enrich product portfolios continuously to satisfy the healthcare needs of different population groups. The Group believes that in the post-Pandemic era, people's demand for high-quality healthcare products will grow continuously, which will create more room for improvements with increasing opportunities for established brand names such as Nin Jiom. In addition, the Group will seize the opportunity of pharmaceutical e-commerce development, take advantage of the trend, enrich the product portfolio, improve sales, and cultivate professional e-commerce team operation by taking Home of Kingworld Health's cross-border e-commerce platform as the main body to promote online and offline integration and sales growth.

The Group's most eye-catching construction project, Longde Health Industrial Park, is going smoothly and is expected to be put in use after inspection and acceptance in the second half of 2023. Therefore, the Group has made arrangements for project inspection and acceptance and marketing promotion in advance, and has established a team of professional talents for industrial park operations. Focusing on the positioning of a "featured boutique type health industrial park" and four major functional centers, the Group improved its operation plan and exerted its potential in the industry, keeping in-depth communications with potential partners to promote cooperation. The Group will adhere to build Longde Health Industrial Park into an operation platform intergrating industry, business and finance in future, seek out for extensional investment or merger and acquisition opportunities for projects or product categories by using the resources of Longde Health Industrial Park and the Group in the industry, looking for opportunities to invest in the upstream of the industrial chain, improve and deepen the original business network continuously and facilitate the early achievement of the Fifth Five-Year Strategic Plan.

With the implementation of the Fifth Five-Year Strategic Plan, stable and improving business recovery, improvement and effectiveness of the industrial layout, the Group will continue to improve the talent development platform in the future. More professional high-end talents will be attracted to establish a talent training team, while at the same time more talents will be included in the scope of share award scheme, and a short-term, medium-term and long-term incentives combined mechanism will be established to gather talents with business, stabilize and develop talent teams, allow each employee who grows with the enterprise to become a partner, and fully stimulate the proactive motivation of employees, strengthen the sense of ownership, in order to work together and work hard to achieve the Group's strategic operation goals in an all-round manner, promote the long-term and stable development of the Group, and jointly make more contributions to society.

ACKNOWLEDGEMENT

Throughout the three years of enduring the Pandemic, the year of 2022 was a year of turning point of COVID-19 nucleic acid testing, a year of witnessing the release of public health restrictions of the Pandemic control, and a significant year of the Pandemic which is very challenging for society and the public. Amid the Pandemic wave, the Group worked steadily and forged ahead and outperformed the annual performance target set at the beginning of 2022, and completed the strategic phased goals of the Company's Fifth Five-Year Plan. 2022 marks the beginning of Kingworld's Fifth Five-Year Plan. I would like to take this opportunity to express my sincere gratitude to my fellow directors of the board, the management and all employees for their valuable contributions to the development of the Group. At the same time, on behalf of the Board, I would like to express my appreciation to all Shareholders, investors, business partners and other stakeholders for their continuous trust and support to the Group.

For the year of 2023, various industries will develop and recover to varying degrees when the Pandemic subsides, among which, the healthcare industry will remain the most valued by the public with the strongest resilience. Therefore, the Group is full of confidence in the future, and will maintain the Fifth Five-Year Plan as the guidance, unite and work together to promote the growth of employees, generate returns for the benefit of Shareholders, and strive to create a harmonious and better life community.

Mr. Zhao Li Sheng
Chairman of the Board

Hong Kong, 30 March 2023

Management Discussion and Analysis

MARKET AND INDUSTRY REVIEW

1. The year of 2022 coincided with major changes unseen in a century. The global landscape was undergoing profound changes and the international situation entered a new period of turbulent changes. It was explained in the report of the 20th National Congress of the Communist Party of China that "the world was once again standing at the crossroads of history", and put forward the goal of "building a powerful, all-round, socialist and modern nation to achieve the second centenary goals and emphasising on "pushing ahead the construction of a healthy China", "inheritance and innovation of traditional Chinese medicine", "ageing population", "support for childbirths" and other policies, giving a clear direction for the future development of the healthcare industry and embracing greater development.

   As of 31 January 2023, all 31 provinces (municipalities and autonomous regions) in China issued the Government Work Reports for 2023, in which the areas of medical and health, national medical centres and regional medical treatment centres, construction of key clinical specialist studies, mass procurement of pharmaceuticals and consumables, reform of medical insurance payment methods, upgrade of primary healthcare services, management of chronic diseases, support for childbirths, elderly care industry, inheritance and innovation of traditional Chinese medicine were frequently mentioned, and were conducive to accelerate the development of the health industry.

2. Starting from the end of 2022, the Pandemic prevention policy underwent a major change. From "20 Measures" to "10 New Measures" and then "Type B Management for Category B", nearly 80% to 90% of the population in China contacted COVID-19 and built up a short-term natural immune barrier, according to the estimation by experts from Chinese Center for Disease Control and Prevention. Traditional Chinese medicines related to prevention of the Pandemic, small molecular drugs for anti-coronavirus, and drugs of antipyretic, cough preventive and expectorant nature were in short supply, including, among others, the famous branded drugs, such as Nin Jiom Pei Pa Koa Cough Syrup distributed by the Group. The Pandemic experience of more than three years proved that traditional Chinese medicine had the inherent advantages of combining prevention and treatment in combating the Pandemic. In the post-Pandemic prevention and control era, traditional Chinese medicine will certainly play a more important role.

Top eight traditional Chinese medicine for relieving cough, eliminating phlegm, soothing asthma and curing influenza available at retail pharmacies in China in 2021

Name of product	Sales revenue RMB'billion	Growth rate
Ganmao Ling Granules (感冒靈顆粒)	2.1+	1.2%
Nin Jiom Pei Pa Koa (京都念慈庵蜜煉川貝枇杷膏)	1.2+	9.6%
Lianhua Qingwen Capsules (蓮花清瘟膠囊)	1.0+	-32.4%
Xiaochaihu Granules (小柴胡顆粒)	0.6+	2.5%
Shuang Huang Lian oral solution (雙黃蓮口服液)	0.6+	-43.0%
Lungs tonic pills (補肺丸)	0.6+	4.2%
Antiviral oral liquid (抗病毒口服液)	0.5+	25.6%
Compound Ganmaoling Granules (複方感冒靈顆粒)	0.4+	-2.0%

2021 Top 20 Proprietary Chinese Medicine Branded Products which Relieve Cough and Eliminate phlegm and Asthma and are Available in Physical Stores in Urban Areas in China

Ranking	Product name	Enterprise Short Name	Sales (RMB100 million)	Growth
1	Nin Jiom Pei Pa Koa (京都念慈庵蜜煉川貝枇杷膏)	Nin Jiom Medicine Manufactory	12.52	9.60%
2	Tiepi Fengdou Granules (鐵皮楓斗顆粒)	Zhejiang Tianhuang Pharmaceutical	7.21	25.07%
3	Lungs tonic pills (補肺丸)	UCRI	5.45	-4.71%
4	Acute Bronchitis Syrup (急支糖漿)	Taiji Group Chongqing Fuling Pharmaceutical	3.44	-38.82%
5	Suhuang Cough Capsules (蘇黃止咳膠囊)	Yangzijiang Pharmaceutical Group Beijing Haiyan Pharmaceutical	2.94	15.59%
6	Cough Relief Tablets (止咳寶片)	Teyi Pharmaceutical Group	2.39	74.28%
7	Fei Li Cough Mixture (肺力咳合劑)	Guizhou Jianxing Pharmaceutical	2.25	16.04%
8	Feining Granules (肺寧顆粒)	Liuhe Changlong Pharmaceutical	2.24	-13.70%
9	Chuanbei Pear Syrup (川貝雪梨糖漿)	Li Shizhen Pharmaceutical Group	2.07	-30.91%
10	Honeyed Chuanbei Pei Pa Koa (蜜煉川貝枇杷膏)	Baiyunshan Pan Gaoshou Pharmaceutical	1.71	22.24%
11	Nourishing Yin Qingfei Oral Liquid (養陰清肺口服液)	Hulunbuir Songlu Pharmacy	1.64	28.57%
12	Qingfei Anti-inflammatory Pills (清肺消炎丸)	Tianjin Pharmaceutical Da Ren Tang Group	1.16	0.57%
13	Cordyceps Qingfei Capsules (蟲草清肺膠囊)	Qinghai Pulan Special Medicine (青海普蘭特藥)	1.08	7.99%
14	Extra Strength Pei Pa Koa Cough Syrup (強力枇杷露)	Harbin Kanglong Pharmaceutical (哈爾濱康隆藥業)	1.03	36.34%
15	Keke Pian (克咳片)	Zhongshan Hengsheng Pharmaceutical	1.00	44.54%
16	Qiangli Pipagao (強力枇杷膏(蜜煉))	Jiangxi Tengwangge Pharmaceutical	1.00	27.26%
17	Qiangli Pipalu (強力枇杷露)	CR Sanjiu(Yaan) Pharmaceutical (華潤三九(雅安)藥業)	0.90	31.20%
18	Shedan Chuanbei Pipa Gao (蛇膽川貝枇杷膏)	Baiyunshan Pan Gao Shou Pharmaceutical	0.84	13.37%
19	Juhong Tan Ke Ye (橘紅痰咳液)	Guangzhou Xiangxue Pharmaceutical (廣州香雪製藥)	0.81	18.26%
20	Xuanfei Zhisou Heji (宣肺止嗽合劑)	Gansu Puan Pharmaceutical	0.75	-3.87%

Source of data: Menet

3. According to the industry data monitoring and model forecast of Zhongkang CMH, the sales of the national retail pharmacy market would reach RMB542.1 billion in 2022, representing a year-on-year increase of 10.2%, the highest increase in the past five years. Among them, driven by the Pandemic prevention-related drugs and supplies, the retail pharmacy market in December 2022 showed an explosive growth, with the monthly sales revenue exceeding RMB80 billion, representing a year-on-year increase of 82% for the same month, compared with that in November 2022 before de-regulation of the Pandemic. The month-on-month growth rate was also as high as 79%. If the impact of deregulation of the Pandemic in December 2022 on the industry was excluded, from January to November 2022, the retail market would only grow by 3.1% year-on-year, with new stores accounting for 2%, and comparable stores would only grow by 1.1%. Dual-channel products (DTP) (雙通道品種), newly introduced categories such as target foreign brands of chronic disease drugs and Pandemic antigens for centralised procurement through tenders have become the main engines driving market growth. The Group will benefit from the dividends of the growth trends of the retail pharmacy market, and will seize the opportunity of expansion of the chronic disease drug market in the future to further enrich its product portfolio.

4. At press conferences on the Joint Prevention and Control Mechanism of the State Council, in response to the pandemic prevention concerns, the officials said that, in generally speaking, as the new coronavirus continued to mutate in the past three years, its infectiousness and immune escape ability have increased, but its pathogenicity has been weakened; and with the optimization of domestic epidemic prevention and control strategies and measures, the epidemic may reoccur intermittently in certain local areas and population groups for a period of time in the future, but the possibility of a large-scale epidemic in a short period of time nationwide is relatively small.

   From the perspective of demand, "prevention" is well-established. The capacity expansion and timely replenishment and renewal of household medicine cabinets will continue to occur over a period of time. The four types of drugs and related anti-epidemic supplies are still hotspots for family drug reserves. Due to the shortage of hospital resources in the first wave of infections, the explosive growth of online consultations and drug purchases, and the change in patient behaviours will accelerate the outflow of common chronic disease prescription drugs in the future. Outpatient channels such as retail, Business to Consumers (B2C), Online to Offline (O2O) and DTP may reap benefits and will usher in sustained and rapid growth in 2023. The Group will deploy and optimise the existing marketing strategies in advance based on these trends to promote better development of the Group.

BUSINESS REVIEW

During the Year Under Review, in the face of the external environment of high and turbulent situation, the Group took the 5th Five-Year Strategic Plan as the guideline, on the one hand, the Group seized the opportunities of market recovery, focused on the development of the Company's main business, controlled risks and enhanced the Company's strength. On the other hand, it was scientific and reasonable in planning the layout of new business developments by" deploying forces in proper arrays" to sow the seeds for future development. With the concerted efforts of all employees and the collective efforts of reducing costs and increasing efficiency, the business of the Group was steadily improving and achieved greater growth as compared with the previous year.

I. Highlights of pharmaceutical products segment

The Group actively improved its business development layout to meet the needs of consumers. Over the years, we have been acting as an agent of famous brand drugs, such as Nin Jiom (京都念慈菴) product series, Taiko Seirogan (喇叭牌正露丸) and Kingworld Imada Red Flower Oil. Due to the difficulties in restricting the sales of four types of drugs for cough prevention and fever under the anti-Pandemic policies, the Group has overcome difficult times and made rapid progress by seizing the short-term sales opportunities during each stable situation of the Pandemic. In particular, after the relaxation of the Pandemic prevention policy in December 2022, the demand for these four types of drugs increased sharply. The Group kept stock of the products in advance and quickly delivered products to meet the needs of end consumers. Nin Jiom Pei Pa Koa Cough Syrup recorded a year-on-year increase of 30%, Nin Jiom Pei Pa Candy recorded a year-on-year increase of 25%, Taiko Seirogan (喇叭牌正露丸) recorded a year-on-year increase of 64%, Kingworld Imada Red Flower Oil recorded a year-on-year decrease of 13%, Enalapril recorded a year-on-year increase of 175%, and Foci Series recorded a year-on-year increase of 34%. During the Year Under Review, the Group's pharmaceutical distribution mainly adopted the following marketing strategies:

1. Intensive cultivation and optimisation of pipelines and promotion of customers' dynamic sales

Over the past thirty years, the Group has established a distribution network covering over 200,000 offline pharmacies across China. During the Year under Review, the Group intensively cultivated pipelines with increasing customers adhesiveness and loyalty. Relying on the existing distribution network to increase the dynamic sales of customers through the SMART system of the Company, the Group created a win-win situation with its customers. During the Year Under Review, the Group's number of customers increased by 13%, of which, over 110,000 are chain pharmacies, representing a year-on-year increase of 25%, while the year-on-year increase of primary medical institutions was over 10%, showing that a dense network is able to help prompting the products to reach consumers at a faster pace.

Besides, understanding the efficiency of the Pareto Principle, a major account management system led by the senior marketing management has been built to establish direct relationship with major customers and face market issues together. The system adopts measures tailored to local conditions and achieved good results, with favourable improvement in contribution percentage from major customers compared with the same period last year. With continuous advancement of urbanisation and improvement of living standards, the county market has grown rapidly in recent years. The Group took advantage of the trend and formulated strategies and plans for the lower-tier markets. Like the Kingworld Imada Red Flower Oil market in the lower-tier counties, presence does not only cover all the centric cities but development has been made in more than 200 non-centric cities to capture the market, representing a year-on-year increase of 30% in dynamic sales while the year-on-year increase in dynamic sales of Enalapril Maleate and Folic Acid Tablets reached 280%.

Management Discussion and Analysis

During the Year Under Review, with committed cultivation, Fat Chi, a joint venture of the Group, cooperated with chain stores such as Hong Kong CRcare and Yue Hwa Chinese Products in Hong Kong, and 33 products of the series were launched in full with popularity and sales volume further increase. According to the announcement of the Hong Kong Government, the Mainland Chinese medicine expert group of the Central Authorities recommended the Xiangsha Liujun Pill (香砂六君丸) and Buzhong Yiqi Pill (補中益氣丸), which can relieve asthenia of pulmonosplenic qi, in the CM anti-epidemic plans for clinical application. The CM anti-epidemic plans for clinical application has further enhanced the awareness of proprietary Chinese medicines in Hong Kong market and can give a boost of the sales of the Fat Chi series, especially "Minshan" Brand products, in the market.

2. ***Emphasis on brand cultivation, both online and offline***

During the Year Under Review, the Group continued to attach importance to product brand cultivation and enhanced product awareness and reputation through both online and offline efforts. For online efforts, Nin Jiom of the Group launched advertisements for popular variety shows and TV series, such as "Thank You Doctor", "New Life Begins" and "Wild Bloom", especially "The Knockout", which was launched in early 2023, stirred up a frenzy of viewership; online promotion by means of Baidu Questions (百度問答), Experts' Recommendations (達人種草), Doctor Science (醫生科普) and recruitment and launching of short video stories for products, such as Taiko Seirogan, Kingworld Imada Red Flower Oil and Enalapril, as well as live streaming together with chain pharmacies. Different means of media promotion further enhances brand awareness, while establishing brand image in the consumers' mind and promoting sales.

For offline efforts, Nin Jiom, Taiko Seirogan, and Red Flower Oil launched promotions by ways of subway advertisements, public transport advertisements, outdoor advertisements and architecture videos in over ten cities, making it easier and more direct to promote the functions and practical scenario of the products, shortening the distance with consumers, and expanding the promotion efforts. Nin Jiom carried out flash activities, lung nourishment carnival, AK48 fans meeting, and cooperated with senior education colleges to carry out youth and sunset filial piety activities. Taiko Seirogan celebrated its 120th anniversary in 2022 and hosted a series of 120th anniversary activities formally. A series of online and offline branding activities were launched to increase the brand exposure and influence of Taiko Seirogan to end users. Kingworld Imada Red Flower Oil sponsored events such as Luohu Outing Health Run, Zhejiang Intellectual Games, Longgang Orienteering, Hangzhou Xiaoshan Half Marathon, Buick Running League and other events, and continued to consolidate the product's influence among sports and target groups. In offline pharmacies, the Group cooperated with pharmacies to carry out consumer activities such as Women's Day, the Dragon Boat Festival, the Mid-Autumn Festival and Hypertension Day, which boosted the popularity of pharmacies, enriched the content of consumers' lives, and enhanced the brand awareness and reputation of products. During the Year Under Review, the number of promotional activities of the Group's key products, Imada and Enalapril, increased, which contributed to the growth of the Group's products. Among them, the Group carried out a large-scale national promotion campaign of "Kingworld People, One Heart, Fighting Together" ("金活人　一條心　一起拼"), providing more than 4,000 training sessions to shop assistants of pharmacies, and nearly 1,000 public welfare activities and cleansing activities. The topic "your pain I know" ("你的痛我懂") was launched through Tik Tok with nearly one thousand videos and more than 2 million times of broadcasting volume, the topic was highly popular, which further enhanced the brand awareness.

Management Discussion and Analysis

The Group also seized various marketing opportunities during and after the Pandemic period, and continuously disseminated knowledge of lung nourishment, cough relieving and epidemic preventive information for personal protection. Attention was placed on procurement of government reserve materials for expansion, during the Year Under Review, the sales of the Group's products, such as Nin Jiom Pei Pa Koa Cough Syrup, increased significantly.

3. ***Continue to expand pharmaceutical e-commerce***

The Group noticed the rapid development of pharmaceutical e-commerce Business to Business (B2B), B2C and O2O in the past three years under the impact of COVID-19, e-commerce platforms and take-away platforms were more convenient, and many consumers formed the habit of buying drugs online. Therefore, the Group took advantage of the trend to actively expand pharmaceutical e-commerce, focusing on large-traffic platforms, such as JD Health self-operated platform and Alibaba Health self-operated platform, strengthened cooperation with professional pharmaceutical e-commerce B2C malls, and established cooperation relationship with Jianke.com (健客網), miaoshou.net(妙手醫生), etc. Patient education live broadcast, search for keywords, short videos and other refined operations were carried out through professional pharmacists, supplemented by one store one policy, one product one policy. Through the linkage of brand promotions and in-depth internal and external cooperation of large-traffic platforms, the Company expanded brand and product promotions, product sales were increased rapidly, business growth was boosted and achieved performance indicators.

II. *Highlights of healthcare products and beauty segment*

In the Pandemic and post-Pandemic era, the concept of "prevention before occurrence" has become more popular, and the Group's healthcare and daily chemical segment business will be further developed and expanded, including the No. 1 best seller of probiotics in the United States, Culturelle, recorded a year-on-year growth of 14%. Sales of Life's DHA, an algae oil pioneer, increased by 2,078% year-on-year. During the Year Under Review, the Group's healthcare products and beauty segment has mainly adopted the following strategies:

1. *Diversification and specialisation of brand promotion*

During the Year Under Review, the Group strengthened the promotions of healthcare daily chemical products on key platforms such as JD International, Tmall Global and Tik Tok flagship stores, and improved the conversion rate through data analysis. Seizing the opportunities arising from live broadcasting promotions, we commenced Taobao live broadcasting/Kuaishou live broadcasting/Tik Tok live broadcasting, and established professional brand promotion strategies, and formulating various promotion methods such as Weibo KOL promotion, Dingxiang Doctor, Nicomama, Xiaohongshu, we-media brand account operations, and Tik Tok live broadcasting, etc. Among them, Nicomama published 9 push scripts with a total reading volume of 340,000 reader-times and GMV 190W+; life's DHA brand account operations (Xiaohongshu, Shuangwei platform) published a total of 105 content pages, with estimated number of readers reaching 18W+; the Xiaohongshu platform had a total exposure of over 5 million reader-times, the vertical coverage of Taobao contents included mother and child groups 500W+. Moreover, during the Year Under Review, the Group further developed new channel networks, many stores including those of JD.com, Tmall and Tik Tok reached new high levels in sales and GMV.

After more than half a year of trial operation, the quasi-business department is operating well. At present, the stores are selling nearly 50 brands and more than 100 (Stock Keeping Units (SKUs). The Home of Kingworld Health's international flagship store at Tmall has front rankings (65th) in Class 2 category of international pharmaceuticals, the sales of our products gradually increased, and the peak season sales volume and POP sales volume of traffic products, such as the Mopidick product series, also ranked 2nd in the industry.

2. ***Specialisation of cross-border e-commerce and independent pilot operation***

In order to better operate cross-border business, comprehensively expand B2C and B2B business, and cultivate professional e-commerce operation teams, during the Year Under Review, the Group implemented a practical operation plan for cross-border business of Home of Kingworld Health's quasi-business department system, to stimulate team initiatives, this model will give full play to the characteristics of the business department's operational flexibility, independent accounting and self-financing, will improve operational efficiency, as well as facilitating cross-border business to strengthen and expand. At the same time, the flexibility and stability of the "quasi-department system" is also more convenient for the Group to control its performance and risks.

3. ***Actively acquire and develop new health products***

During the Year Under Review, the Group actively developed and researched new products in response to the needs of consumers in the big health era, including completion of the acquisition of equity interest in Innopharm, founded in 1983 by a French medical doctor and JACQUES NOURY, one of the pioneers in the field of international pharmaceutical CRO (contract-based R&D outsourcing) at that time, and was one of the earliest private CRO companies in France, dedicated to research and development and clinical trials in the fields of medicine and general health. The acquisition of Innopharm helped the Group to deeply understand the development trend of big health products, quickly understand and analyse the status, scale and prospects of big health products in the forefront of the European market, and helped the Group to plan the future layout of big health products, accelerated the introduction of European high-quality big health products and pharmaceuticals and healthcare supplements, and was able to explore more other investment opportunities to facilitate the development of global business. During the Year Under Review, the Company's research on product series, packaging design and category planning were completed. The product categories of fish oil, grape seed and lutein, and sleep aid products, are expected to be launched in 2023. The completion of the acquisition of 60% of the equity interest in Innopharm took place on 13 October 2022. For details, please refer to the announcement of the Company dated 14 October 2022.

In addition, the sales of Life's DHA, a new blockbuster new product of the year, under the Group's agency, grew by leaps and bounds. During the Year Under Review, the sales of Life's DHA increased by 2,078% as compared to the same period of last year.

III. Highlights of medical devices segment

With the goal of "relieving human pain", Dong Di Xin, a non-wholly owned subsidiary of the Company, focuses on the medical device business and is determined to become the world's leading supplier of physical rehabilitation equipment. With excellent product quality, good after-sales service and perfect product quality certification system, our products were exported to many countries and regions around the world and were highly recognised by many customers. During the Year Under Review, the Group's medical device segment performed well with mild business growth.

1. Strictly control product quality and promote intelligence

During the Year Under Review, Dong Di Xin of the Group continued to firmly promote the 6S management model of "Lean Production", continued to increase investment in precision machining centre projects, further strengthened the optimisation of organisational processes, and added more automated and semi-automated equipment, it has greatly improved production efficiency and cost savings. SMT intelligent manufacturing system was introduced to start the digital production process, laying a solid foundation for the enterprise to become a first-class rehabilitation intelligent manufacturing plant. During the Year Under Review, the Company continued to deepen and improve the product quality system, after-sales service system and risk control system, which laid a solid cornerstone for better serving global customers.

2. Actively develop customers, strengthen marketing, and enhance reputation

During the Year Under Review, the Group actively developed its customers and carried out marketing through multiple channels and various methods. We participated in Medica in Germany, an international medical equipment exhibition, and signed a number of international sales orders. We carried on with the cultivation of potential product varieties, and the series of professional desktop therapeutic apparatus products continued to grow rapidly year-on-year, which further improved the company's gross profit margin.

During the Year Under Review, Dong Di Xin medical professional desktop computer was awarded the Excellence Award among tens of thousands of suppliers in the US Market. In Europe, two types of Dong Di Xin's infrared thermometers were recommended by well-known French journals, which was a further recognition of the excellent international quality of the Group's products and greatly enhanced the Company's international reputation.

In addition, Dong Di Xin increased the investment and marketing promotion of its own brand (NU-TEK) in domestic market in China, achieving greater progress. By the end of 2022, the market coverage was more than 20 provinces and cities nationwide, and the Group's products have successfully entered more than 120 Grade A hospitals as well as numerous outpatient and rehabilitation physiotherapy institutions in China through bidding.

3. Increasing research and development and constant product iteration

During the Year Under Review, Dong Di Xin increased its scientific research efforts and investment, and achieved positive results. Dong Di Xin owned a total of 3 valid invention patents, 25 valid utility model licenses, 1 valid design license, and 13 software copyrights. The review of application of Dong Di Xin for the status of national high-tech enterprises was approved, and the key research and development projects were also approved by the Shenzhen Science and Technology Innovation Commission for Innovation and Entrepreneurship Plan Technology Public Relations Key Project (創新創業計劃技術公關重點項目) Approval.

The fruitful scientific and technological achievements promoted the continuous iteration of Dong Di Xin products and enhanced the core competitiveness, thus gaining more partners and consumers around the world.

MANAGEMENT REVIEW

1. *Fifth Five-Year Strategic lined up for a good start*

2022 was the first year of the Group's Fifth Five-Year Strategic Plan. The board of directors attached great importance to scientific layout, insisted on the simultaneous development of independent products and agency products, actively penetrated the vast rural county market, improved product coverage, and continued to tap the growth potential of mature products. At the same time, through the upgrading of the organisational structure, we strengthened the ability to introduce new products, continuously enriched the product group and expanded the category boundary through various methods such as agency, self-research and cooperation, and adhered to the core brand and built a core product matrix. By focusing on the main business of pharmaceutical and health care for industrial layout, we strived to build an operation platform for the integration of industry, education, research, investment, finance and commerce with the Longde Health Industrial Park as the core, giving full play to the Group's commercialisation advantages, providing value-added services and adding value to our partners, and continuously providing consumers with safe and effective health products and services.

2. *Longde Health Industrial Park was successfully topped out, a major progress in the layout of health industry*

During the Year Under Review, the Group's Longde Health Industrial Park was successfully topped out. Currently, the park has been selected as a transition park of the Shenzhen Longgang District Baolong Biopharmaceutical Development Pilot Zone (深圳市龍崗區寶龍生物醫藥發展先導區), a life and health professional park of Longgang Youth Science Research Institute (龍崗青年科學研究院), and a medical device professional park of Shenzhen Advanced Manufacturing Federation (深圳市先進製造聯合會). According to the plan, Longde Health Industrial Park planned to introduce biopharmaceutical pilot research and development and production teams, and enterprises engaged in key biological reagents technology, research and development in the fields of technology, medical devices and big health consumption, drug molecule screening and design research and development platforms, fermentation and purification technology project research and development service platform. While providing enterprises with a space integrating research and development, production and office, it also provides professional financing, listing, policy, legal and other corporate services to accelerate the incubation of pharmaceutical projects and brand cultivation with the help of the Group's advantages.

3. *Enhancing sense of belonging and motivating talents*

Employees are the driving force for the development of an enterprise. The sustainable and healthy development of an enterprise can only be achieved by continuously enhancing the cohesion of employees and promoting the common development of employees and the enterprise. During the Year Under Review, the Group announced in January 2022 that a total of 1,556,000 incentive shares were granted to 73 selected participants at nil consideration under the share award scheme, and in March 2022 it announced that in order to provide further incentives to participants, it resolved to increase the individual limit of the share award scheme by 10 times, and in July 2022 it announced a further increase in the scheme limit to 46,000,000 shares (representing approximately 7.39% of the issued share capital of the Company as at the date of this report). The Company's share award scheme and the granting of share awards are positive initiatives of the Group to encourage all employees at all levels, and stimulate individual potential and initiative, and help the Group to build up a competent, motivated and ideal backbone team, and establish a good atmosphere for making progress and making concerted efforts to promote the sustainable development of the Group.

During the Year Under Review, the Group has trained nearly 2,000 participants, enriching and promoting the learning and growth of employees.

4. *Continuously enrich product categories and increase sales*

The Group always upholds the philosophy of being proactive for products, and has continuously enriched and improved the variety and quality of its products. In addition to the existing of excellent health products such as Nin Jiom Chuan Bei Pei Pa Koa (京都念慈庵蜜煉川貝枇杷膏), Taiko Seirogan (喇叭牌正露丸), Kingworld Imada Red Flower Oil (金活依馬打正紅花油), Culturelle (康萃樂) probiotics product series, Zhuhai Jinming, a subsidiary of the Group, obtained the sales agency right of Bao Ying Dan products in Hong Kong during the Year Under Review; in terms of cross-border e-commerce products, the Group has nearly 50 brands on sale and over 100 SKUs, and has deepened its cooperation with partners, including Hong Kong Fortune Pharma. While introducing more quality products, the Group continued to enhance its independent research and development capabilities. The launch of its own brands, such as Kingworld Genseng Capsule (金活洋參膠囊), Kingworld Zhuang Yao Jian Shen Wan (金活壯腰健腎片) and Kingworld Red Flower Ointment (金活紅花膏) is in full swing and is expected to serve consumers as soon as possible.

5. *Optimising investment and focusing on development*

The Group values the rights and interests of its investors and considers the demands of multiple stakeholders in the process of adapting to the changing market environment and creating commercial value for sustainable corporate development. The Group strives to establish a systematic, long-term and dynamic mechanism to protect the interests of shareholders. Therefore, the Group continuously optimises its investment direction and post-investment management system, enriches financing channels and reduces financing costs. During the Year Under Review, the Group's investment in Dong Di Xin generated good returns, while the joint venture, Fat Chi Medicine Company Limited, operated smoothly and sales volume continued to grow. All of the above investments have steadily improved the returns of investors, providing the Group with a long-term and broader scope of development and enhancing corporate value and shareholders' equity.

6. *Strengthening management of informatisation and risk management*

During the Year Under Review, the Group developed a marketing management system using modern information technology and introduced advanced technology and management concepts into the management process, effectively reduced costs, improved operational efficiency, and increased management modernisation and competitiveness. During the Year Under Review, the SMART system of the Group developed nearly 100 reports on sales management, customer management and team management. We have also added the development and application of marketing activities and expense matching, as well as the e-commerce data and data management centre, so as to further explore market opportunities, scientific management, optimise the process, carry out real-time process management and timely supervision of work orientation, effectively build team synergy and ensure the entire team's goal focus and effort in one place.

In terms of risk management control, the Group continued to strengthen basic management and risk control, and formulate an efficient risk management system; strengthened the regular management of internal control and risk control to enhance the Group's comprehensive capabilities in risk early warning, monitoring, and prevention and control.

Management Discussion and Analysis

7. *Serving community and benefiting the world*

Under the guidance of the corporate mission of "Serving community and benefiting the world (效力世人，潤澤蒼生)", the Group continued to contribute to the community and fulfill its social responsibility with its Shenzhen Kingworld Healthcare Foundation. During the Year Under Review, a total of more than RMB7 million was donated mainly for fighting the Pandemic, caring for and helping each other, supporting environmental protection, poverty alleviation and disaster relief, such as:

Facing the changing domestic Pandemic prevention and control in 2022, the Group donated funds and anti-Pandemic medical supplies amounted to nearly RMB1 million such as Kingworld disposable medical masks, Pu Ji Kang Gan Granules (普濟抗感顆粒), Kingworld Imada Red Flower Oil, Nin Jiom Chuan Bei Pei Pa Koa, etc. to Shenzhen, Hong Kong, Yan'an, Guangdong, Guangxi, Yunnan and other areas. In particular, the Pandemic in Shenzhen and Hong Kong was severe in February and March 2022. Under the guidance and support of Shenzhen Overseas Friendship Association (深圳海外聯誼會), Shenzhen Municipal Committee of the Chinese People's Political Consultative Conference (深圳市政協) and other units, Kingworld has cooperated with friendly organisations such as Friends of Hong Kong Association Ltd. (香港友好協進會), Federation of Hong Kong Chiu Chow Community Organisations (香港潮屬社團總會), Shenzhen Chaoshan Youth Association (深圳潮青會) and Shenzhen Golf Association (深圳高爾夫協會) to make multiple donations of funds and materials to Shenzhen and Hong Kong, among which, with the assistance of the Group, iHealth (Hong Kong) Labs Limited donated COVID-19 Rapid Test for Antigen of more than RMB10 million to Hong Kong. Mr Tang Yingnian, President of Friends of Hong Kong Association Ltd., attended the donation ceremony and presented a certificate of appreciation to the Group.

During the Year Under Review, the Group actively helped the poor and students by donating RMB108,000 to the Jieyang University Student Development Foundation (揭陽市大學生發展基金會) for helping students with their studies, and donating RMB100,000 to Chidu Village, Yujiao Town, Jiedong District, Jiedong City for the construction of the Party Culture Park and Chidu Village Committee and the Party General Branch also presented a pennant to the Group's foundation to express their gratitude.

During the Year Under Review, the Group, with the support of the Shenzhen Veterans Affairs Bureau (深圳市退役軍人事務局), organised the "Caring for Veterans – Shenzhen Tuohuangniu Health Care Season" campaign ("關愛老兵紅動鵬城"之深圳市拓荒牛健康關愛季活動) in collaboration with the Shenzhen Caring Action Charity Foundation (深圳市關愛行動公益基金). The event consisted of 8 ancillary activities, which paid tribute to the veterans who built a better Shenzhen and provided health care for the pioneer cattle and veterans by forming volunteer teams, disseminating health concepts, and giving health care gift packages. The event was also selected as one of the "Top Ten Caring Activities for the Elderly" in the Chongyang Festival of Elderly Care in Shenzhen.

During the Year Under Review, as a member of the Greater China Council of The Nature Conservancy (TNC 大自然協會) and a member of the Paradise Foundation (桃花源基金會), the Group continued to participate in environmental protection support with many well-known enterprises. To build beautiful nature and protect green mountains and rivers together, we participated in environmental protection projects such as donating to the construction of sponge cities and protecting the most beautiful habitat in East China (Jiulong Peak).

During the Year Under Review, in the "2021 Shenzhen Charity Donation Ranking" issued by the Shenzhen Civil Affairs Bureau, SZ Kingworld Medicine Company Limited, a subsidiary of the Group, ranked 52nd in the donation enterprise ranking with RMB5.03 million. Meanwhile, Kingworld Health Care Foundation of the Group ranked 92nd in the social organisation donation ranking with RMB7.53 million.

HONOURS

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

- In May 2022, Kingworld Medicines was awarded two honorary awards of "Fighting Pandemic-Love Contribution Award (抗擊疫情愛心貢獻獎)" and "Outstanding Member (傑出會員)";

- In May 2022, the Group's Shenzhen Kingworld Healthcare Foundation (深圳市金活關愛健康基金會) was awarded "Tax-free Eligibility of Non-profit Organisations (2021-2025) (非營利組織免稅資格)";

- In June 2022, Shenzhen Kingworld Healthcare Foundation was awarded the 3A-level social organisation;

- In June 2022, the Group's Imada Red Flower Oil has become the official designated external use medicated oil of Mind Sports Games in Zhejiang Province;

- In June 2022, Mr. Zhao Li Sheng (趙利生), Chairman of the Board of Directors of the Company, 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, Mr. Zhao Kin Wai (趙鍵瑋), Assistant to the Chairman of the Company, as a representative of outstanding young people of Inheritance of Chinese Medicine (優秀中醫藥傳承青年代表), was featured on CCTV's CGTN channel feature film "I speak for Chinese medicine《我為中藥代言》";

- In July 2022, the Group was awarded a plaque written "Key Logistics Company of Shenzhen" promulgated by the Transport Bureau of Shenzhen Municipality (深圳市交通運輸局);

- In July 2022, Nin Jiom has been included on the 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)";

- In August 2022, Mr. Zhao Li Sheng, Chairman of the Board of Directors of the Company, was awarded a commemorative medal by the Paradise International Foundation;

- In August 2022, Shenzhen Kingworld Medicine Company Limited was awarded the Most Valuable Core Supplier Award of Jointown Pharmaceutical Group (九州通醫藥集團核心供應商最具價值獎);

- In August 2022, Culturelle probiotics was on the list again after 2021 and continue to win "the Grand Prize of the Most Popular Brand Among Pharmacies in Hong Kong《最受香港藥房歡迎品牌大獎》";

- In September 2022, categorised as a gastrointestinal drug, Taiko Seriogan was awarded "Top Brands of China's Household Medicine";

- In November 2022, in "2021 Shenzhen Charitable Donation Ranking《2021 年度深圳慈善捐贈榜》" announcement issued by the Shenzhen Municipality Bureau, the Group's Shenzhen Kingworld Medicine Company Limited ranked 52nd in the donation enterprise ranking with RMB5.0278 million. Meanwhile, the Group's Kingworld Health Care Foundation ranked 92nd in the social organisation donation ranking with RMB7.5303 million;

- In November 2022, Nin Jiom has ranked first in the Healthcare Industry Brand List of Cipu Society (西普會健康產業品牌榜) for 14 consecutive years, and ranked 21st in the 2022 Healthcare Industry Brand Value List (2022 年健康產業品牌價值榜); and

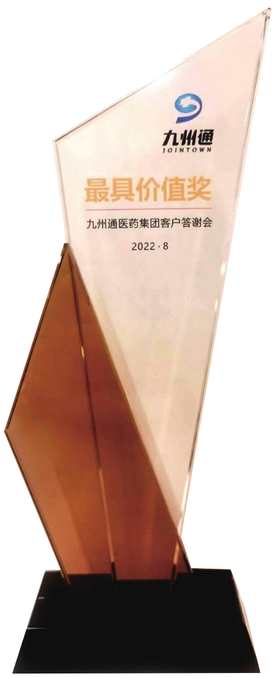
- In December 2022, Kingworld Medicines passed the review of "Shenzhen Time-Honored Brand Corporation (深圳老字型大小企業)", which is effective till December 2025.


深圳市重点物流企业
The key logistics company of Shenzhen
深圳市交通运输局
Transport Bureau of Shenzhen Municipality
2022.1-2024.12


2021-2022年度
最受香港藥房歡迎
品牌大獎
THE TOP POPULARITY AWARD OF HONG KONG PHARMACIES 2021-2022
獲獎品牌：
Awardee:
Culturelle
PROBIOTICS
康萃樂益生菌
康萃樂成人益生菌150億膠囊
金活藥業健康發展有限公司
頒發機構：
Presented by:
港九藥房總商會有限公司
HONG KONG GENERAL CHAMBER OF PHARMACY LIMITED
18th Aug 2022


TOP100
京都念慈菴总厂
有限公司


深圳市社会组织评估等级
SHENZHEN SOCIAL ORGANIZATION EVALUATION GRADE
AAA
深圳市市级社会组织评估委员会
SHENZHEN MUNICIPAL SOCIAL ORGANIZATION EVALUATION COMMITTEE
有效期：2022年1月-2026年12月


九州通
JOINTOWN
最具价值奖
九州通医药集团客户答谢会
2022 · 8


深圳老字號
Shenzhen Time-Honored Brand
金活
深圳市商业联合会 深圳市老字号协会
深圳广播电影电视集团 深圳报业集团 · 深圳商报社
有效期：2022年12月至2025年12月

FINANCIAL REVIEW

1. *Revenue*

Revenue of the Group for the Year Under Review was approximately RMB957,701,000, representing an increase of approximately RMB110,315,000 or 13.0% from approximately RMB847,386,000 for the year ended 31 December 2021. The increase was mainly a result of the increase in revenue from the sales of Nin Jiom Chuan Bei Pei Pa Koa. The increase was mainly due to the gradual recovery of market demand due to the infection control and better understanding of the Pandemic during the Year Under Review as compared to the year ended 31 December 2021. Such increase was partially off-set by the decrease in sales of medical devices, including infrared thermometer, manufactured by Dong Di Xin. These Pandemic preventive products were in great demand during the year ended 31 December 2021.

2. *Cost of sales and gross profit*

For the Year Under Review, cost of sales for the Group amounted to approximately RMB680,074,000, representing an increase of approximately RMB96,286,000 or 16.5% from approximately RMB583,788,000 for the year ended 31 December 2021. The increase in cost of sales was in line with the increase in sales volume. Gross profit for the Year Under Review was approximately RMB277,627,000 representing an increase of approximately RMB14,029,000 or 5.3% from approximately RMB263,598,000 for the year ended 31 December 2021. Gross profit margin decreased from 31.1% for the year ended 31 December 2021 to 29.0% for the year ended 31 December 2022. Such decrease is a result of the decrease in proportion of revenue from products with relatively higher gross profit margin to total revenue, in particular the medical device products from Dong Di Xin, during the Year Under Review.

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

Other revenue, income and other net loss mainly included exchange difference, promotional service income, rental income, government grant, interest income and dividend income. For the Year Under Review, other revenue, income and other net loss amounted to approximately RMB21,545,000, representing an increase of approximately RMB3,941,000 or 22.4% from approximately RMB17,604,000 for the year ended 31 December 2021. The increase was mainly due to the increase in promotional service income.

4. *Selling and distribution costs*

For the Year Under Review, selling and distribution costs amounted to approximately RMB100,452,000, representing an increase of approximately RMB938,000 or 0.9% from approximately RMB99,514,000 for the year ended 31 December 2021. This increase was primarily attributable to the increase in staff costs, bonus and travelling expense.

5. *Administrative expenses*

For the Year Under Review, administrative expenses amounted to approximately RMB104,573,000, representing an increase of approximately RMB7,929,000 or 8.2% from approximately RMB96,644,000 for the year ended 31 December 2021. This increase was mainly due to the increase in staff costs, research and development costs and professional fees.

6. Profit before exchange loss, valuation loss on investment properties and taxation

For the Year Under Review, profit before exchange loss, valuation loss on investment properties and taxation for the Group amounted to approximately RMB80,692,000, representing an increase of approximately RMB8,970,000 or 12.5% from approximately RMB71,722,000 for the year ended 31 December 2021. The increase was mainly due to the increase in gross profit for the Year Under Review.

7. Finance costs

For the Year Under Review, finance costs amounted to approximately RMB12,292,000, representing an increase of approximately RMB510,000 or 4.3% from approximately RMB11,782,000 for the year ended 31 December 2021. The increase was mainly due to the increase in interest charged on bank loans as a result of an increase in average borrowing.

8. Profit before taxation

For the Year Under Review, profit before taxation for the Group amounted to approximately RMB67,584,000, representing a decrease of approximately RMB1,850,000 or 2.7% from approximately RMB69,434,000 for the year ended 31 December 2021. The decrease in profit before taxation was mainly due to the increase in exchange loss and valuation loss on investment properties.

9. Income tax

For the Year Under Review, income tax expenses for the Group amounted to approximately RMB24,042,000, representing an increase of approximately RMB5,819,000 or 31.9% from approximately RMB18,223,000 for the year ended 31 December 2021. The increase was mainly due to the increase in dividends withholding tax related to the distribution of dividends from the Group's subsidiaries in the PRC to the holding company in Hong Kong and under-provision for PRC enterprise income tax of approximately RMB2.5 million related to previous years. The effective tax rate for the Year Under Review was 35.6%, compared to 26.2% for the year ended 31 December 2021. The details are set out in Note 8 to the consolidated financial statements in this report.

10. Profit for the year

As a result of the foregoing, the Group recorded a net profit for the Year Under Review of approximately RMB43,542,000, representing a decrease of approximately RMB7,669,000 or 15.0% when compared to approximately RMB51,211,000 for the year ended 31 December 2021.

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

For the Year Under Review, profit for the year attributable to owners of the Company amounted to approximately RMB22,741,000, representing a decrease of approximately RMB7,578,000 or 25.0% from approximately RMB30,319,000 for the year ended 31 December 2021. The decrease in profit for the year attributable to owners of the Company was mainly due to the decrease in profit for the year.

ANALYSIS OF MAJOR BALANCE SHEET ITEMS

1. Trade and other receivables

Trade receivables of the Group include credit sales to the Group's distributors. Other receivables of the Group include prepayments, deposits and other receivables. Trade and other receivables of the Group as at 31 December 2022 amounted to approximately RMB283,389,000, representing a decrease of approximately RMB51,117,000 or 15.3% from approximately RMB334,506,000 as at 31 December 2021. The decrease was mainly due to the increase in cash received from our customer during the Year Under Review.

2. Inventories

As at 31 December 2022, inventories owned by the Group amounted to approximately RMB84,764,000, representing a decrease of approximately RMB21,980,000 or 20.6% when compared to that of RMB106,744,000 as at 31 December 2021. The main reason for the decrease in inventories was the decrease in finished goods.

3. Right-of-use assets

As at 31 December 2022, right-of-use assets amounted to approximately RMB117,370,000. As at 31 December 2021, right-of-use assets of the Group amounted to approximately RMB107,896,000. The increase was mainly due to the increase in ownership interests in buildings held for own use during the Year Under Review.

4. Property, plant and equipment

Property, plant and equipment owned by the Group include building, leasehold improvements, furniture, fixtures and office equipment, machinery, motor vehicles and construction-in-progress. As at 31 December 2022, the net book value of property, plant and equipment owned by the Group amounted to approximately RMB182,524,000, representing an increase of approximately RMB80,485,000 or 78.9% from approximately RMB102,039,000 as at 31 December 2021. The increase in property, plant and equipment was mainly due to the addition of construction-in-progress and machinery and the transfer in of certain right-of-use assets during the Year Under Review.

5. Trade and other payables

Trade and other payables of the Group mainly include trade and bill payables, prepayments from customers, other payables and accrued expenses. As at 31 December 2022, trade and other payables of the Group amounted to approximately RMB188,405,000, representing an increase of approximately RMB35,915,000 or 23.6% from approximately RMB152,490,000 as at 31 December 2021. The increase was mainly due to the increase in trade and bills payables.

CASH FLOWS

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

During the Year Under Review, the Group's cash and cash equivalents increased by approximately RMB54,230,000, which mainly comprised the net cash inflow generated from operating activities with the amount of approximately RMB186,548,000, net cash outflow used in investing activities with the amount of approximately RMB84,049,000, net cash outflow used in financing activities with the amount of approximately RMB51,311,000 and the foreign exchange gain of approximately RMB3,042,000. Details of cash flows of the Group are set out in pages 90 and 91 of the "Consolidated Statement of Cash Flows" in this report.

CAPITAL STRUCTURE

1. Indebtedness

The total indebtedness (i.e. interest-bearing bank borrowings) of the Group, which will be due within one year as at 31 December 2022, was approximately RMB271,285,000 (31 December 2021: approximately RMB229,922,000). During the Year Under Review, the Group did not experience any difficulties in renewing its banking facilities with the lenders.

2. Gearing ratio

As at 31 December 2022, the Group's gearing ratio, calculated as total interest-bearing bank borrowings, less cash and cash equivalents, divided by total equity as at the end of relevant year, was approximately 4.2% (31 December 2021: approximately 5.8%). The decrease was mainly due to the increase in cash and cash equivalents.

3. *Pledge of assets*

As at 31 December 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 RMB100,480,000, RMB97,174,000, RMB17,709,000 and RMB32,610,000, respectively. As at 31 December 2021, the Group 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.

4. *Capital expenditures*

The capital expenditures of the Group primarily included purchases of plant, equipment, leasehold improvements and other costs for acquisition of right-of-use assets and land. The Group's capital expenditures amounted to approximately RMB114,058,000 and RMB66,301,000 for the years ended 31 December 2022 and 31 December 2021, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long-term and short-term bank borrowings. For the Year Under Review, the effective interest rate for the Group's bank loans ranged from 3.98% to 8.35%. Taking into account the cash flow generated from operations and the long-term and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 31 December 2022, the Group had cash and cash equivalents of approximately RMB242,155,000 (31 December 2021: approximately RMB187,925,000) which was mainly generated from operations of the Group.

CAPITAL COMMITMENT

As at 31 December 2022, the Group had capital commitment of approximately RMB232,785,000 (31 December 2021: approximately RMB325,069,000).

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

During the year ended 31 December 2022, the Group did not make any material acquisition or disposal.

LITIGATION

As at 31 December 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, the 2021 Interim Report and 2022 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 re-trial filing and undergoing review by the High People's Court of Guangdong Province for re-trial.

FUTURE OUTLOOK

1. *Build a diversified key business and accumulate strength for the greater healthcare business development*

The mission of the Group is: committed to becoming a world-class outstanding enterprise in the pharmaceutical and healthcare industry through continuous technological innovations, the Company provided safe and effective pharmaceutical and healthcare products and services to customers around the world. The Company adheres to the business philosophy of being proactive, sincere and altruistic, gain the trust of customers, continue to expand the market, develop steadily and healthily, promote the growth of employees, generate returns for the benefit of Shareholders, assumed social responsibility and strives to create a harmonious and better life community.

Over the past 20 years, the Group's major business targets on the PRC as well as the Hong Kong and Macau markets. In 2023, with the easing Pandemic prevention policy, society has returned to normal operations and the economy has recovered gradually. In addition to the continuous introduction of more excellent products for providing services to consumers, the Group will also give full play to the role of Hong Kong company as a bridgehead, go global along the direction of the Belt and Road Initiative and actively expand long-established Foci "Minshan" Brand product overseas to allow more international consumers to benefit from the PRC's traditional Chinese medicine. Furthermore, the Group will start to build the organisational structure of Innopharm to conduct business, assist the Company to comprehend the development trends of greater healthcare products, understand and analyse the status, scale and prospects of the cutting edge of the greater healthcare products in the European market more quickly, aid the Group in the future greater healthcare product layout, accelerate the introduction of greater healthcare products and pharmaceuticals and healthcare products in quality from Europe, and seek for more investment opportunities to facilitate the global business development of the Group.

2. *Vigorously promote the early use of Longde Health Industrial Park and establish a demonstration effect*

Longde Health Industrial Park is the most important investment and industrial layout of the Group in the Fifth Five Year Plan. In future, the Group will continue to promote construction with ensured quality and delivery and rapidly establish a professional operation team above standards for the industrial park. Leveraging the advantageous location of the Greater Bay Area along with the Shenzhen policy guidelines, the Group integrates the resources of pharmaceutical supply chain enterprises and higher education institutions in Guangdong-Hong Kong-Macao Greater Bay Area, accelerates the investment promotion of Longde Health Industrial Park, introduce cooperative partners with investment directions in line with the Industrial Park's investment directions and be the first to establish a demonstration effect by building a base to attract more talents.

3. Actively promote further development of the Hong Kong Drug Project

With the fully resumed normal travel between Hong Kong and Macau along with the normalised exchanges between Shenzhen and Hong Kong, under the macro background of vigorous economic development of the nation, it is expected that the Shenzhen-Hong Kong Project that benefits the nation and the people will be given great attention and be accelerated. Recently, the Group and many enterprises and associations in the industry have submitted numerous proposals to, and was highly valued by, the two governments. In future, the Group will leverage the nation's vigorous development of Chinese Medicine and continue to promote project development till its implementation.

4. Enriching the product portfolio continuously and enhancing the operation scale of the brand

The Group will capture the increasing public awareness of healthcare products in the post-Pandemic era, leverage the resources of over 200,000 offline partner stores, actively launch diversified activities, proactively participate in cross-border collaboration, seek cooperation with various sports events and variety shows to allow our products to reach more consumers, and cooperate with pharmacies to establish experience scenarios that propagate our heartfelt products and form a sales close loop that accelerate sales.

The well-established product of the Group, Nin Jiom, has brought benefits to numerous consumers in relieving their pain during the escalated infection of the epidemic and has been widely propagated by patients spontaneously, resulting in panic buying and insufficient supply condition. As the consumer group continues to expand, the Group will strengthen the brand's promotion and experience, continuously conduct welfare activities such as "Lung Care China Tour" (養肺中國行), "the Youth to Accompany the Old" (青春伴夕陽), "We Share Your Pain" (你的痛我懂) and "Cool Summer" (清涼一夏), reach out to campuses and the society to promote healthcare concepts and services.

Demand for healthcare products and services for chronic diseases has been fostered continuously by the evolution of the ageing society. The Group will continue to explore the maintenance of existing products for the daily home healthcare management of the elderly in the future. At the same time, we are cooperating with a variety of domestic and foreign well-established products with excellent quality, enriching the existing product portfolio, leveraging channel network resources and the efficiency of the professional marketing team to deliver more well-established products with excellent quality to our cooperation partners.

5. Promote the launch of self-developed brands and products to achieve good results

According to the Research Report on Healthcare Reforms in the PRC jointly issued by the World Health Organisation and several ministries including the former National Health and Family Planning Commission, the population with chronic diseases in the PRC reached approximately 300 million (with cardiovascular and cerebrovascular diseases, diabetes, cancer and chronic respiratory diseases as the common chronic diseases among Chinese people), when the population with chronic diseases has been rising due to the intensification of ageing of society, putting a heavy burden on the country and the people. Accordingly, prevention and treatment of chronic diseases become a major concern to the public and the people with more and more people paying attention and starting to live healthy lifestyles, including the consumption of quality fish oil products as a way of healthcare through prevention and treatment of cardiovascular and cerebrovascular diseases in their daily lives.

The Group has been promoting Innopharm's fish oil product for which the Group has completed relevant procedures of registration for its independent intellectual property right and product proofing. This product is rich in active ingredients and is easily absorbed. With fish oil that has higher purity of Omega-3, this product has a balanced mix of ingredients, with EPA and DHA in reasonable proportions. We believe that there would be a promising development prospect for this product as it will be brought quickly to the market to cater needs of the consumers following its official launch in the future with the Group's sales strategies and network.

The testing work of several pharmaceutical products under the Group's self-developed brands will be completed and launched to the market soon, injecting new impetus into efforts of marketing the Group's product portfolio and creating better results.

6. *Strengthen and expand e-commerce business to enhance comprehensive competitiveness of the Group*

According to industry data monitoring reports and forecast based on predictive models released by Sinohealth (中康 CMH), the annual sales revenue from e-commerce pharmacies on business-to-consumer (B2C) market in China amounted to RMB96.1 billion in 2022, representing a year-on-year increase of 27.0% compared with the last year; of which, with the impact of the national policies of Pandemic prevention and control, there was a year-on-year increase of 68.4% in the B2C market for December 2022 to a total of RMB11.3 billion. In terms of channels, offline retail pharmacies continued to dominate the market, with a market share of 85% for the year 2022 and a size of RMB542.1 billion, representing a year-on-year increase of 10.2%, the highest growth in nearly 5 years. In terms of the trend, however, market share of and contribution from the B2C market in the last three years, with a market share of 15% for 2022 and representing a year-on-year increase of 2.0% compared with last year.

With continuous restructuring and optimisation, the Group has been enriching its e-commerce portfolio and products, which achieved good sales in high-margin products that was driven by the number of customers, thus improving the total gross profit. With improvement in professional capabilities of its e-commerce operation team, the Group will respond quickly to market conditions and follow the favourable trend of the rapid development of pharmaceutical e-commerce, so as to enhance the contribution to sales from pharmaceutical e-commerce.

Meanwhile, the non-pharmaceutical e-commerce business under the Group will keep up with changes in touch points and behaviours of consumers, so as to develop promotion strategies that keep abreast with time while expanding its market share and sales.

7. *Achieve more reasonable management on investment and financing, with a focus on diversified investment in related industries*

The Group will further enhance its own investing and financing capabilities, optimise the corporate capital structure, and strengthen the management of joint ventures and mergers and acquisitions such as Dong Di Xin and Hong Kong Fat Chi; the Group will select quality upstream entities for investment, so as to gain products and R&D capabilities. The Group will speed up its industrial layout, take advantage of Longde Health Industrial Park to establish an integrated and intelligent service platform including industries, businesses and financing institutions for the pharmaceutical supply chain, and continuously improve and optimise the construction of the comprehensive health business system.

8. *Expand the investment in R&D of medical devices and improve the technologies for the products*

The Group will continue to increase investment in R&D work of Dong Di Xin by stepping up the construction of the smart manufacturing centre of the facility and improving quality of the products. The Group will continue to actively pursue its "going global" strategy by adopting various means of marketing and promotion, so as to enhance global awareness of our products and the Company. The Group will benchmark against global first-class rehabilitation and healthcare companies, thereby developing Dong Di Xin into a global first-class rehabilitation and healthcare company.

9. *Refine all types of incentives to ensure the implementation of the Fifth Five-Year Strategic Development Plan*

The Group fully recognise the critical role of outstanding external talents in pursuing the development of the Company. Accordingly, the Group reviews the indicators for its business performance and incentive policies with reference to the situation of the talent pool within the industry, so as to develop incentive measures for motivating sales personnel and key management personnel. By strengthening its value with its corporate culture, and by improving skills and comprehensive quality of the employees, the Group attracts talents with a good career development environment, attract outstanding talents with all types of incentive, stabilise and develop the talent team, and continuously improve the talent development platform to promote the long-term stable development of the Company and its employees.

HUMAN RESOURCES AND TRAINING

As at 31 December 2022, the Group had a total of 1,037 employees, of whom 138 worked at the Group's headquarters in Shenzhen, and 434 were stationed in 34 regions mainly responsible for sales and marketing, and 465 worked at Dong Di Xin. The total staff cost for the Year Under Review amounted to approximately RMB146,497,000 (2021: approximately RMB145,092,000). The Group releases an annual sales guideline on a yearly basis, setting out the annual sales targets and formulating quarterly sales strategies to provide sales and marketing guidelines for all representative offices and their staff. The Group has a management team with extensive industry experience (including the sales directors and product managers), which is responsible for coordinating front-line sales and marketing teams to meet the annual sales targets.

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

The Company has adopted a share option scheme for the purpose of providing incentives and rewards to eligible participants, including eligible employees of the Group, who have contributed to the success of the Group.

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

DIVIDENDS

To extend the Company's gratitude for the support of our Shareholders, the Board has recommended the distribution of a final dividend for the year ended 31 December 2022 of HK2.47 cents per share to Shareholders whose names appear on the register of members of the Company on Thursday, 8 June 2023, amounting to approximately HK$15,376,000 (equivalent to approximately RMB13,571,000), subject to the approval of the Shareholders at the Company's forthcoming annual general meeting to be held on Monday, 29 May 2023. Total dividend payout ratio is approximately 60.0% of the profit for the year attributable to owners of the Company.

There is no arrangement under which a Shareholder has waived or agreed to waive any dividends, the above-mentioned final dividend is expected to be paid on or before Friday, 30 June 2023.

Directors' and Senior Management's Biographies

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

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Zhao Li Sheng (趙利生), aged 64, was appointed as an executive Director of the Company on 25 September 2008. He is the co-founder of the Group and the chairman of the Company. He is primarily responsible for the Group's overall strategic planning and business management. He has over 27 years of experience in business management and development in the distribution of pharmaceutical and healthcare products. He was also appointed as the chairman of Shenzhen Kingworld Industry Company Limited ("**SZ Industry**") in 1994 and the general manager and chairman of SZ Kingworld Medicine Company Limited ("**SZ Kingworld**") in 1996. Mr. Zhao was qualified as a senior business manager by the Business Management Qualification Accreditation Committee of Hubei Province in December 2002. Mr. Zhao was a member of the standing committee (常委) of the 4th and 5th Shenzhen Committee of the Chinese People's Political Consultative Conference (深圳市政協第四及第五屆委員會). Mr. Zhao was the vice-president of The Fifth Council of the Shenzhen General Chamber of Commerce (深圳市總商會(工商聯)第五屆理事會) in 2005. He was the honorary director (名譽會董) of the Federation of Hong Kong Chiu Chow Community Organisations, the council member (理事) of the Third Session of China Overseas Friendship Association (第三屆中華海外聯誼會) in 2008 and the standing council member (常務理事) of the Third China Economic and Social Council (第三屆中國經濟社會理事會) in 2009. Currently, he is the vice president (副會長) of the Shenzhen Healthcare Association (深圳市保健協會) and the Fifth Council of the Pharmaceutical Profession Association (深圳市醫藥行業協會第五屆理事會). He is also the chairman of the Youth Chawnese Committee of Shenzhen (深圳潮人海外經濟促進會青年委員會). He is the spouse of Ms. Chan Lok San, an executive Director of the Company.

Ms. Chan Lok San (陳樂燊), aged 59, was appointed as an executive Director of the Company on 25 September 2008. She is the co-founder of the Group. She is primarily responsible for the Group's financial planning and human resources management. She has over 25 years of experience in the pharmaceutical industry as well as over 14 years of experience in property management. Ms. Chan has been working for SZ Industry since 1994 and SZ Kingworld since 1996, respectively. She has been the vice chairlady of SZ Kingworld and SZ Industry since 2005 and 2006, respectively, and the vice chairlady of Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited since 2005 and the legal representative of Shenzhen Kingworld Department Store Property Management Company Limited and Shenzhen King Gibson Golf Company Limited. She received a master degree in business administration of senior management from Sun Yat-Sen University in 2010. In 2011, she was appointed as a committee of Shenzhen Golf Society and a vice-chairlady of Shenzhen Clothing Society. She was also a member of the Global Foundation of Distinguished Chinese (世界傑出華人基金會) in 2003. Since 25 December 2012, she has served as the chairlady of the EMBA Alumni Association of Sun Yat-Sen University. Currently, she is also the director (理事) of Sun Yat-Sen University Entrepreneur Alumni Association (Third Session) (第三屆中山大學企業家校友聯合會). She is the spouse of Mr. Zhao Li Sheng, an executive Director of the Company.

Mr. Zhou Xuhua (周旭華), aged 56, was appointed as an executive Director of the Company on 3 August 2009. He has been the general manager of SZ Kingworld since 2009. He is primarily responsible for the business development and operations of SZ Kingworld. He was the business manager of SZ Industry between 1994 and 1995 and was the regional manager and deputy general manager of SZ Kingworld after he joined SZ Kingworld in 1996. He has 25 years of experience in the pharmaceutical industry. Mr. Zhou has worked as a clerk and was later promoted to become a supervisor of Shenzhen International Arcade between 1987 and 1993. He completed his education at Shenzhen Finance School (深圳市財經學校) in 1987.

Directors' and Senior Management's Biographies

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Duan Jidong (段繼東), aged 57, was appointed as an independent non-executive Director of the Company on 5 November 2010. He has approximately 32 years of experience in the pharmaceutical industry. Mr. Duan received a bachelor degree in medicine at The Shanghai Railway Medical Institute (上海鐵道醫學院) in 1989, and was a surgeon with the Central Hospital of Shenyang Railway Bureau (原瀋陽鐵路局中心醫院) from 1989 to 1994 and worked in the Beijing Mundipharma Pharmaceutical Company Limited (北京萌蒂製藥有限公司) from 1994 to 1998. Mr. Duan served as the chairman and legal representative of Kunming Baker Norton Pharmaceutical Company Limited from December 2002 to April 2006, a director of Holley Pharmaceutical (Chongqing) Co., Ltd. (重慶華立藥業股份有限公司, stock code : 000607), a company listed on the Shenzhen Stock Exchange, from 2005 to 2006, and a director of Wuhan Jianmin Pharmaceutical Groups Corp, Ltd. (武漢健民藥業集團股份有限公司, stock code: 600976), a company listed on the Shanghai Stock Exchange, from 2004 to 2006. He was a chief executive officer from 2002 to 2005, and a director from 2004 to 2006, of Kunming Pharmaceutical Group Corporation, Ltd. (昆明製藥集團股份有限公司, stock code: 600422), a company listed on the Shanghai Stock Exchange. From April 2008 to April 2011, he was an independent non-executive director of Zhejiang CONBA Pharmaceutical Company Limited (浙江康恩貝製藥股份有限公司, stock code: 600572), a company listed on the Shanghai Stock Exchange. Since February 2013, he has been an independent non-executive Director of Yan He Medicines Company Limited (仁和药業股份有限公司, stock code : 000650), a company listed on the Shenzhen Stock Exchange. Currently, he is the chairman of Beijing Strategy & Action Enterprise Management Consulting Company Limited (北京時代方略企業管理諮詢有限公司).

Mr. Wong Cheuk Lam (黃焯琳), aged 54, was appointed as an independent non-executive Director of the Company on 5 November 2010. He has over 27 years of experience in accounting and finance fields. Mr. Wong obtained a bachelor degree in arts from the University of Hong Kong in 1992 and a master degree in business from Victoria University of Technology, Australia in 1997. Mr. Wong is a member of the Hong Kong Institute of Certified Public Accountants, a member of CPA Australia and a Certified Taxpay Strategist (PRC). He is also an associate member of Hong Kong Chartered Governance Institute and an associate member of the Chartered Governance Institute. From 1994 to 2003, Mr. Wong worked in accounting positions in Sakura Finance Asia Limited, BOCI Securities Limited and Going Accounting Services Company. He worked at Zhengzhou China Resources Gas Company Limited (鄭州華潤燃氣股份有限公司), a company previously named Zhengzhou Gas Company Limited and was listed on the Stock Exchange as a company secretary from 2003 to January 2013, a chief financial officer from July 2005 to January 2013 and a financial controller from October 2007 to July 2010. From February 2015 to May 2015, Mr. Wong worked in Genvon Group Limited (currently named Beijing Enterprises Medical and Health Industry Group Limited), a company listed on the Main Board of the Stock Exchange (stock code: 2389), as financial controller and deputy company secretary. From May 2015 to June 2016, Mr. Wong was the CFO and company secretary of ASR Logistics Holdings Limited (currently named Beijing Sports and Entertainment Industry Group Limited), a company listed on the Main Board of the Stock Exchange (stock code: 1803). From August 2018 to October 2019, Mr. Wong was employed as the deputy company secretary of China Shun Ke Long Holdings Limited（中國順客隆控股有限公司）, a company listed on the Main Board of the Stock Exchange (Stock code: 974). Since March 2020, Mr. Wong has worked in Megain Holding (Cayman) Co., Limited（美佳音控股有限公司）as a company secretary.

Mr. Zhang Jianbin (張建斌), aged 62, was appointed as an independent non-executive Director of the Company on 1 August 2013. Mr. Zhang has over 30 years of experience in teaching and researching in the management aspect of marketing, services marketing and brand marketing, and in project consultation work. Mr. Zhang obtained a bachelor degree in engineering (industrial management engineering profession) from Wuhan University of Technology (formerly known as Wuhan Institute of Technology) in June 1982. Mr. Zhang completed a USA MBA program (organised by the graduate school of Columbia University and other universities) of Beijing Information Science & Technology University (formerly known as Beijing Institute of Machinery) in September 1986, and obtained a doctor's degree of economics (industrial economics profession) from the College of Economics, Jinan University in July 1999. Mr. Zhang worked in the Management Engineering Faculty of Wuhan University of Technology (formerly known as Wuhan Institute of Technology) as a teaching assistant and a lecturer from July 1982 to March 1989. He worked in the Management Engineering Faculty of Guangdong University of Technology (formerly known as Guangdong Institute of Technology) as a teaching assistant, lecturer, associate professor and served as deputy director, director and deputy head of the Teaching and Research Department from March 1989 to June 1998. Mr. Zhang has been teaching at Jinan University since July 1998 and is an associate professor and a tutor to master's degree research students at the Management School of Jinan University. Mr. Zhang was also the director of the MBA Department and deputy director of the MBA education centre from 2003 to 2005. Mr. Zhang was a chief marketing consultant of the Fourth Shoe Factory (第四皮鞋廠) in Wuhan city from 1987 to 1989. He was a factory director of Zhongshan Precision Instrument Factory (中山先能精密儀器廠) from 1991 to 1992 and a manager of the Planning Department of Guangdong International Mass Advertising Media Company (廣東國際大眾廣告傳播公司) from 1992 to 1993. From 1993 to 1995, Mr. Zhang was a general manager of Guangdong Design and Planning Company (廣東創世紀設計策劃公司) and was a marketing consultant of Guangdong Construction Real Estate Company (廣東建業房地產公司) from 1995 to 1996. He was a marketing consultant of Guangdong Yihe Real Estate (Group) (廣東頤和地產(集團)有限公司) from 1997 to 2002 and a consultant of Guangdong Persian Technology Company Limited (廣東波斯科技股份有限公司) from 2002 to 2012.

SENIOR MANAGEMENT

Mr. Chan Hon Wan (陳漢雲), aged 62, was appointed as the financial controller and company secretary of the Company on 25 June 2009. Currently, he is also the authorised representative of the Company. He is responsible for the management of the Group's financial matters. Mr. Chan has over 37 years of experience in auditing and accounting fields. He served as a financial controller of Fairwood Fast Food Limited from 1995 to 1998. He also worked as a corporate finance director of Texwood Limited from 2000 to 2005 and a business director of Texwood Group from 2006 to 2008, respectively. Mr. Chan received a bachelor degree in economics from Macquarie University Australia in 1986. In 2005, he received a master degree in science (accountancy) from the Hong Kong Polytechnic University. He is an associate member of the Institute of Chartered Accountants in Australia and an associate member of the Hong Kong Institute of Certified Public Accountants.

Ms. Fang Danna (方丹娜), aged 57, has been the financial manager of SZ Kingworld since 1995. She is primarily responsible for the management of SZ Kingworld's financial policies. Ms. Fang has 31 years of experience in the accounting industry. She worked for the accounting department of Shenzhen Xinwei Electronics Company Limited (深圳新偉電子有限公司) in 1989 before she joined SZ Industry as a financial manager in 1995. Ms. Fang completed a course in accounting from Wuhan University (武漢大學) in 1991.

Directors’ and Senior Management’s Biographies

Mr. Zhao Kin Wai (趙鍵瑋), aged 32, joined the Group in 2017 as an assistant to the Chairman. He is mainly responsible for the informatization, product introduction and Longde business of the Group. Mr. Zhao obtained a master’s degree from Columbia University in 2016. He is proficient in mathematics and business, and has working experience as a real estate financial analyst in the United States. He is the vice chairman of the Hong Kong Youth Development Alliance and a member of the Internet Society of Hong Kong. He has been a CPPCC member in Nanshan District, Shenzhen since 2021. Mr. Zhao Kin Wai is the son of Mr. Zhao Li Sheng, the Chairman and an executive Director of the Company, and Ms. Chan Lok San, an executive Director of the Company.

Mr. Liu Jinwu (劉金武), aged 44, is the deputy controller of the pharmaceutical department of SZ Kingworld. He is mainly responsible for the market planning, promotion and market management of various products of the pharmaceutical department. Mr. Liu has over 16 years of experience in marketing and management operations. In 2005, he worked in the marketing department of Shenzhen Jie Nuo Import and Export Trading Company (深圳傑諾進出口貿易公司). Mr. Liu graduated from Hunan College of Traditional Chinese Medicine majoring in traditional Chinese medicine in 2002. He joined SZ Kingworld in 2007.

Mr. Xie Yaoliang (謝耀樑), aged 52, is the executive sales and marketing general manager of SZ Kingworld. He is mainly responsible for the sales of the pharmaceutical segment. Mr. Xie has over 23 years of experience in the pharmaceutical field. In 2014, he completed the relevant courses of the Zhongda Kingworld EMBA Seminar (中大金活EMBA課程研修班) of Sun Yat-sen University. Mr. Xie joined SZ Kingworld in 1999.

Ms. Zhang Yingxia (張迎霞), aged 47, is the controller of the operation management center SZ Kingworld. She is mainly responsible for the coordination and management of pharmaceutical business operations and the data construction of the Group. Ms. Zhang has over 21 years of experience in the pharmaceutical industry. She graduated from Nanjing University majoring in international affairs in 1995, and graduated from Nanjing Academy of Political Science majoring in law in 2004. Ms. Zhang joined SZ Kingworld in 2008.

Mr. Xing Guang Qian (邢光前), aged 42, is the controller of Zhejiang-Shanghai region of SZ Kingworld. He is primarily responsible for the sales and management in Beijing, Shanghai, Zhejiang, Jiangxi and Shandong. Mr. Xing has over 21 years of experience in the pharmaceutical industry. He was a lecturer at Zhejiang Dianzi University from 2014 to 2017. Mr. Xing completed the relevant courses of Innovative Development EMBA Advanced Seminar (創新發展EMBA高級研修班) of Shanghai Jiao Tong University in 2020. He joined SZ Kingworld in 2013.

Mr. Fang Jia Zhi (方嘉治), aged 40, is the manager of the investment center of Kingworld Medicines Group Limited. He is primarily responsible for affairs of the investment center of the Group. Mr. Fang has over 15 years of experience in corporate restructuring and investment related fields. From 2007 to 2010, he served as the head of the securities department of SZ Kingworld, where he participated in the preparation for the listing of the Company; from November 2010 to February 2015, he served as controller, deputy manager and manager of the investment center of SZ Kingworld successively, where he participated in and was responsible for project research, equity participation and acquisition matters. Since August 2015, he has been the manager of the investment development center of the Group, responsible for investment matters. Since 2021, he has served as a supervisor of Fat Chi Medicine Company Limited (佛慈藥廠有限公司), a Hong Kong company. Mr. Fang graduated from School of Law of Huaqiao University majoring in law in 2006. He joined SZ Kingworld in 2007.

Mr. Huang Zhihui (黃志輝), aged 31, is the manager of the audit and supervision center of the Group. He is primarily responsible for formulating, implementing and reviewing the internal control of SZ Kingworld. Mr. Huang completed accounting related courses at Central South University in 2019. He joined SZ Kingworld in 2016.

Ms. Wang Hui (王慧), aged 39, executive controller of Human Resource Center of SZ Kingworld. She is responsible for human resource management of the Group. Ms. Wang has over 16 years of experience in the human resource management field. She has been worked for Human Resource Center of Philips Respironics since 2007. She served as training manager of DOVINIE from 2010 to 2016 and training consultant of Shenzhen Jiufu Chaoneng (深圳玖富超能) from 2016 to 2018. Ms.Wang obtained Master degree in Human Resource Management from Keele University of UK in 2007. She joined SZ Kingworld in 2018.

Mr. Chen Yong (陳勇), aged 50, manager of the finance department of SZ Kingworld. He is primarily responsible for the finance work of SZ Kingworld Medicine (深圳金活醫藥) and Dong Di Xin. Mr. Chen has over 30 years of experience in the financial accounting industry. He worked for accounting department of Yuan Cheng CCB House Credit (源城建行房信) in 1994, accounting department of Zhuhai Red Flag CCB (珠海紅旗建行) in 1997 and finance department of Shenzhen Mumianhua Hotel (深圳市木棉花酒店) in 2001. Mr. Chen obtained financial practice qualification from Ministry of Personnel of the People's Republic of China in 2000. He obtained intermediate certificate in accounting from Ministry of Finance of the People's Republic of China in 2006. Mr. Chen graduated from Foshan Agricultural and Animal Husbandry College (佛山農牧高等專科學校) in 1994. He joined SZ Kingworld in 2004.

Mr. Chen Yueyue (陳躍躍), aged 41, controller of SZ Kingworld in East China. He is primarily responsible for the sales management. Mr. Chen has over 11 years of experience in the medicine sales industry. He graduated from Nanjing University of Chinese Medicine in 1994. Mr. Chen joined SZ Kingworld in 2011.

Mr. Ceng Yun (曾澐), aged 52, is the sales controller (commerce) of SZ Kingworld. He is primarily responsible for the customer and sales management. Mr. Ceng has 23 years of experience as a sales manager in the pharmaceutical industry. Mr. Ceng completed a master degree in industrial economics from Nanchang University (南昌大學) in 2001. He joined SZ Kingworld in 1996.

Mr. Huang Ruozhong (黃若忠), aged 60, is the corporate finance controller of SZ Kingworld and is responsible for managing the matters relating to the Listing. He has 27 years of experience in handling securities and finance related matters. Mr. Huang worked in the securities department of the Shantou branch of the Bank of Communications Co. Ltd. from 1992 to 1999. Mr. Huang worked in the securities trading department of the Shantou Trust and Investment Company from 1999 to 2002, and worked for the Deheng Securities Company Limited (德恒證券有限公司) from 2002 to 2003. Since 2004, Mr. Huang has been the executive directors of 20 subsidiaries and served as a director of Zhuhai Jinming since 2006. In 1998, he obtained financial practice qualification (intermediate class) from Ministry of Personnel of the People's Republic of China. In 2001, Mr. Huang was presented with the qualification of handling securities business by the Securities Association of China (中國證券協會). He graduated from the Chinese People's Liberation Army Air Force Engineering University (中國人民解放軍空軍工程大學) and Chinese People's Liberation Army Guilin Air Force Academy (中國人民解放軍桂林空軍學院) in 1985 and 1989 respectively. In 2014, he completed the relevant courses of the Zhongda Kingworld EMBA Seminar (中大金活EMBA課程研修班) of Sun Yat-sen University. Mr. Huang joined SZ Kingworld in 2003.

The emoluments of each of the above senior management of the Group fall within the band of Nil to HK$1,000,000. Details of the emoluments of each of the above senior management of the Group are set out in Notes 11 and 12 to the consolidated financial statements.

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

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

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 is the Chairman of the Board and the chief executive officer. The Board is in the opinion that having Mr. Zhao to carry out both roles can bring about strong and consistent leadership for the Group, and can be more effective in planning and implementing long-term business strategies. The Board also considers that since members of the Board include competent and independent non-executive Directors, this structure will not impair the balance of power and authority between the Board and its management in the business of the Group. The Board is in the opinion that the structure described above will be beneficial to the Company and its business.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

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

Corporate Governance Report

As at 31 December 2022, the Board comprises a total of six Directors, being three executive Directors (the"**Executive Directors**"), and three independent non-executive Directors (the "**Independent Non-executive Directors**"). Mr. Zhao Li Sheng, Ms. Chan Lok San and Mr. Zhou Xuhua served as Executive Directors and Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam served as Independent Non-executive Directors. These Independent Non-executive Directors, who have different business and professional backgrounds, have brought valuable experience and expertise for the best interests of the Group and its Shareholders. Each Independent Non-executive Director has been appointed for a 3-years term of services. Biographical details of and the relationship between the Directors are set out in the paragraph headed "Directors' and Senior Management's Biographies" of this report.

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

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

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

To ensure Directors are able to provide independent view and input, every Director is entitled to have access to Board papers and related materials and has access to the advice and services of the Company Secretary. The Board and each Director also have separate and independent access to the Company's senior management. Every Director can exercise independent judgment and provide his/her views and input to the Board. The Board can therefore be informed of such views and input and act in the best interest of the Group and Shareholders as a whole.

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

Accordingly, Mr. Zhou Xuhua and Mr. Zhang Jianbin shall retire at the forthcoming annual general meeting of the Company. The retiring Directors, all being eligible, offer themselves for re-election.

BOARD DIVERSITY POLICY

We have adopted the board diversity policy (the"Board Diversity Policy") with a view to achieving a sustainable and balanced development. Our Board has a balanced composition comprising six Directors, including one female Director and five male Directors as at the date of this report. Our Directors aged between mid-fifty and mid-sixty as at the date of this report, and were from different backgrounds. Our Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. Selection of candidates of our Directors will be based on a range of diversity perspectives, including but not limited to gender, age, cultural, race, educational background, professional experience, skills and knowledge. We aim to achieve a balanced composition of our Board by ensuring appropriate balance of diversity in various aspects, including gender diversity, so as to enable our Board to discharge its duties and responsibilities effectively. The Company will continue to take gender diversity into consideration during recruitment and increase the female proportion at all levels over time with the ultimate goal of achieving gender parity, such that there is a pipeline of female senior management and potential successors to the Board in the future. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. We planned to identifying female candidates and appointing at least one more female director on the Board within three years.

As at 31 December 2022, the Group employed a total of 1,037 employees, the overall gender ratio in the workforce for male to female was male 47.6% to female 52.4%.

In recognition of the importance of board diversity, we will continue to promote diversity of our Company at all levels, including at the Board and senior management level, to enhance the effectiveness of our corporate governance. We will continue to provide diversified career development opportunities to our staff and engage different training resources for our staff in order to develop future candidates for Director and senior management. Our nomination committee is responsible for the implementation of the Board Diversity Policy and compliance with relevant codes governing board diversity under the CG Code as set forth in Appendix 14 to the Listing Rules. Our nomination committee will review the board diversity policy and our diversity profile (including gender balance) from time to time to ensure its continued effectiveness.

BOARD COMMITTEES

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

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

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

AUDIT COMMITTEE

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

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

During the Year Under Review, the Audit Committee had held two meetings and all the members attended the meetings. The work performed by the Audit Committee during the Year Under Review included reviewing the audited consolidated financial statements of the Group for the year ended 31 December 2021, the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2022 and the effectiveness of the internal control practices of the Group. The Audit Committee has also reviewed the audit plan and approach of the external auditor and monitored the progress and results of the audit regularly.

The Audit Committee also carried out corporate governance functions during the Year Under Review, including developing and reviewing the Company's policies and practices on corporate governance and other duties prescribed under code provision D.2.1 of the CG Code.

The Audit Committee has, together with the management of the Company and external independent auditor, reviewed the consolidated financial statements for the year ended 31 December 2022, the results announcement, this annual report, the accounting principles and practices adopted by the Group, as well as the risk management and internal control systems of the Group for the Year Under Review, and agreed with the accounting treatments adopted by the Group, and was of the opinion that the preparation of the financial statements in this annual report complies with the applicable accounting standards and the requirements under the Listing Rules and adequate disclosures have been made.

REMUNERATION COMMITTEE

The Company established a remuneration committee (the "**Remuneration Committee**") on 5 November 2010 and has formulated its written terms of reference, which have from time to time been modified in accordance with the prevailing provisions of the CG Code. The terms of reference were updated on 30 December 2022, in accordance with the prevailing provision of the CG Code. The Remuneration Committee has three members, namely Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam, who are Independent Non-executive Directors. Mr. Zhang has been appointed as the chairman of the Remuneration Committee.

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

During the Year Under Review, in relation to the grant of share award dated 21 January 2022 pursuant to the Share Award Scheme, the Remuneration Committee reviewed, approved and recommended the share awards granted to the Directors and senior managers of the Group to the Administration Committee of the Share Award Scheme and the Board, respectively. The Remuneration Committee considered appropriate for the Company to grant share awards to the the Directors and senior managers of the Group with a vesting period less than 12 months as set out in rule 17.03(F) and without performance targets and clawback mechanism applied to the share awards granted to the Directors and senior managers of the Group. The Remuneration Committee was aware that the purposes of the Share Award Scheme were, including but not limited to, to recognise the past contributions, to provide incentives in retaining talents and to attract suitable personnel for further development of the Group. Having considered that (i) the Directors and senior managers of the Group contributed directly to the overall business performance of the Group, and (ii) the grant of share award was a recognition of their respective past contributions to the Group, the Remuneration Committee was of the view that the grant of share award to the Group's directors and senior managers on 21 January 2022 would be in line with the purposes of the Share Award Scheme.

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

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

NOMINATION COMMITTEE

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

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

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

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

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

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

BOARD/COMMITTEE MEETINGS AND INDIVIDUAL ATTENDANCE

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

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

Details of the attendance records of Directors on Board meetings and board committee meetings for the year ended 31 December 2022 are as follows:

Name of Directors	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Executive Directors					
Mr. Zhao Li Sheng *(Chairman)*	5/5	–	–	–	1/1
Ms. Chan Lok San	5/5	–	–	–	1/1
Mr. Zhou Xuhua	5/5	–	–	–	1/1
Independent Non-executive Directors					
Mr. Duan Jidong	5/5	2/2	2/2	2/2	1/1
Mr. Wong Cheuk Lam	5/5	2/2	2/2	2/2	1/1
Mr. Zhang Jianbin	5/5	2/2	2/2	2/2	1/1

Subsequent to the year ended 31 December 2022 and up to the date of this report, the Board held another Board meeting in March 2023 for the main purposes of approving the annual results of the Group for the year ended 31 December 2022 and this annual report for publication and formulating business development strategies. All Directors attended such meeting.

TRAINING AND SUPPORT OF DIRECTORS

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

The Directors confirmed that they have complied with Code Provision C.1.4 of the CG Code on Directors' training and have provided a record of the training they received to the Company. All Directors have participated in continuous professional development by the following means to develop and refresh their knowledge.

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

RESPONSIBILITIES OF THE DIRECTORS AND EXTERNAL AUDITORS

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

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

BUSINESS COMPLIANCE AND ANTI-CORRUPTION

We strive to maintain a high level of business integrity as it is vital to our reputation and the protection of our business partners and customers. To achieve so, the Group is in strict compliance with the Prevention of Bribery Ordinance (Cap. 201) in Hong Kong, and the Anti-Money Laundering Law and the Criminal Law of the PRC.

We do not, in any case, tolerate any business misconduct and malpractices, this includes any form of bribery, extortion, fraud and money laundering. As stated clearly in the Prevention of Bribery Ordinance incorporated in our Employee's Handbook, unethical business practices such as the offering and accepting of gifts are strictly prohibited. Once we discover any misconduct committed, the employees will be subject to termination of employment or disciplinary action.

Holding on to the values of openness, probity and accountability, we have formulated the Whistleblowing Policy which allows employees to voice their concerns or if they suspect any misconduct is being committed within the business. As the policy provides absolute anonymous reporting channels, it protects the whistleblowers from any unfair treatment and undesired consequences such as dismissal, victimization and disciplinary action, even for substantiated cases. At the same time, the Audit Committee has been tasked with handling the cases and delineating the investigation procedures. The Whistleblowing Policy not only apply to internal employees but also to our suppliers and contractors.

During the Year Under Review, there were no reported legal cases regarding the corrupt practices of our employees relating to bribery, extortion, fraud and/or money laundering. Though the Group did not provide any internal anti-corruption training to Directors and employees during the Year Under Review, they are encouraged to attend anti-corruption training provided by external parties at the Company's expenses.

REMUNERATION OF EXTERNAL AUDITORS

For the year ended 31 December 2022, the remuneration paid to the external auditors in Hong Kong and the PRC, for audit services amounted to approximately RMB1,416,000 (equivalent to approximately HK$1,667,000).

For the year ended 31 December 2022, the total remuneration for the permissible non-audit services provided by the external auditors amounted to RMB221,000 (equivalent to approximately HK$260,000), mainly represents remuneration for interim review services.

INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL COMPLIANCE GUIDELINES

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

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

For the year ended 31 December 2022, through reviews conducted by the Audit Committee and study results from the internal audit department, the Board has conducted a review on the effectiveness of internal control system, the risk management system and the internal compliance guidelines, and has come to the conclusion that such systems and guidelines have been effectively and adequately executed and followed.

CORPORATE GOVERNANCE MEASURES

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

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

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

DIRECTORS' INSURANCE

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

COMPANY SECRETARY

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

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

CONSTITUTIONAL DOCUMENTS

The Company has adopted the amended and restated Articles of Association of the Company by special resolution passed on 27 May 2022 and effective on 27 May 2022. Please refer to the circular of the Company dated 25 April 2022 for details. Save as disclosed, during the year ended 31 December 2022, there had been no significant change in the Company's constitutional documents, a copy of which is available on the websites of the Stock Exchange and the Company.

SHAREHOLDERS' RIGHTS

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

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

Procedures for directing Shareholders' enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary of the Company by mail to Unit 613, 6th Floor, Goodluck Industrial Centre, 808 Lai Chi Kok Road, Kowloon, Hong Kong, or by e-mail to kingw@kingworld.com.cn.

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

INVESTOR RELATIONS

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

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

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

Hong Kong, 30 March 2023

Report of the Directors

The Directors have pleasure in presenting the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2022 (the "**Financial Statements**").

PRINCIPAL BUSINESS

The Company is an investment holding company. The Group is principally engaged in (i) distribution of imported branded pharmaceutical and healthcare products in the PRC; and (ii) manufacturing and sales of electrotherapeutic, physiotherapeutic devices and general medical examination devices. As at 31 December 2022, the Group managed a portfolio of eleven categories with more than sixty products including pharmaceutical products, healthcare products, general foodstuffs and medical products from fourteen suppliers and/or manufacturers in Japan, United States, Canada, Hong Kong, Taiwan, Thailand and the PRC. Many of the products distributed by the Group are established brand names including Nin Jiom Chuan Bei Pei Pa Koa, Taiko Seirogan, Kingworld Imada Red Flower Oil, Culturelle probiotics product series, Lifeline Care product series and Mentholatum product series. Amongst these brands, Nin Jiom Chuan Bei Pei Pa Koa has always been the best-seller of the Group and is also the best-selling Chinese medical cough relieving product in the PRC, which is the leading product with the largest market share.

RESULTS AND DIVIDENDS

Profit of the Group for the year ended 31 December 2022 and the state of affairs of the Company and the Group as at that date are set out in the Financial Statements on pages 85 to 194 of this report.

To extend the Company's gratitude for the support of the Shareholders, the Board has recommended the distribution of a final dividend for the year ended 31 December 2022 of HK2.47 cents per share to Shareholders whose names appear on the register of members of the Company on Thursday, 8 June 2023, amounting to approximately HK$15,376,000 (equivalent to approximately RMB13,571,000), subject to the approval of the Shareholders at the Company's forthcoming annual general meeting to be held on Monday, 29 May 2023. Total dividend payout ratio is approximately 60.0% of the profit for the year attributable to owners of the Company.

There is no arrangement under which a Shareholder has waived or agreed to waive any dividends, the above-mentioned final dividend is expected to be paid on or before Friday, 30 June 2023.

POLICY ON PAYMENT OF DIVIDENDS

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

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

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

CLOSURE OF THE REGISTER OF MEMBERS

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

The register of members of the Company will be closed from Tuesday, 23 May 2023 to Monday, 29 May 2023 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for attending and voting at the forthcoming annual general meeting, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration no later than 4:30 p.m. on Monday, 22 May 2023.

To qualify for the proposed final dividends

The register of members of the Company will be closed from Monday, 5 June 2023 to Thursday, 8 June 2023 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for receiving the proposed final dividends, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration no later than 4:30 p.m. on Friday, 2 June 2023.

BUSINESS REVIEW

A review of the business of the Group for the Year Under Review and a discussion on the Group's future business development are provided in the "Management Discussion and Analysis" on pages 12 to 40. An analysis of the Group's performance during the Year Under Review using financial key performance indicators is provided in the five-year "Financial Summary" on page 195. No important event affecting the Group has occurred since the end of the Year Under Review.

ENVIRONMENTAL POLICY

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

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

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

RELATIONSHIPS WITH STAKEHOLDERS

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

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

KEY RISKS AND UNCERTAINTIES

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

Market Risk

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

Foreign exchange risk

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

Liquidity Risk

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

Operational Risk

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

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

LITIGATION AND CONTINGENT LIABILITIES

Save as disclosed in the paragraph headed "Litigation" on page 35 of this report, as at 31 December 2022, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

SHARE OPTION SCHEME

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

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

(a) The maximum number of the Company's shares issuable upon exercise of all options to be granted under the New Share Option Scheme and any other schemes of the Company must not in aggregate exceed 10% of the all issued shares of the Company as at the date of the adoption of the New Share Option Scheme (that is, 20 August 2021, the "**Adoption Date**") (which were 622,500,000 shares) unless shareholders' approval has been obtained, and which must not in aggregate exceed 30% of the shares of the Company in issue from time to time.

As at the date of this report, the total number of shares available for issue under the New Share Option Scheme is 62,250,000 shares, which represents 10% of the issued shares as at the Adoption Date and the date of this report.

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

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

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

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

(f) The New Share Option Scheme shall be valid and effective for a period of ten years commencing on the Adoption Date (that is, 20 August 2021).

All share options granted under the Share Option Scheme were lapsed as at 31 December 2021. No share option was granted under the New Share Option Scheme during the Year Under Review.

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. Participants of the Share Award Scheme include (i) any full time or part time employee (including any executive directors) of the Company or any subsidiary of the Company; (ii) any non-executive director (including independent non-executive directors) of the Company or any subsidiary of the company; and (iii) any person who, in the sole discretion of the Board, has contributed or may contribute to the Group. Details of the Share Award Scheme are set out in the announcement of the Company dated 27 August 2019 (the "**August Announcement**").

In accordance with the announcement of the Company date 29 March 2022, the maximum entitlement of each participant (i.e. the increased Individual limit) of the Share Award Scheme in any 12-month period shall not exceed 0.1% of the issued share capital of the Company immediately preceding such allocation and award.

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.

As disclosed in the announcement of the Company dated 13 July 2022, 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 this report (subject to adjustment in the event of sub-division of Shares, consolidation of Shares or bonus issue in accordance with the Award Scheme Rules) with effect from 13 July 2022. Please refer to the announcement of the Company dated 13 July 2022 for further details.

At the beginning and the end of the financial year ended 31 December 2022, the number of Shares available for grant under the scheme mandate of the Share Award Scheme were 16,000,000 and 46,000,000 respectively.

Up to 31 December 2021 and during the year ended 31 December 2022, the Trustee has purchased in aggregate of 16,000,000 and 8,484,000 shares of the Company, respectively, from the market for the purpose of the Share Award Scheme. 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. As such, at the beginning and the end of the financial year ended 31 December 2022, the Trustee holds 16,000,000 and 22,928,000 shares on trust for the Share Award Scheme, respectively. Please refer to the announcement of the Company dated 21 January 2022 and table below for further details.

Name of Grantee/a description of the category of the Grantee	Date of Grant	Number of awards granted in 2022	Vesting Period	The closing price of the shares immediately before the date on which the awards were granted (HK$ per share)	Number of awards vested in 2022	The number of awards cancelled in 2022 together with the purchase price of the cancelled awards	The number of awards which lapsed in accordance with the terms of the scheme in 2022
Directors							
Mr. Zhao Li Sheng (趙利生)	21 January 2022	60,000	21 January 2022	0.690	60,000	nil	nil
Ms. Chan Lok San (陳樂燊)	21 January 2022	60,000	21 January 2022	0.690	60,000	nil	nil
Mr. Zhou Xuhua (周旭華)	21 January 2022	36,000	21 January 2022	0.690	36,000	nil	nil
Mr. Zhang Jianbin (張建斌)	21 January 2022	36,000	21 January 2022	0.690	36,000	nil	nil
Employees/Other Grantees (Excluding the Directors)							
Employees/Other Grantees	21 January 2022	1,364,000	21 January 2022	0.690	1,364,000	nil	nil

The Share Award Scheme was adopted before the effective date (being 1 January 2023) of the new Chapter 17 of the Listing Rules. The adoption date of the Share Award Scheme was 27 August 2019. As such, the Share Award Scheme (effective for a term of six years commencing on the adoption date) shall remain valid and effective until 26 August 2025. The Company will comply with the new Chapter 17 in accordance with the transitional arrangement provided for the existing share schemes. Where any grant of the Awarded Shares (as defined in the August Announcement) is proposed to be made to any person who is a connected person of the Company, the Company shall comply with the relevant provisions of the Listing Rules.

BORROWINGS

Details of the Group's bank borrowings as at 31 December 2022 are set out in Note 27 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

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

PERMITTED INDEMNITY PROVISION

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

GOING CONCERN

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

PUBLIC FLOAT

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

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

For the year ended 31 December 2022, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 30 to the consolidated financial statements.

RESERVES

Details of change in reserves of the Group and the Company are set out on page 89 of the "Consolidated Statement of Changes in Equity" and Note 30 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

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

As at 31 December 2022, the aggregate amount of reserves available for distribution to owners of the Company was approximately RMB85,947,000 (31 December 2021: approximately RMB112,667,000). After the end of the Year Under Review, the Directors proposed a final dividend of HK2.47 cents (equivalent to RMB2.18 cents) (2021: HK2.39 cents, equivalent to RMB1.95 cents) per share amounting to approximately RMB13,571,000 (2021: approximately RMB12,138,000). The proposed final dividend has not been recognised as a liability at the end of the Year Under Review.

CHARITY DONATIONS

Charity donations made by the Group during the Year Under Review was approximately RMB6,208,000 (2021: approximately RMB2,350,000).

PROPERTY, PLANT AND EQUIPMENT

Details of changes in property, plant and equipment of the Group are set out in Note 13 to the consolidated financial statements.

INVESTMENT PROPERTIES

The Group's investment properties were revalued as at 31 December 2022, decrease in fair value of investment properties arising on revaluation amounting to approximately RMB7,300,000 has been charged to the consolidated statement of profit or loss. Details of the Group's investment properties as at 31 December 2022 are set out in Note 14 of the consolidated financial statements and on page 196 of this report.

PRE-EMPTIVE RIGHTS

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

SUBSIDIARY COMPANIES

Details of the major subsidiary companies of the Company as at 31 December 2022 are set out in Note 15 to the consolidated financial statements.

DIRECTORS

The Directors of the Company during the year ended 31 December 2022 and up to the date of this report have been:

Executive Directors

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

Independent Non-executive Directors

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

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Company are set out on pages 41 to 46 under the section headed "Directors' and Senior Management's Biographies" in this report.

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

REMUNERATIONS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

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

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

The five highest paid individuals of the Group in the Year Under Review include 3 Directors (2021: 3 Directors). Details of the five highest paid individuals are set out in Note 12 to the consolidated financial statements.

SERVICE CONTRACTS OF DIRECTORS

Executive Directors

Each of the Executive Directors has entered into a service contract with the Company for a term of three years commencing from the Listing Date and may be terminated by not less than three months' prior notice in writing served by either party to the other. Subject to the retirement and re-election at the annual general meeting of the Company in accordance with (inter alia) the Articles of Association, the latest service contract was renewed on 25 November 2022 until being terminated pursuant to the terms of the service contract.

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

	RMB'000
Mr. Zhao Li Sheng	1,394
Ms. Chan Lok San	1,249
Mr. Zhou Xuhua	503

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

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

Independent Non-executive Directors

Each of the Independent Non-executive Directors (other than Mr. Zhang Jianbin) has signed a letter of appointment with the Company for a term of three years commencing on the Listing Date and may be terminated by giving three months' notice in writing thereof by either party to the other. Subject to the retirement and re-election at the annual general meeting of the Company in accordance with (inter alia) the Articles of Association, the latest letter of appointment was renewed on 25 November 2022 until being terminated pursuant to the terms of the letter of appointment. Mr. Zhang Jianbin has signed a letter of appointment with the Company for a term of three years commencing from 1 August 2013, which may be terminated by giving three months' notice in writing by either party to the other. Subject to the retirement and re-election at the annual general meeting of the Company in accordance with (inter alia) the Articles of Association, the letter of appointment was renewed on 1 August 2022 until being terminated pursuant to the terms of the letter of appointment.

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

	RMB'000
Mr. Duan Jidong	276
Mr. Wong Cheuk Lam	276
Mr. Zhang Jianbin	276

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

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed under the paragraph headed "Continuing Connected Transactions", during the year ended 31 December 2022, no Director is considered to have interests in the businesses which compete or are likely to compete directly or indirectly with the businesses of the Group.

DISCLOSURE OF INTERESTS

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

As at 31 December 2022, the interests and short positions held by the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

(I) Interest in the shares in the Company:

Name of Directors	Capacity/Nature of Interest	Number of shares in the Company held	Approximate percentage of the Company's total issued share capital
Zhao Li Sheng (Note 1)	Beneficial owner	22,260,000	3.58%
	Interest of spouse	90,060,000	14.47%
	Interest of a controlled corporation	297,812,250	47.84%
Chan Lok San (Note 2)	Beneficial owner	60,000	0.01%
	Interest of spouse	320,072,250	51.42%
	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 22,260,000 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 410,132,250 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) 60,000 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 60,000 shares held by Ms. Chan and 90,000,000 shares held by Golden Morning.

2. Ms. Chan is deemed (by virtue of the SFO) to be interested in 410,132,250 shares in the Company. These shares are held in the following capacities:

   (a) 60,000 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) 22,260,000 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 22,260,000 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 31 December 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 31 December 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.

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

As at 31 December 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	22,260,000	3.58%
	Interest of spouse	90,060,000	14.47%
	Interest of a controlled corporation	297,812,250	47.84%
Chan Lok San (Note 2)	Beneficial owner	60,000	0.01%
	Interest of spouse	320,072,250	51.42%
	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 22,260,000 shares which are beneficially owned by Mr. Zhao, Mr. Zhao is deemed (by virtue of the SFO) to be interested in 410,132,250 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) 60,000 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 60,000 shares held by Ms. Chan and 90,000,000 shares held by Golden Morning.

2. Ms. Chan is deemed (by virtue of the SFO) to be interested in 410,132,250 shares in the Company. These shares are held in the following capacities:

    (a) 60,000 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) 22,260,000 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 22,260,000 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 31 December 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.

DIRECTORS' RIGHTS IN ACQUIRING SHARES AND DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the paragraph headed "Continuing Connected Transactions", as at 31 December 2022 and during any time for the year ended 31 December 2022, there was no contract of significance (as defined in Appendix 16 to the Listing Rules) subsisting in which a Director is or was materially interested, whether directly or indirectly.

Save as disclosed under the paragraph headed "Continuing Connected Transactions", as at 31 December 2022 and during any time for the year ended 31 December 2022, there was no contract of significance in relation to the Company's business subsisting to which the Company, its subsidiary, its holding company or a subsidiary of its holding company was a party and in which a Director has or had, or at any time during that period, in any way, whether directly or indirectly, a material interest.

Save as disclosed under the paragraph headed "Continuing Connected Transactions", as at 31 December 2022 and during any time for the year ended 31 December 2022, none of the Directors was in any way, directly or indirectly, materially interested in any contract of significance entered into or proposed to be entered into with the Company in relation to the Company's business.

MANAGEMENT CONTRACTS

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

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2022, the Group entered into various transactions with certain individuals and entities that are regarded as connected persons of the Company (as defined under Chapter 14A of the Listing Rules). Details of these individuals and entities are set out in Note 35 to the consolidated financial statements.

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

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

As disclosed in the announcements of the Company dated 1 April 2021 and the circular of the Company dated 10 May 2021 (the "**Circular**"), on 1 April 2021, (1) Kingworld Medicine Healthcare Limited ("**HK Kingworld**"), a wholly-owned subsidiary of the Company, entered into a master distribution agreement with Yuen Tai Pharmaceuticals Limited (遠大製藥廠有限公司) ("**Yuen Tai**") ("**2021 Yuen Tai Master Distribution Agreement**"); and (2) Shenzhen Kingworld Medicine Company Limited ("**SZ Kingworld**"), a wholly-owned subsidiary of the Company, entered into a master distribution agreement with Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited (深圳金活利生藥業有限公司) ("**SZ Kingworld Lifeshine**") ("**2021 SZ Kingworld Lifeshine Master Distribution Agreement**"), respectively (collectively, the "**2021 Master Distribution Agreements**").

Unless otherwise defined herein, terms used in the following section headed "2021 Master Distribution Agreements for the period from 27 May 2021 to 31 December 2023" shall have the same meanings as defined in the Circular.

2021 Master Distribution Agreements for the period from 27 May 2021 to 31 December 2023

Transaction	Member of the Group	Connected person	Actual transaction amounts for the year ended 31 December 2022 RMB'000	Approximate annual cap for the year ended 31 December 2022 RMB'000
Purchase and distribution of Pharmaceutical and Healthcare Products from SZ Kingworld Lifeshine	SZ Kingworld	SZ Kingworld Lifeshine	31,627	44,280
Purchase and distribution of Pharmaceutical and Healthcare Products from Yuen Tai	HK Kingworld/ SZ Kingworld	Yuen Tai	97	9,014

Principal terms of the 2021 Master Distribution Agreements are as follows:

2021 SZ Kingworld Lifeshine Master Distribution Agreement

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

On 1 April 2021, SZ Kingworld Lifeshine and SZ Kingworld entered into the 2021 SZ Kingworld Lifeshine Master Distribution Agreement, pursuant to which the Group will purchase certain pharmaceutical and healthcare products from SZ Kingworld Lifeshine and act as the exclusive distributor for distribution of such pharmaceutical and healthcare products in the PRC for the period from 27 May 2021 to 31 December 2023 (both days inclusive).

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

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

2021 Yuen Tai Master Distribution Agreement

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

On 1 April 2021, Yuen Tai and HK Kingworld entered into the 2021 Yuen Tai Master Distribution Agreement, pursuant to which the Group will purchase certain pharmaceutical and healthcare products from Yuen Tai and act as the exclusive distributor for distribution of such pharmaceutical and healthcare products in the PRC for the period from 27 May 2021 to 31 December 2023 (both days inclusive).

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

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

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

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

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

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

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

(i) have received the approval of the Board;

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

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

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

PLEDGE OF ASSETS

As at 31 December 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 RMB100,480,000, RMB97,174,000, RMB17,709,000 and RMB32,610,000, respectively. As at 31 December 2021, the Group 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.

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long and short-term bank borrowings. For the Year Under Review, the effective interest rate for the Group's bank loans ranged from 3.98% to 8.35%. Taking into account the cash flow generated from operations and the long and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 31 December 2022, the Group had cash and cash equivalents of approximately RMB242,155,000 (31 December 2021: approximately RMB187,925,000) which was mainly generated from operations of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year Under Review, the total revenue of the Group's five largest customers accounted for approximately 19.8% of the Group's revenue, in which revenue from the largest customer of the Group accounted for approximately 7.2% of the total revenue of the Group. During the same period, total purchases of the Group's five largest suppliers accounted for approximately 75.1% of the Group's total purchase, in which purchase from the largest supplier of the Group accounted for approximately 57.2% of the total purchase of the Group.

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

TAX RELIEF AND EXEMPTION

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

EMPLOYEE BENEFITS

Details of the employee benefits of the Group for the year ended 31 December 2022 are set out in Note 34 to the consolidated financial statements. No forfeited contributions (by the Group on behalf of employees who leave the defined contribution plans prior to vesting fully in such contributions) can be used by the Group to reduce the existing level of contributions. In order to continue to maintain the sustainable development of the Group's competitiveness, the Group has paid close attention to the external competitiveness, internal fairness of its remuneration structure and the cost-effectiveness of employee's remuneration and performance management with emolument policy in place. For the year ended 31 December 2022, employees' remuneration (including the directors and senior management of the Group) comprised of basic salary, bonus and shares awarded under the Share Award Scheme.

EVENT AFTER THE REPORTING PERIOD

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

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2022 have been audited by Crowe (HK) CPA Limited ("**Crowe**"). Crowe will retire as auditor at the conclusion of the forthcoming annual general meeting and being eligible, offer themselves for re-appointment. A resolution will be submitted to the forthcoming annual general meeting of the Company for the re-appointment of Crowe as the auditor of the Company.

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

Hong Kong, 30 March 2023

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

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

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

OPINION

We have audited the consolidated financial statements of Kingworld Medicines Group Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 85 to 194, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

The Key Audit Matter	*How the matter was addressed in our audit*
(a) Impairment of goodwill and other intangible assets (Refer to notes 2(j)(ii) and (v)(ii), 16, 19 and 32(b) and (i) to the consolidated financial statements) At 31 December 2022, the carrying amount of goodwill and other intangible assets were approximately RMB90.7 million and RMB0.1 million, respectively, relating to Shenzhen Dong Di Xin Technology Company Limited acquired in 2015. Their respective recoverable amounts are based on an assessment of the higher of fair value less cost to sell and value in use of the identified cash generating unit to which the goodwill and other intangible assets are allocated. Value in use is calculated as the net present value of estimated future cash flows. For impairment assessment at the reporting period end, the Group appointed an independent professional valuer to perform valuation for the recoverable amount, being value in use, of the cash generating unit, to which goodwill and other intangible assets are allocated, and made reference to the independent professional valuation. The Group's assessment of impairment is a judgemental process which requires assumptions and estimates concerning the estimated future cash flows, discount rate and growth rate based on management's view of future business prospects.	We reviewed and challenged the impairment analysis prepared by the management as outlined below: With regard to the overall impairment assessments performed by the management, we evaluated the design of internal controls in place to determine any asset impairments. We reviewed and challenged the appropriateness of the models, key assumptions and estimates used by management and the valuers for determining the recoverable value of the goodwill and other intangible assets. We also assessed historical accuracy in management's forecasting process. We evaluated and challenged the key assumptions used in the valuation model and performed sensitivity analysis around key drivers of cash flow forecasts, including unit of sales, gross margins, growth rates and operating costs. We reviewed the calculation of discount rate used for determining the value in use, taking into account the cost of capital of the Group and comparable companies, and challenged the reasonableness of the methodology and assumptions applied in determining the discount rate. We also assessed the adequacy of the Group's disclosures in respect of goodwill and other intangible assets made in notes 16 and 19, respectively, to the consolidated financial statements.

KEY AUDIT MATTERS *(Continued)*

The Key Audit Matter	*How the matter was addressed in our audit*
(b) Impairment of trade receivables (Refer to notes 2(j)(i), 22, 31(a)(i) and 32(d) to the consolidated financial statements) At 31 December 2022, trade receivables amounted to approximately RMB72.9 million, net of allowance for expected credit losses of approximately RMB6.9 million, for which there was no collateral as security for settlement. In the normal ordinary course of its business, the Group grants its customers with credit period up to 120 days after billing. This may give rise to the risk of bad debt losses arising from unfavorable changes in the customers' abilities to settle their trade debts after year end. Lifetime expected credit losses of trade receivables are based on management's estimate of the lifetime expected credit losses to be incurred, which is estimated by taking into account the credit loss experience, ageing of overdue trade receivables, customers' repayment history and customers' financial position and an assessment of both the current and forecast of future economic conditions, all of which involve a significant degree of management judgement.	We reviewed and challenged the assumptions applied by management in estimating the provision for expected credit losses on trade receivables at the year end as outlined below: We reviewed the Group's credit control and debt recovery procedures and actions taken to monitor and collect the trade receivables. We reviewed historical settlement history of the customers and checked subsequent cash receipts from the customers after the year end. We enquired management of any disputes with customers, assessed the replies to the debtor confirmations directly obtained from the customers and reviewed correspondences with the customers for any dispute. We tested ageing analysis for trade receivables by customers, critically evaluated updated creditworthiness of the customers and assessed other forward looking information such as the future economic conditions. We assessed the reasonableness of the expected credit loss rates that were applied to calculate the lifetime expected credit losses of trade receivables and checked the calculation of the required provision for the lifetime expected credit losses of trade receivables. We also assessed the adequacy of the Group's disclosures in respect of trade receivables made in notes 22 and 31(a) to the consolidated financial statements.

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

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Crowe (HK) CPA Limited
Certified Public Accountants
Hong Kong, 30 March 2023

Leung Chun Wa
Practising Certificate Number P04963

Consolidated Statement of Profit or Loss

For the year ended 31 December 2022

	Note	2022 RMB'000	2021 RMB'000
Revenue	4	**957,701**	847,386
Cost of sales	7(c)	**(680,074)**	(583,788)
Gross profit		**277,627**	263,598
Other revenue, income and other net loss	6	**21,545**	17,604
Selling expenses		**(100,452)**	(99,514)
Administrative expenses		**(104,573)**	(96,644)
Amortisation of intangible assets	19	**(13,569)**	(13,569)
Valuation (loss)/gain on investment properties	14	**(7,300)**	800
Impairment losses on financial assets, net	7(c)	**(1,043)**	(50)
Profit from operations		**72,235**	72,225
Finance costs	7(a)	**(12,292)**	(11,782)
Share of profit of a joint venture	18	**7,673**	8,728
Share of (loss)/profits of associates	17	**(32)**	263
Profit before taxation	7	**67,584**	69,434
Income tax	8	**(24,042)**	(18,223)
Profit for the year		**43,542**	51,211
Attributable to:			
Owners of the Company		**22,741**	30,319
Non-controlling interests		**20,801**	20,892
Profit for the year		**43,542**	51,211
Earnings per share	10		
Basic (RMB cents)		**3.75**	5.00
Diluted (RMB cents)		**3.75**	5.00

The notes on pages 92 to 194 form part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2022

	2022 RMB'000	2021 RMB'000
Profit for the year	**43,542**	51,211
Other comprehensive loss for the year (net of tax)		
Items that will not be reclassified to profit or loss:		
Fair value loss on financial assets	**(7,578)**	(1,562)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside the PRC	**1,115**	(2,760)
	(6,463)	(4,322)
Total comprehensive income for the year (net of tax)	**37,079**	46,889
Attributable to:		
Owners of the Company	**16,278**	25,939
Non-controlling interests	**20,801**	20,950
Total comprehensive income for the year	**37,079**	46,889

The notes on pages 92 to 194 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2022

	Note	2022 RMB'000	2021 RMB'000
Non-current assets			
Right-of-use assets	13	**117,370**	107,896
Property, plant and equipment	13	**182,524**	102,039
Investment properties	14	**114,500**	121,800
Interest in a joint venture	18	**83,370**	85,697
Interest in associates	17	**8,584**	8,395
Goodwill	16	**90,693**	90,693
Other intangible assets	19	**134**	13,703
Financial assets at fair value through profit or loss	23	**6,792**	6,461
Financial assets at fair value through other comprehensive income	20	**35,076**	37,490
		639,043	574,174
Current assets			
Inventories	21	**84,764**	106,744
Trade and other receivables	22	**283,389**	334,506
Financial assets at fair value through profit or loss	23	**14,012**	10,480
Cash and cash equivalents	24	**242,155**	187,925
		624,320	639,655
Current liabilities			
Contract liabilities	25	**57,538**	71,730
Trade and other payables	26	**188,405**	152,490
Bank loans	27	**271,285**	229,922
Lease liabilities	28	**8,006**	7,584
Income tax payable	29(a)	**16,507**	11,897
		541,741	473,623
Net current assets		**82,579**	166,032
Total assets less current liabilities		**721,622**	740,206
Non-current liabilities			
Lease liabilities	28	**11,385**	1,450
Deferred income – capital		**600**	–
Deferred tax liabilities	29(b)	**15,422**	18,122
		27,407	19,572
NET ASSETS		**694,215**	720,634

The notes on pages 92 to 194 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2022

	Note	2022 RMB'000	2021 RMB'000
CAPITAL AND RESERVES	30		
Share capital		**53,468**	53,468
Reserves		**562,109**	563,429
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**615,577**	616,897
NON-CONTROLLING INTERESTS		**78,638**	103,737
TOTAL EQUITY		**694,215**	720,634

Approved and authorised for issue by the board of directors on 30 March 2023.

Mr. Zhao Li Sheng
Director

Ms. Chan Lok San
Director

The notes on pages 92 to 194 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

	Attributable to owners of the Company									
	Share capital RMB'000 (note 30(a))	Share premium RMB'000 (note 30(b))	Statutory and discretionary reserves RMB'000 (note 30(c))	Fair value reserve RMB'000 (note 30(d))	Exchange reserve RMB'000 (note 30(e))	Capital reserve RMB'000 (note 30(f))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total Equity 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:										
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**22,741**	**22,741**	**20,801**	**43,542**
Other comprehensive income/(loss) for the year										
– Exchange difference arising from the translation of foreign operations	**–**	**–**	**–**	**–**	**1,115**	**–**	**–**	**1,115**	**–**	**1,115**
– Fair value change on financial assets	**–**	**–**	**–**	**(7,578)**	**–**	**–**	**–**	**(7,578)**	**–**	**(7,578)**
Total other comprehensive income/(loss) for the year	**–**	**–**	**–**	**(7,578)**	**1,115**	**–**	**–**	**(6,463)**	**–**	**(6,463)**
Total comprehensive income/(loss) for the year	**–**	**–**	**–**	**(7,578)**	**1,115**	**–**	**22,741**	**16,278**	**20,801**	**37,079**
Transfer for distribution	**–**	**(13,292)**	**–**	**–**	**–**	**–**	**13,292**	**–**	**–**	**–**
Dividends (note 9(b))	**–**	**–**	**–**	**–**	**–**	**–**	**(13,292)**	**(13,292)**	**–**	**(13,292)**
Distribution to non-controlling interest (note 15(f))	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(45,900)**	**(45,900)**
Shares purchased for the share award scheme (note 37)	**–**	**–**	**–**	**–**	**–**	**(5,037)**	**–**	**(5,037)**	**–**	**(5,037)**
Shares awarded under the share award scheme (note 37)	**–**	**–**	**–**	**–**	**–**	**731**	**–**	**731**	**–**	**731**
At 31 December 2022	**53,468**	**139,408**	**48,641**	**(4,609)**	**(24,597)**	**(14,405)**	**417,671**	**615,577**	**78,638**	**694,215**
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:										
Profit for the year	–	–	–	–	–	–	30,319	30,319	20,892	51,211
Other comprehensive income/(loss) for the year										
– Exchange difference arising from the translation of foreign operations	–	–	–	–	(2,818)	–	–	(2,818)	58	(2,760)
– Fair value change on financial assets	–	–	–	(1,562)	–	–	–	(1,562)	–	(1,562)
Total other comprehensive income for the year	–	–	–	(1,562)	(2,818)	–	–	(4,380)	58	(4,322)
Total comprehensive income for the year	–	–	–	(1,562)	(2,818)	–	30,319	25,939	20,950	46,889
Dividends (note 9(b))	–	–	–	–	–	–	(3,301)	(3,301)	–	(3,301)
Distribution to non-controlling interests (note 15(f))	–	–	–	–	–	–	–	–	(3,920)	(3,920)
Contributions from a substantial shareholder of the Company	–	–	–	–	–	2,456	–	2,456	–	2,456
At 31 December 2021	53,468	152,700	48,641	2,969	(25,712)	(10,099)	394,930	616,897	103,737	720,634

The notes on pages 92 to 194 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	Note	2022 RMB'000	2021 RMB'000
Operating activities			
Profit before taxation		**67,584**	69,434
Adjustments for:			
Depreciation of property, plant and equipment	7(c)	**13,482**	11,653
Amortisation of right-of use assets	7(c)	**11,141**	9,562
Finance costs	7(a)	**12,292**	11,782
Bank interest income	6	**(1,347)**	(458)
Interest income from a shareholder loan	6	**(110)**	(108)
Dividends received from financial assets at fair value through other comprehensive income and through profit or loss	6	**(295)**	(1,615)
Interest received from financial assets at fair value through other comprehensive income	6	**–**	(620)
Loss on disposal of property, plant and equipment	7(c)	**48**	1,300
Impairment losses on trade receivables	7(c)	**1,043**	50
Change in fair value of financial assets at fair value through profit or loss	6	**(2,894)**	(471)
Amortisation of intangible assets	7(c)	**13,569**	13,569
Share of profit of a joint venture	18	**(7,673)**	(8,728)
Share of loss/(profits) of associates	17	**32**	(263)
Valuation loss/(gain) on investment properties	14	**7,300**	(800)
Write-down of inventories	21	**514**	6,967
Share-based payments	7(b)	**731**	–
Changes in working capital			
Decrease in inventories		**21,466**	16,510
(Increase)/decrease in trade and other receivables		**50,074**	(11,496)
(Decrease)/increase in contract liabilities		**(14,192)**	15,234
Increase/(decrease) in trade and other payables		**35,915**	(35,501)
Cash generated from operations		**208,680**	96,001
Income tax paid		**(22,132)**	(14,802)
Net cash generated from operating activities		**186,548**	81,199

The notes on pages 92 to 194 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	Note	**2022 RMB'000**	2021 RMB'000
Investing activities			
Payment for the purchase of property, plant and equipment		**(93,513)**	(58,319)
Payment for the acquisition of financial assets at fair value through other comprehensive income		**(3,000)**	–
Proceeds from disposal of financial assets at fair value through other comprehensive income		**–**	94
Proceeds from disposal of property, plant and equipment		**112**	1,567
Grant received for capital expenditure		**600**	–
Interest received from financial assets at fair value through other comprehensive income	6	**–**	620
Bank interest received	6	**1,347**	458
Shareholder loan interest received	6	**110**	108
Payment for acquisition of an associate		**–**	(4,978)
Dividend received from a joint venture		**10,000**	8,000
Dividends received from financial assets at fair value through other comprehensive income and through profit or loss	6	**295**	1,615
Net cash used in investing activities		**(84,049)**	(50,835)
Financing activities			
Proceeds from new bank loans	24	**373,368**	124,680
Repayment of bank loans	24	**(337,905)**	(187,182)
Capital element of lease rentals paid	24	**(10,253)**	(8,152)
Interest element of lease rentals paid	24	**(815)**	(799)
Interest on bank loans paid	24	**(11,477)**	(10,983)
Payments for shares purchased for the share award scheme	37	**(5,037)**	–
Dividend paid to owners of the Company	9(b)	**(13,292)**	(3,301)
Dividends paid to non-controlling interests	15(g)	**(45,900)**	(3,920)
Contributions from a substantial shareholder		**–**	2,456
Net cash used in financing activities		**(51,311)**	(87,201)
Net increase/(decrease) in cash and cash equivalents		**51,188**	(56,837)
Cash and cash equivalents at beginning of year		**187,925**	250,818
Effect of foreign exchange rate changes		**3,042**	(6,056)
Cash and cash equivalents at end of year	24	**242,155**	187,925

The notes on pages 92 to 194 form part of these consolidated financial statements.

1. GENERAL INFORMATION

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

The consolidated financial statements for the year ended 31 December 2022 comprise the Company and its subsidiaries and the Group's interests in a joint venture and associates.

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

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

- investment properties (see note 2(f));
- derivative financial instruments (see note 2(aa));
- financial instruments classified as financial assets at fair value through other comprehensive income (see note 2(e)); and
- financial assets at fair value through profit or loss (see note 2(e)).

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

c) *Subsidiaries and non-controlling interests*

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

d) Associate and joint ventures

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

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

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

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

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

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

In all other cases, when the Group ceases to have significant influence over an associate and joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(e)(ii)).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

e) *Other investments in debt and equity securities*

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

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

i) Investments other than equity investments

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

ii) Equity investments

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

f) *Investment properties*

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

g) *Property, plant and equipment*

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

h) *Leased assets*

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

i) *As a lessee*

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) *Leased assets (Continued)*

i) *As a lessee (Continued)*

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

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

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

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

The initial fair value of refundable rental deposits is accounted for separately from the right-of-use assets in accordance with the accounting policy applicable to investments in debt securities carried at amortised cost (see notes 2(e)(i), 2(t)(iv) and 2(j)(i)). Any difference between the initial fair value and the nominal value of the deposits is accounted for as additional lease payments made and is included in the cost of right-of-use assets.

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

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("**lease modification**") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions that occurred as a direct consequence of the COVID-19 Pandemic and met the conditions set out in paragraph 46B of HKFRS 16 *Leases*. In such cases, the Group has taken advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognised the change in consideration as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) *Leased assets (Continued)*

ii) As a lessor

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

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

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

i) *Inventories*

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

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

- pharmaceutical products
- healthcare products
- medical devices

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) *Credit losses and impairment of assets*

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

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

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

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

– debt securities measured at FVOCI (recycling).

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

Measurement of ECLs

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Measurement of ECLs *(Continued)*

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

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

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

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

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

ECLs are measured on either of the following bases:

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

General approach

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

General approach *(Continued)*

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

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

Simplified approach

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Significant increases in credit risk

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Significant increases in credit risk *(Continued)*

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

Basis of calculation of interest income

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

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

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

– significant financial difficulties of the debtor;

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) Credit losses and impairment of assets (Continued)

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

Write-off policy

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

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

ii) Impairment of other non-current assets

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

– right-of-use assets;

– property, plant and equipment;

– intangible assets;

– interests in associates and a joint venture;

– goodwill; and

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

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

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit). A portion of the carrying amount of a corporate asset (for example, head office building) is allocated to an individual cash-generating unit if the allocation can be done on a reasonable and consistent basis, or to the smallest group of cash-generating units if otherwise.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

iii) *Interim financial reporting and impairment*

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

k) Contract assets and contract liabilities

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

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

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

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

l) Trade and other receivables

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

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are subsequently stated at amortised cost, using the effective interest method and including an allowance for credit losses (see note 2(j)(i)).

Insurance reimbursement is recognised and measured in accordance with note 2(q).

m) Trade and other payables

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

n) *Interest-bearing borrowings*

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

o) *Cash and cash equivalents*

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

p) *Income tax*

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

p) *Income tax (Continued)*

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

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

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

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

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

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

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

  – the same taxable entity; or

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

q) Provisions and contingent liabilities

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

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

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognised for any expected reimbursement that would be virtually certain. The amount recognised for the reimbursement is limited to the carrying amount of the provision.

r) Borrowing costs

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

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

s) Translation of foreign currencies

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

s) *Translation of foreign currencies (Continued)*

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

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

t) *Revenue and other income*

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

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

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

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

i) *Sale of goods*

Sales of goods are recognised as follows:

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

t) *Revenue and other income (Continued)*

ii) *Rental income from operating leases*

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

iii) *Dividend income*

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

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

iv) *Interest income*

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

v) *Promotional income*

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

vi) *Government grants*

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

u) Segment reporting

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

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

v) i) Business combinations or asset acquisitions

Optional concentration test

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

Asset acquisitions

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

Business combinations

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Business combinations (Continued)

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Business combinations (Continued)

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

v) ii) *Goodwill*

Goodwill represents the excess of

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

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

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

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

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

w) *Employee benefits*

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

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

ii) *Share-based payments*

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

w) *Employee benefits (Continued)*

ii) Share-based payments (Continued)

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

iii) Share award scheme

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

iv) Termination benefits

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

x) *Related parties*

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

i) has control or joint control over the Group;

ii) has significant influence over the Group; or

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

x) Related parties (Continued)

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

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

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

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

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

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

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

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

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

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

y) Other intangible assets (other than goodwill)

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

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

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

– Customer relationships	8 years
– Patents	5 years

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

z) *Research and development costs*

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

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

aa) *Derivative financial instruments*

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

3. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

Amendments to HKFRS 3	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

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. The application of these amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

4. REVENUE

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

	2022 RMB'000	2021 RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products		
– pharmaceutical products	**593,606**	438,864
– healthcare products	**95,053**	88,560
– medical devices	**269,042**	319,962
	957,701	847,386
Timing of revenue recognition		
A point in time	**957,701**	847,386

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

5. SEGMENT REPORTING

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

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

b. Manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices: this segment manufactures and sells electrotherapeutic and physiotherapeutic devices and general medical examination devices, which are carried out by Dong Di Xin as defined in Note 15 below. Currently, the Group's activities in this regard are primarily carried out in the PRC.

5. SEGMENT REPORTING *(Continued)*

a) *Segment results, assets and liabilities*

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

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

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

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

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

5. SEGMENT REPORTING *(Continued)*

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

Information regarding the Group's reportable segments as provided to the Group's directors for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2022 and 2021 is set out below.

	Distribution sales of pharmaceutical and healthcare products				Manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices			
	Hong Kong		PRC		PRC		Total	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue from external customers	**49,857**	41,488	**732,718**	560,340	**268,773**	319,962	**1,051,348**	921,790
Inter-segment revenue	**7,073**	4,518	**1,914**	2,777	**–**	–	**8,987**	7,295
Reportable segment revenue	**56,930**	46,006	**734,632**	563,117	**268,773**	319,962	**1,060,335**	929,085
Reportable segment profit (adjusted EBITDA)	**(19,333)**	(23,043)	**53,507**	55,407	**71,259**	79,940	**105,433**	112,304
Write down of inventories	**506**	7,458	**8**	(491)	**–**	–	**514**	6,967
Research and development costs	**–**	–	**–**	–	**15,519**	13,406	**15,519**	13,406
Reportable segment assets	**38,169**	33,602	**584,052**	594,324	**358,328**	409,742	**980,549**	1,037,668
(including investment in joint venture)	**–**	–	**83,370**	85,697	**–**	–	**83,370**	85,697
Additions to non-current segment assets during the year	**–**	935	**205**	2,074	**13,130**	21,883	**13,335**	24,892
Reportable segment liabilities	**19,683**	6,026	**313,257**	268,246	**84,481**	85,341	**417,421**	359,613

5. SEGMENT REPORTING *(Continued)*

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

	2022 RMB'000	2021 RMB'000
Revenue		
Reportable segment revenue	**1,060,335**	929,085
Elimination of inter-segment revenue	**(8,987)**	(7,295)
Elimination of Group's share of revenue of joint venture	**(93,647)**	(74,404)
Consolidated revenue (note 4)	**957,701**	847,386

	2022 RMB'000	2021 RMB'000
Profit		
Reportable segment profit (adjusted EBITDA) derived from the Group's external customers and joint venture	**105,433**	112,304
Other income	**21,545**	17,604
Depreciation and amortisation	**(38,192)**	(34,785)
Finance costs	**(12,292)**	(11,782)
Unallocated head office and corporate expenses	**(8,910)**	(13,907)
Consolidated profit before taxation	**67,584**	69,434

5. SEGMENT REPORTING *(Continued)*

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

	2022 RMB'000	2021 RMB'000
Assets		
Reportable segment assets	**980,549**	1,037,668
Elimination of inter-segment receivables	**–**	–
	980,549	1,037,668
Financial assets at fair value through other comprehensive income	**35,076**	37,490
Financial assets at fair value through profit or loss	**6,792**	6,461
Unallocated head office and corporate assets	**240,946**	132,210
Consolidated total assets	**1,263,363**	1,213,829

	2022 RMB'000	2021 RMB'000
Liabilities		
Reportable segment liabilities	**417,421**	359,613
Elimination of inter-segment payables	**–**	–
	417,421	359,613
Current tax liabilities	**16,507**	11,897
Deferred tax liabilities	**15,422**	18,122
Unallocated head office and corporate liabilities	**119,798**	103,563
Consolidated total liabilities	**569,148**	493,195

5. SEGMENT REPORTING *(Continued)*

c) *Geographic Information*

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

	Revenues from external customers		**Specified non-current assets**	
	2022	2021	**2022**	2021
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC (excluding Hong Kong)	**667,608**	514,205	**583,300**	516,399
Hong Kong	**36,227**	21,109	**13,875**	13,824
	703,835	535,314	**597,175**	530,223
Other countries outside the PRC:				
The United States of America	**124,326**	184,320	**–**	–
The United Kingdom	**18,245**	21,291	**–**	–
Germany	**31,720**	43,189	**–**	–
Italy	**28,132**	18,411	**–**	–
Spain	**1,982**	3,739	**–**	–
Mexico	**7,400**	3,076	**–**	–
Others	**42,061**	38,046	**–**	–
	253,866	312,072	**–**	–
	957,701	847,386	**597,175**	530,223

d) *Information about major customers*

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

	2022	2021
	RMB'000	RMB'000
Customer A – revenue from manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices	**N/A#**	112,137

The transactions with this customer did not contribute 10% or more of total revenue of the Group during the year ended 31 December 2022.

6. OTHER REVENUE, INCOME AND OTHER NET LOSS

	2022 RMB'000	2021 RMB'000
Other revenue:		
Total interest income on financial assets not at fair value through profit or loss:		
Bank interest income	**1,347**	458
Interest income from a shareholder loan (note 35(b))	**110**	108
Interest income from financial assets at fair value through other comprehensive income	**–**	620
Gross rental income from investment properties	**947**	2,648
Dividend income from financial assets at fair value through other comprehensive income and through profit or loss	**295**	1,615
Promotional service income	**15,656**	7,546
	18,355	12,995
Other income and other net loss:		
Government grants		
– HK (note i)	**357**	–
– PRC (note ii)	**3,759**	5,059
Change in fair value of financial assets at fair value through profit or loss	**2,894**	471
Exchange loss, net	**(5,808)**	(3,088)
Others	**1,988**	2,167
	21,545	17,604

Note:

(i) In 2022, the Group successfully applied for funding support from the Employment Support Scheme under the Anti-epidemic Fund, set up by the Hong Kong Government. The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the grant, the Group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees.

(ii) Government grants were awarded to the Group by the local government agencies as incentives primarily to encourage the development of the Group and the contribution to the local economic development, production of epidemic prevention materials. There was no unfulfilled conditions attached to these grants.

7. PROFIT BEFORE TAXATION

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

	2022 RMB'000	2021 RMB'000
a) Finance costs		
Total interest expense on financial liabilities not at fair value through profit or loss:		
– Interest on bank loans	**11,477**	10,983
– Interest on lease liabilities	**815**	799
	12,292	11,782
b) Staff costs (including directors' and chief executive's remuneration)		
Salaries and other benefits	**134,546**	134,833
Contributions to defined contribution retirement plan	**11,220**	10,259
Share-based payments	**731**	–
	146,497	145,092
c) Other items		
Amortisation of other intangible assets (note 19)	**13,569**	13,569
Auditor's remuneration		
– audit service	**1,416**	1,375
– non-audit services	**221**	191
Costs of inventories recognised as expense:		
– Cost of inventories sold (note 21)	**680,074**	583,788
– Write-down of inventories (note 21)	**514**	6,967
Depreciation of property, plant and equipment (note 13)	**13,482**	11,653
Amortisation of right-of-use assets (note 13)	**11,141**	9,562
Impairment losses on:		
– Trade receivables (note 22(c))	**1,043**	50
Loss on disposal of property, plant and equipment	**48**	1,300
Rental income from investment properties less direct outgoings of RMB124,000 (2021: RMB513,000)	**(823)**	(2,135)
Research and development costs	**15,519**	13,406

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

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

	2022 RMB'000	2021 RMB'000
Hong Kong Profits Tax (note (ii))		
– Current year	**440**	166
– Under-provision in prior year	**242**	–
PRC Enterprise Income Tax ("**EIT**") (note (iii))		
– Current year	**23,544**	21,216
– Under-provision in prior years	**2,516**	(1,306)
Deferred tax (note 29(b))		
– Origination and reversal of temporary differences	**(2,700)**	(1,853)
	24,042	18,223

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

ii) The provision for Hong Kong Profits Tax for 2022 is calculated at 16.5% (2021: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first HK$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2021.

The provision for Hong Kong Profits Tax for 2022 takes into account a reduction granted by the Hong Kong SAR Government of 100% of the tax payable for the year of assessment 2022/23 subject to a maximum reduction of HK$6,000 for each business (2021: a maximum reduction of HK$10,000 was granted for the year of assessment 2021/22).

iii) The PRC Enterprise Income Tax charge of the Group during the years ended 31 December 2022 and 2021 represented mainly the PRC Enterprise Income Tax charge from the Group's PRC subsidiaries, Shenzhen Kingworld Medicine Company Limited ("**SZ Kingworld**"), Shenzhen Dong Di Xin Technology Company Limited ("**Dong Di Xin**") and are based on a statutory rate of 25% (2021: 25%), except for Dong Di Xin, which is chargeable at a preferential income tax rate of 15% (2021: 15%).

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

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

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

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

	2022 **RMB'000**	2021 RMB'000
Profit before taxation	**67,584**	69,434
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdiction concerned	**25,120**	15,408
Tax effect of non-deductible expenses	**227**	1,023
Tax effect of non-taxable income	**(12,880)**	(848)
Tax effect of prior years' tax losses utilised	**(741)**	(3,148)
Tax effect of unrecognised temporary differences	**(1,538)**	(49)
Tax effect of unused tax losses not recognised	**11,096**	7,143
Under/(over)-provision in prior years	**2,758**	(1,306)
Tax concession	**–**	–
Actual tax expense	**24,042**	18,223

c) As at 31 December 2022, the undistributed profits of the Company's PRC subsidiaries amounted to approximately RMB331,129,000 (2021: RMB266,879,000) for which the potential deferred tax liabilities of approximately RMB16,556,000 (2021: RMB13,344,000) have not been recognised in these consolidated financial statements because the Group is able to control their dividend policies and the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax liabilities related to withholding tax on the distributable profits of a non-wholly-owned subsidiary amounted to approximately RMB1,128,000 (2021: Nil) has been provided for as at 31 December 2022 taking into account its future profit distribution policy.

9. DIVIDENDS

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

	2022 RMB'000	2021 RMB'000
Final dividend proposed after the end of the reporting period of HK2.47 cents (equivalent to RMB2.18 cents) (2021: HK2.39 cent (equivalent to RMB1.95 cent)) per ordinary share	**13,571**	12,138

The final dividend for the year ended 31 December 2022 proposed after the end of the reporting period is subject to approval by the Company's shareholders in its forthcoming annual general meeting. It has not been recognised as a liability at the end of the reporting period.

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

	2022 RMB'000	2021 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK2.39 cent (equivalent to approximately RMB2.14 cent) (2021: HK0.65 cents (equivalent to approximately RMB0.53 cents))	**13,292**	3,301

10. EARNINGS PER SHARE

a) *Basic earnings per share*

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

	2022 RMB'000	2021 RMB'000
Earnings		
Profit for the year attributable to owners of the Company	**22,741**	30,319
Earnings for the purpose of basic earnings per share	**22,741**	30,319

	2022 '000	2021 '000
Number of shares		
Weighted average number of ordinary shares in issue	**622,500**	622,500
Effect of shares repurchased and held under share award scheme	**(15,784)**	(16,000)
Weighted average number of ordinary shares for the purpose of basic earnings per share	**606,716**	606,500

b) *Diluted earnings per share*

Diluted earnings per share for the years ended 31 December 2022 and 2021 was the same as the basic earnings per share since there was no outstanding share options during the year ended 31 December 2022 and all those share options granted under the share option scheme were lapsed at 31 December 2021, of which, the exercise price of those share options was higher than the weighted average market price of the Company's shares during the year ended 31 December 2021. As the conversion or exercise of the share options which were lapsed at 31 December 2021 would have an anti-dilutive effect on earnings per share for the year ended 31 December 2021, the calculation of diluted earnings per share did not assume conversion or exercise of potential ordinary shares of the share options for the year ended 31 December 2021.

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

	Directors' Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	2022 Total RMB'000
Executive directors:					
Zhao Li Sheng (chief executive officer)	**–**	**1,365**	**–**	**29**	**1,394**
Chan Lok San	**–**	**1,159**	**73**	**17**	**1,249**
Zhou Xuhua	**–**	**400**	**51**	**52**	**503**
Independent non-executive directors:					
Duan Jidong	**276**	**–**	**–**	**–**	**276**
Wong Cheuk Lam	**276**	**–**	**–**	**–**	**276**
Zhang Jianbin	**276**	**–**	**–**	**–**	**276**
	828	**2,924**	**124**	**98**	**3,974**

	Directors' Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	2021 Total RMB'000
Executive directors:					
Zhao Li Sheng (chief executive officer)	–	1,332	–	28	1,360
Chan Lok San	–	1,132	57	17	1,206
Zhou Xuhua	–	400	48	48	496
Independent non-executive directors:					
Duan Jidong	274	–	–	–	274
Wong Cheuk Lam	274	–	–	–	274
Zhang Jianbin	274	–	–	–	274
	822	2,864	105	93	3,884

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

During the years ended 31 December 2022 and 2021, no amount was paid or payable to the directors or chief executive or any of the five highest paid individuals set out in note 12 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which any director or chief executive waived or agreed to waive any emolument during both years.

12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group include 3 directors (2021: 3 directors) during the year, whose emoluments are disclosed in note 11. The aggregate of the emoluments in respect of the remaining individuals are as follows:

	2022	2021
	RMB'000	RMB'000
Salaries and other emoluments	**1,341**	1,308
Retirement scheme contributions	**32**	16
	1,373	1,324

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

	2022	2021
Nil to HK$1,000,000	**2**	2

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

	Property, plant and equipment									
	Buildings held for own use (notes (a) and (b)) RMB'000	Leasehold land and building (note (c)) RMB'000	Leasehold improvements RMB'000	Furniture, fixtures and office equipment RMB'000	Machineries RMB'000	Motor vehicles RMB'000	Construction-in-progress (note (e)) RMB'000	Sub-total RMB'000	Right-of-use assets (notes (a) and (b)) RMB'000	Total RMB'000
Cost										
At 1 January 2021	24,259	–	16,716	28,466	29,783	11,962	3,273	114,459	130,824	245,283
Exchange adjustments	–	(115)	(12)	(2)	–	(165)	–	(294)	(82)	(376)
Additions	–	7,090	2,352	3,794	11,099	1,106	32,878	58,319	7,982	66,301
Disposals	–	–	(691)	(1,146)	(6,288)	–	–	(8,125)	(10,948)	(19,073)
At 31 December 2021	24,259	6,975	18,365	31,112	34,594	12,903	36,151	164,359	127,776	292,135
At 1 January 2022	24,259	6,975	18,365	31,112	34,594	12,903	36,151	164,359	127,776	292,135
Exchange adjustments	–	578	60	4	–	417	–	1,059	116	1,175
Additions	–	–	2,236	544	10,097	458	80,178	93,513	20,545	114,058
Disposals	–	–	–	(99)	(390)	(278)	–	(767)	(17,166)	(17,933)
At 31 December 2022	24,259	7,553	20,661	31,561	44,301	13,500	116,329	258,164	131,271	389,435
Accumulated depreciation										
At 1 January 2021	4,366	–	11,247	18,781	12,601	9,096	–	56,091	21,306	77,397
Exchange adjustments	–	(2)	(1)	(2)	–	(161)	–	(166)	(40)	(206)
Charge for the year	1,092	106	2,837	3,936	2,780	902	–	11,653	9,562	21,215
Disposals	–	–	(576)	(998)	(3,684)	–	–	(5,258)	(10,948)	(16,206)
At 31 December 2021	5,458	104	13,507	21,717	11,697	9,837	–	62,320	19,880	82,200
At 1 January 2022	5,458	104	13,507	21,717	11,697	9,837	–	62,320	19,880	82,200
Exchange adjustments	–	15	10	4	–	417	–	446	46	492
Charge for the year	1,092	145	2,069	4,896	3,786	1,494	–	13,482	11,141	24,623
Disposals	–	–	–	(81)	(273)	(254)	–	(608)	(17,166)	(17,774)
At 31 December 2022	6,550	264	15,586	26,536	15,210	11,494	–	75,640	13,901	89,541
Carrying amount										
At 31 December 2022	17,709	7,289	5,075	5,025	29,091	2,006	116,329	182,524	117,370	299,894
At 31 December 2021	18,801	6,871	4,858	9,395	22,897	3,066	36,151	102,039	107,896	209,935

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

Note:

(a) Right-of-use assets

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

	Notes	**2022** RMB'000	2021 RMB'000
Ownership interests in leasehold land and buildings held for own use in PRC, carried at depreciated cost, with remaining lease term of:			
– between 10 and 50 years	(i)	**97,174**	98,539
Other properties leased for own use, carried at depreciated cost	(ii)	**20,196**	9,357
		117,370	107,896

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

	2022 RMB'000	2021 RMB'000
Depreciation charge of right-of-use assets by class of underlying asset:		
– Ownership interests in leasehold land and buildings	**1,365**	1,365
– Other properties leased for own use	**9,776**	8,197
	11,141	9,562
Interest on lease liabilities (note 7(a))	**815**	799
COVID-19-related rent concessions allowed	**–**	–

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

Note: *(Continued)*

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

During the year ended 31 December 2022, additions to right-of-use assets were RMB20,545,000 (2021: RMB7,982,000). This amount primarily related to the capitalised lease payments payable under new tenancy agreements.

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

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

(ii) Other properties leased for own use

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

(b) Included in right-of-use assets is the land use rights for a piece of land held for development situated in the PRC with a carrying amount of approximately RMB42,981,000 (2021: RMB42,981,000).

(c) The Group holds an office unit held for own use in Hong Kong, carried at depreciated cost, with remaining lease term of 50 years.

(d) As at 31 December 2022, certain right-of-use assets and buildings held for own use with a total carrying amount of RMB114,883,000 (2021: RMB74,359,000) were pledged in favour of banks for bank loans of the Group (note 27).

(e) Construction-in-progress represent costs incurred by the Group on the construction of the Longde Health Industrial Park, a logistic centre with ancillary facilities and ancillary commercial property. Further details on the relevant outstanding capital commitment at the end of the reporting period are disclosed in note 33.

14. INVESTMENT PROPERTIES

	RMB'000
Fair value	
At 1 January 2021	121,000
Fair value adjustment	800
At 31 December 2021 and 1 January 2022	121,800
Fair value adjustment	(7,300)
At 31 December 2022	114,500

a) The Group's investment properties were revalued as at 31 December 2022 and 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 an independent firm of qualified valuers, Hong Kong Appraisal Advisory Limited, who amongst its staff have members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The Group's property manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results when the valuations are performed at each annual reporting date.

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

14. INVESTMENT PROPERTIES *(Continued)*

c) At 31 December 2022, certain of the Group's investment properties with a total fair value of approximately RMB100,480,000 (2021: RMB107,600,000) were pledged in favour of the banks for the bank loans and banking facilities granted to the Group (note 27).

d) Fair value measurement of properties

(i) Fair value hierarchy

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

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

- Level 3 valuations: Fair value measured using significant unobservable inputs

		Fair value measurements as at 31 December 2022 categorised into		
	Fair value at 31 December 2022 RMB'000	**Level 1 RMB'000**	**Level 2 RMB'000**	**Level 3 RMB'000**
Group				
Recurring fair value measurement				
Investment properties:				
– Commercial – PRC	**114,500**	–	–	**114,500**

14. INVESTMENT PROPERTIES *(Continued)*

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

(i) Fair value hierarchy (Continued)

	Fair value at 31 December 2021 RMB'000	Fair value measurements as at 31 December 2021 categorised into Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Group				
Recurring fair value measurement				
Investment properties:				
– Commercial – PRC	121,800	–	–	121,800

During the years ended 31 December 2022 and 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 fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Information about Level 3 fair value measurements

		Valuation techniques	Unobservable input	Range
Investment properties: – Commercial – PRC	(i)	Direct comparison method	Sales evidence of comparable properties (adjusted for the difference in the quality and location of the properties)	RMB42,192 - RMB44,898 per square meter (2021: RMB45,573 - RMB50,186)
	(ii)	Discounted cash flow	Risk-adjusted discount rate (i.e. market rental yield)	5.1%-6.4% (2021: 2.75%-4%)
			Expected market rental growth	1% (2021: 2.75%-4%)
			Expected occupancy rate	95%-100% (2021: 100%)

14. INVESTMENT PROPERTIES *(Continued)*

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

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

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

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

	2022 **RMB'000**	2021 RMB'000
Investment properties – Commercial – Mainland China		
At 1 January	**121,800**	121,000
Net (loss)/gain from fair value adjustment on investment properties recognised in profit or loss	**(7,300)**	800
At 31 December	**114,500**	121,800

e) The Group leases out investment properties under operating leases. The leases run for a period for one to three years (2021: one to three years). None of the leases include contingent rentals.

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

	2022 **RMB'000**	2021 RMB'000
Within 1 year	**2,671**	2,878
After 1 year but within 5 years	**178**	2,811
	2,849	5,689

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

15. SUBSIDIARIES

The following is a list of principal subsidiaries of the Group as at 31 December 2022.

Name	Place of incorporation/ operations	Proportion of ownership interest held by the Group at effective interest	Class of shares/ capital held	Particulars of issued and paid up capital	Principal activities
Kingworld Medicine and Healthcare Group Limited ("**BVI Kingworld**") (note (a))	The BVI/Hong Kong	100% (2021: 100%)	Ordinary shares	111 shares of US$1 each (2021: 111 shares of US$1 each)	Investment holding
Kingworld Medicine Healthcare Limited	Hong Kong	100% (2021: 100%)	Ordinary shares	195,546,680 shares (2021: 195,546,680 shares)	Investment holding and distribution sale of branded imported pharmaceutical and healthcare products in Hong Kong
金活(香港)控股有限公司 Kingworld (Hong Kong) Holdings Limited	Hong Kong	100% (2021: 100%)	Ordinary shares	1 share (2021: 1 share)	Investment holding
深圳市金活醫藥有限公司 SZ Kingworld Medicine Company Limited (note (b)) ("**SZ Kingworld**")	The PRC	100% (2021: 100%)	Registered capital	RMB180,900,000 (2021: 180,900,000)	Distribution sale of branded imported pharmaceutical and healthcare products in the PRC

15. SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ operations	Proportion of ownership interest held by the Group at effective interest	Class of shares/ capital held	Particulars of issued and paid up capital	Principal activities
深圳市東迪欣科技有限公司 Shenzhen Dong Di Xin Technology Company Limited (note (c)) ("**Dong Di Xin**")	The PRC	55% (2021: 55%)	Registered capital	RMB2,000,000 (2021: RMB2,000,000)	Manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices in the PRC
深圳市龍德健康有限公司 Shenzhen City Longde Jiankang Company Limited (note (c)) ("**Longde**")	The PRC	90% (2021: 90%)	Registered capital	RMB28,800,000 (2021: RMB28,800,000)	Property investment
深圳市舒心堂藝術文化傳播有限公司 (note (c)) ("**舒心堂**")	The PRC	41% (2021: 41%)	Registered capital	RMB3,000,000 (2021: RMB3,000,000)	Distribution sales of artwork and organization of art exhibition
深圳市金活中醫藥科技發展有限公司 (note (c))	The PRC	85% (2021: 85%)	Registered capital	RMB5,000,000 (2021: RMB5,000,000)	Distribution sales of Chinese medicine and technology transfer
Innopharm S. A. (note (e))	France	60% (2021: Nil)	Issued shares	EUR9,147 (2021: Nil)	Research and development of pharmaceutical and healthcare products

15. SUBSIDIARIES *(Continued)*

Notes:

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

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

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

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

e) The subsidiary was inactive during the year ended 31 December 2022.

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

	Longde		Dong Di Xin*	
	2022	2021	**2022**	2021
	RMB'000	RMB'000	**RMB'000**	RMB'000
NCI Percentage	**10%**	10%	**45%**	45%
Current assets	**11,960**	4,045	**206,513**	260,331
Non-current assets	**159,309**	79,132	**60,988**	45,015
Current liabilities	**(147,882)**	(57,223)	**(85,378)**	(92,013)
Non-current liabilities	**–**	–	**(10,708)**	(1,203)
Net assets	**23,387**	25,954	**171,415**	212,130
Carrying amount of NCI	**2,339**	2,595	**76,904**	101,351
Revenue	**–**	–	**268,773**	319,962
Profit/(loss) for the year	**(2,567)**	(1,413)	**60,057**	57,472
Total comprehensive income/(loss)	**(2,567)**	(1,413)	**60,057**	57,601
Profit/(loss) allocated to NCI	**(257)**	(141)	**21,454**	21,249
Total comprehensive income/(loss) allocated to NCI	**(257)**	(141)	**21,454**	21,307
Dividend paid to NCI (note (g) below)	**–**	–	**45,900**	3,920
Cash flows from operating activities	**(7,358)**	32,755	**36,584**	35,207
Cash flows from investing activities	**(80,176)**	(32,878)	**(11,185)**	(20,883)
Cash flows from financing activities	**(58,526)**	–	**(55,115)**	(3,920)

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

15. SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

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

	2022 **RMB'000**	2021 RMB'000
Dividends declared and approved during the financial year:		
To non-controlling shareholders of Dong Di Xin		
– paid during the year	**45,900**	–
To non-controlling shareholders of a subsidiary of Dong Di Xin		
– paid during the year	**–**	3,920
	45,900	3,920

16. GOODWILL

	RMB'000
Cost	
At 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	90,693
Accumulated impairment losses	
At 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	–
Carrying amount	
At 31 December 2022	90,693
At 31 December 2021	90,693

The goodwill arose from acquisition of Dong Di Xin during the year ended 31 December 2015. The goodwill represented the expected future profitability of Dong Di Xin as an established business at the acquisition date. The reportable segment adjusted EBITDA of Dong Di Xin was approximately RMB71,259,000 (2021: RMB79,940,000) for the year (Note 5(a)).

Impairment testing on Dong Di Xin

The recoverable amount of Dong Di Xin as the identified cash-generating unit ("**CGU**") has been determined based on a value in use calculations. At 31 December 2022, the recoverable amount of the CGU, to which goodwill and other intangible assets (Note 19) are allocated, is determined taking into account the valuation performed by Hong Kong Appraisal Advisory Limited, an independent firm of qualified valuers not connected to the Group and with qualification and experiences in valuing similar assets, based on the cash flows forecasts derived from the most recent financial budgets for the next 5 years (2021: 5 years) approved by the management using the pre-tax discount rate of 18.7% (2021: 17.5%) per annum which reflects current market assessments of the time value of money and the risks specific to the CGU. Other key assumptions for the value in use calculations are the budgeted growth rate of 2% to 7% (2021: -10% to 4%) and 3% (2021: 3%) for the next 5 years and beyond 5 years, respectively, and budgeted gross margin of 45% (2021: 40%), which are determined based on past performance, management's expectations for the market development and market growth forecasts.

Based on the results of the valuation, the recoverable amount of the CGU has been assessed as being higher than its carrying amount. Accordingly, no impairment (2021: Nil) on goodwill and other intangible assets (Note 19) was considered necessary at the both reporting period ends.

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

17. INTEREST IN ASSOCIATES

	2022 RMB'000	2021 RMB'000
Share of net assets	**6,089**	5,900
Goodwill, net of impairment losses	**2,495**	2,495
Carrying amount of the Group's interests in associates	**8,584**	8,395

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

Name of associate	**Form of business structure**	**Place of incorporation and operation**	**Particulars of issued and paid up capital/ Registered capital**	**Proportion of ownership interest held by a subsidiary of the Group at effective interest**	**Principal activity**
佛慈藥廠有限公司 Fat Chi Medicine Company Limited ("**Fat Chi Medicine**")	Limited liability company	Hong Kong	HKD320,000	45.3125% (2021: 45.3125%)	Trading of medical products
深圳至元健康科技創新中心 Shenzhen Zhiyuan Healthcare Technology Innovation Center ("**Shenzhen Zhiyuan**")	Limited liability company	The PRC	RMB22,220,000 (2021: RMB22,220,000)	45% (2021: 45%)	Marketing and promotion of healthcare and technology
Ming VitaMed Enterprise III Limited	Limited liability company	The BVI	USD1,000	24% (2021: 24%)	Inactive

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

17. INTEREST IN ASSOCIATES *(Continued)*

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

Fat Chi Medicine

	31/12/2022 **RMB'000**	31/12/2021 RMB'000
Gross amounts of the associate		
Current assets	**9,465**	4,593
Non-current assets	**4,586**	4,323
Current liabilities	**(5,993)**	(2,540)
Non-current liabilities	**(736)**	(670)
Equity	**7,322**	5,706

	From 1/1/2022 **to 31/12/2022** **RMB'000**	From 19/4/2021 to 31/12/2021 RMB'000
Revenue	**6,144**	3,130
Profit for the year	**1,130**	585
Other comprehensive income/(loss)	**486**	(178)
Total comprehensive income	**1,616**	407
Dividend received from the associate	**–**	–

	31/12/2022 **RMB'000**	31/12/2021 RMB'000
Reconciled to the Group's interest in the associate		
Gross amounts of net assets of the associate	**7,322**	5,706
Group's effective interest	**45.3125%**	45.3125%
Group's share of net assets of the associate	**3,318**	2,585
Goodwill	**2,495**	2,495
Carrying amount in the consolidated financial statements	**5,813**	5,080

	From 1/1/2022 **to 31/12/2022** **RMB'000**	From 19/4/2021 to 31/12/2021 RMB'000
Profit shared by the Group	**512**	265
Other comprehensive income/(loss) shared by the Group	**221**	(81)
Total comprehensive income shared by the Group	**733**	184

17. INTEREST IN ASSOCIATES *(Continued)*

Shenzhen Zhiyuan

	2022 **RMB'000**	2021 RMB'000
Gross amounts of the associate		
Current assets	**7,228**	8,568
Non-current assets	**–**	–
Current liabilities	**(1,073)**	(1,206)
Non-current liabilities	**–**	–
Equity	**6,155**	7,362
Revenue	**–**	–
Loss for the year	**(1,208)**	(5)
Other comprehensive income	**–**	–
Total comprehensive loss	**(1,208)**	(5)
Dividend received from the associate	**–**	–
Reconciled to the Group's interest in the associate		
Gross amounts of net assets of the associate	**6,155**	7,362
Group's effective interest	**45%**	45%
Group's share of net assets of the associate	**2,770**	3,314
Carrying amount in the consolidated financial statements	**2,770**	3,314
(Loss)/profit shared by the Group	**(544)**	(2)
Gain from dilution of interest in an associate	**–**	729

Aggregate information of an associate that is individually not material:

	2022 **RMB'000**	2021 RMB'000
Aggregate carrying amount of individually immaterial associate in the consolidated financial statements	**1**	1
Aggregate amounts of the Group's share of the associate's		
Profit from continuing operations	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**–**	–

18. INTEREST IN A JOINT VENTURE

	2022 **RMB'000**	2021 RMB'000
Share of net assets	**83,370**	85,697

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

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

Notes:

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

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

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

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

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

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

	2022 **RMB'000**	2021 RMB'000
Gross amounts of Zhuhai Jinming		
Current assets	**82,568**	85,907
Non-current assets	**181,963**	187,007
Current liabilities	**(66,840)**	(69,264)
Non-current liabilities	**(30,951)**	(32,255)
Equity	**166,740**	171,395
Included in the above assets and liabilities:		
Cash and cash equivalents	**44,619**	34,401
Current financial liabilities (excluding trade and other payables)	**(8,924)**	(8,814)
Non-current financial liabilities (excluding deferred tax liabilities)	**(1,461)**	(2,250)
Revenue	**187,294**	148,807
Profit from continuing operations	**15,345**	17,456
Other comprehensive income	**–**	–
Total comprehensive income	**15,345**	17,456
Included in the above profit:		
Valuation (loss)/gain on investment property	**(2,061)**	3,149
Depreciation	**(2,983)**	(2,946)
Interest income	**14**	17
Interest expense	**(337)**	(293)
Income tax expense	**(4,289)**	(5,653)
Reconciled to the Group's interest in Zhuhai Jinming		
Gross amounts of Zhuhai Jinming's net assets	**166,740**	171,395
Group's effective interest	**50%**	50%
Carrying amount in the consolidated financial statements	**83,370**	85,697
Profit shared by the Group	**7,673**	8,728
Other comprehensive income shared by the Group	**–**	–
Total comprehensive income shared by the Group	**7,673**	8,728

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

The fair value of Zhuhai Jinming's investment properties as at 31 December 2022 and 2021 were determined on an open market value basis calculated by reference to net rental income allowing for reversionary income potential, which is categorised under Level 3 fair value measurements. The valuations at 31 December 2022 and 2021 were carried out by an independent firm of qualified valuers, Hong Kong Appraisal Advisory Limited, who amongst their staff have members of the Hong Kong Institute of Surveyors with recent experience in the location and category of properties being valued.

Information about Level 3 fair value measurements is as follows:

	Valuation techniques	Unobservable input	Range
Investment properties: – Commercial – PRC	Discounted cash flow	Risk-adjusted discount rate (i.e. market rental yield)	5.8% (2021: 5.8%)
		Expected market rental growth	5.8% (2021: 5.8%)
		Expected occupancy rate	100% (2021: 100%)

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

19. OTHER INTANGIBLE ASSETS

	Customer relationships (note a) RMB'000	Patents (note b) RMB'000	Total RMB'000
Cost			
At 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	104,727	28,700	133,427
Accumulated amortisation and impairment losses			
At 1 January 2021	77,455	28,700	106,155
Charge for the year	13,569	–	13,569
At 31 December 2021	91,024	28,700	119,724
At 1 January 2022	91,024	28,700	119,724
Charge for the year	13,569	–	13,569
At 31 December 2022	104,593	28,700	133,293
Carrying amount			
At 31 December 2022	134	–	134
At 31 December 2021	13,703	–	13,703

Notes:

(a) The customer relationships have a finite useful life and are amortised on a straight-line basis over 8 years.

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

Impairment test on the impairment of other intangible assets are disclosed in Note 16. Based on the results of the assessment, the recoverable amount of the CGU, to which these other intangible assets are allocated, has been assessed as being higher than its carrying amount. Accordingly, no impairment on the other intangible assets was considered necessary at 31 December 2022 (2021: Nil).

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

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Note	**2022** **RMB'000**	2021 RMB'000
Financial assets at fair value through other comprehensive income (non-recycling)			
– Unlisted Equity Investments, at fair value			
Non-current	(a) and (b)	**35,076**	37,490

Notes:

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

(b) Included in unlisted equity investments measured at fair value at 31 December 2022 and 2021 are:

(i) Investment in 5.99% interest in Sinopharm Healthcare Fund L. P. (the "**Fund**") which are designated as financial assets at fair value through other comprehensive income (non-recycling) and has no fixed maturity date or coupon rate. Pursuant to a partnership agreement signed on 24 June 2015, the Group has committed to invest US$5,000,000 (equivalent to approximately RMB33,930,000) to subscribe approximately 5.52% of the aggregate initial limited partners' interest of the Fund. The Fund holds approximately 9.99% of the total issued share capital of the Company. The fair value of the Group's interest in the Fund is determined taken into account the valuation performed by Hong Kong Appraisal Advisory Limited, an independent valuer not connected to the Group, based on the quoted prices of equity instruments for which the Fund invested in. During the year ended 31 December 2022, the decrease in fair value amounting to RMB7,578,000 has been recognised to other comprehensive income. As at 31 December 2022, the fair value of the investment is approximately HK$23,446,000 (equivalent to RMB20,712,000) (2021: HK$32,024,000 (equivalent to RMB26,126,000)). The Group does not intend to dispose it in the near future.

(ii) Investment in an unlisted equity security which is designated as fair value through other comprehensive income and has no fixed maturity date or coupon rate. At the reporting period end, the directors of the Company assessed and determined its fair value to be approximately RMB300,000 (2021: RMB300,000) by reference to its entitlement to the net assets of the investee.

(iii) Investment in 88.5% interest in 深圳國新南方三號投資合夥企業(有限合夥) which are designated as financial assets at fair value through other comprehensive income (non-recycling) and has no fixed maturity date or coupon rate. The fair value of the investment was also determined with reference to valuation performed by Hong Kong Appraisal Advisory Limited based on the median of the market multiples of market comparable companies. As at 31 December 2022, the fair value of the investment is approximately RMB11,064,000 (2021: RMB11,064,000). The Group does not intend to dispose it in the near future. The Group is neither the controlling entity nor the management of the investee.

(iv) Investment in 24.79% interest in 共青城國新南方六號創業投資合夥企業(有限合夥) which are designated as financial assets at fair value through other comprehensive income (non-recycling) and has no fixed maturity date or coupon rate. The investment was acquired during the year ended 31 December 2022 and the fair value of the investment at the end of the reporting period was considered to approximate the cost of acquisition as the purchase was completed near the year end date. As at 31 December 2022, the carrying amount of the investment is approximately RMB3,000,000 (2021: Nil). The Group does not intend to dispose it in the near future. The Group is neither the controlling entity nor the management of the investee.

21. INVENTORIES

	2022 **RMB'000**	2021 RMB'000
Raw materials	**16,335**	16,940
Work in progress	**3,093**	5,228
Finished goods	**65,336**	84,576
	84,764	106,744

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

	2022 **RMB'000**	2021 RMB'000
Carrying amount of inventories sold (note 7(c))	**680,074**	583,788
Write-down of inventories (note 7(c))	**514**	6,967

During the year ended 31 December 2022, write-down on those slow moving inventories of approximately RMB514,000 (2021: RMB6,967,000) were recognised, taking into account their remaining valid period due to expire shortly after the reporting period end.

22. TRADE AND OTHER RECEIVABLES

	2022 RMB'000	2021 RMB'000
Trade receivables	**79,818**	142,655
Less: Allowance for lifetime expected credit losses (note (c) below)	**(6,922)**	(6,185)
	72,896	136,470
Bills receivables (note (e) below & 31(a))	**110,279**	101,361
Other receivables (note 31(a))	**48,214**	37,599
Amounts due from related parties (note (f) below & note 35(b))	**398**	286
Amounts due from associates (note (f) below & note 35(b))	**4,855**	4,378
Amount due from a joint venture (note (f) below & note 35(b))	**2**	2
Financial assets at amortised cost	**236,644**	280,096
Prepayments	**13,801**	18,276
Trade and other deposits	**8,127**	5,805
Trade deposits to related parties (note 35(b))	**24,817**	30,329
	283,389	334,506

a) All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

b) Ageing analysis of trade receivables

The ageing analysis of trade receivables (net of allowance for lifetime expected credit losses) based on invoice date at the end of the reporting period is as follows:

	2022 RMB'000	2021 RMB'000
0-90 days	**65,774**	134,256
91-120 days	**5,108**	1,691
121-180 days	**1,881**	245
181-365 days	**133**	278
	72,896	136,470

The Group generally granted credit terms ranging from 30 days to 120 days to its customers. Further details on the Group's credit policy are set out in note 31(a).

The Group does not hold any collateral over these balances.

22. TRADE AND OTHER RECEIVABLES *(Continued)*

c) *Impairment of trade receivables*

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly.

Movements in the allowance for lifetime expected credit losses during the year are as follows:

	2022 RMB'000	2021 RMB'000
At 1 January	**6,185**	6,367
Impairment losses recognised during the year (note 7(c))	**1,043**	50
Bad debt written off during the year	**(306)**	(232)
At 31 December	**6,922**	6,185

As at 31 December 2022, allowance for lifetime expected credit losses on trade receivables amounting to RMB6,922,000 (2021: RMB6,185,000) were determined according to the expected credit loss rates, as further detailed in Note 31(a).

d) As at 31 December 2022, the trade receivables amounted to RMB32,610,000 (2021: RMB85,130,000) were pledged for a short-term bank loan of the Group amounted to RMB45,000,000 (2021: RMB45,000,000) (note 27).

e) Bills receivables represent the irrevocable bills with maturity within one year issued by the banks with high credit rating. The directors of the Company considered the default risk of these bank bills to be insignificant and no impairment was necessary at the reporting period end.

f) The balances with related parties, an associate and a joint venture are unsecured, interest free and repayable on demand. The directors of the Company considered that there has been no significant change in the credit risk of these related parties and default risk for the amounts due from them was considered to be low.

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Note	**2022** **RMB'000**	2021 RMB'000
Non-current			
Unlisted Equity Investments, at fair value	(a)	**6,792**	6,461
Current			
Listed securities			
– Chuangmei Pharmaceutical Co., Ltd. ("**Chuangmei**")	(b)	**14,012**	10,480

The above financial assets at 31 December 2022 and 2021 were upon initial recognition, designated by the Company at fair value through profit or loss.

(a) The Group have invested in 10% interest in Shenzhen Qianhai Industry Internet Co., Ltd.. The fair value of the investment was determined with reference to valuation performed by Hong Kong Appraisal Advisory Limited based on the median of the market multiples of market comparable companies after adjusting for lack of marketability and control discount. As at 31 December 2022, the fair value of the investment is approximately RMB6.8 million (2021: RMB6.5 million). The Group does not intend to dispose it in the near future.

(b) Chuangmei was incorporated in the PRC and the shares of which are listed on The Main Board of the Stock Exchange of Hong Kong Limited. As at 31 December 2022 and 2021, a total of 2,302,000 ordinary shares of Chuangmei were held by the Company, representing 2.13% of Chuangmei's total issued ordinary shares. As at 31 December 2022 and 2021, the fair value of investment in Chuangmei ordinary shares was determined with reference to the closing market price of its shares on that date.

24. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	2022 **RMB'000**	2021 RMB'000
Bank balances	**241,944**	187,702
Cash on hand	**211**	223
Cash and cash equivalents in the consolidated statement of cash flows and consolidated statement of financial position	**242,155**	187,925

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

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

Reconciliation of liabilities arising from financing activities

	Dividend payable to NCI RMB'000	Accrued interest RMB'000	Lease liabilities RMB'000	Bank loans RMB'000	Total liabilities from financing activities RMB'000
At 1 January 2022	**–**	**–**	**9,034**	**229,922**	**238,956**
Interest recognised in profit or loss	**–**	**11,477**	**815**	**–**	**12,292**
Dividends declared and payable to non–controlling interests	**45,900**	**–**	**–**	**–**	**45,900**
Changes from financing cash flows					
– Proceeds from new bank loans	**–**	**–**	**–**	**373,368**	**373,368**
– Repayment of bank loans	**–**	**–**	**–**	**(337,905)**	**(337,905)**
– Capital element of lease rental paid	**–**	**–**	**(10,253)**	**–**	**(10,253)**
– Dividends paid to non–controlling interests	**(45,900)**	**–**	**–**	**–**	**(45,900)**
Finance costs paid	**–**	**(11,477)**	**(815)**	**–**	**(12,292)**
Increase in lease liabilities from entering into new leases during the year	**–**	**–**	**20,545**	**–**	**20,545**
Exchange adjustments	**–**	**–**	**65**	**5,900**	**5,965**
At 31 December 2022	**–**	**–**	**19,391**	**271,285**	**290,676**
At 1 January 2021	–	–	9,239	296,538	305,777
Interest recognised in profit or loss	–	10,983	799	–	11,782
Dividends declared and approved to non–controlling interests	3,920	–	–	–	3,920
Changes from financing cash flows					
– Proceeds from new bank loans	–	–	–	124,680	124,680
– Repayment of bank loans	–	–	–	(187,182)	(187,182)
– Capital element of lease rentals paid	–	–	(8,152)	–	(8,187)
– Dividends paid to non–controlling interests	(3,920)	–	–	–	(3,920)
Finance costs paid	–	(10,983)	(799)	–	(11,782)
Increase in lease liabilities from entering into new leases during the year	–	–	7,982	–	7,982
Exchange adjustments	–	–	(35)	(4,114)	(4,149)
At 31 December 2021	–	–	9,034	229,922	238,956

Note: (a) Major non-cash transactions

During the year ended 31 December 2022, the Group entered into lease arrangements with a total present value of future lease payments at the inception of the leases of approximately RMB20,545,000 (2021: RMB7,982,000), which were included in the right-of-use assets.

25. CONTRACT LIABILITIES

	2022 RMB'000	2021 RMB'000
Trade deposits received from customers:		
– Security deposits received	**31,245**	38,391
– Receipts in advance	**26,293**	33,339
	57,538	71,730

Security deposits are received from the Group's distributors/customers as protection against non–performance (i.e. the default in payment for the goods transferring to customers) of the obligations by the distributors/customers under the relevant master distributorship agreements which were entered into between the Group and the relevant distributors/customers, which would be applied as settlement for future sales orders if the customers fail to pay on the specified date (after transferring the goods to the customers) under these orders, and thus classified as contract liabilities. Receipts in advance are collected from the distributors/customers of the Group when they placed the orders for purchase of goods from the Group. These security deposits and receipts in advance from the distributors/customers are not intended and regarded as a financing arrangement under the relevant master distributorship agreements.

Movements in contract liabilities	2022 RMB'000	2021 RMB'000
Balance at 1 January	**71,730**	56,496
Increase in contract liabilities as a result of receiving deposits from the customers during the year	**49,387**	64,838
Decrease in contract liabilities as a result of recognising revenue during the year that was included in contract liabilities at the beginning of the year	**(63,593)**	(49,584)
Exchange difference	**14**	(20)
Balance at 31 December	**57,538**	71,730

26. TRADE AND OTHER PAYABLES

	2022 RMB'000	2021 RMB'000
Trade payables (note (b))	**138,787**	106,098
Accruals	**6,652**	6,522
Other payables	**38,624**	32,252
Amounts due to related parties (note (c) and 35(b))	**3,536**	3,267
Financial liabilities measured at amortised cost	**187,599**	148,139
Value–added tax payable	**806**	4,351
	188,405	152,490

a) All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

b) Ageing analysis of trade payables

The ageing analysis of trade payables (presented based on invoice date) at the end of the reporting period is as follows:

	2022 RMB'000	2021 RMB'000
0–90 days	**134,188**	105,924
91–180 days	**4,599**	174
	138,787	106,098

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

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

27. BANK LOANS

At 31 December 2022, the bank loans were repayable as follows:

	2022 RMB'000	2021 RMB'000
Within 1 year or on demand	**271,285**	229,922

At 31 December 2022, the bank loans were as follows:

	2022 RMB'000	2021 RMB'000
Bank loans		
– secured (note c)	**271,285**	229,922
Total bank loans	**271,285**	229,922

a) All of the bank loans are carried at amortised cost.

b) The range of effective interest rates on the Group's bank loans are as follows:

	2022	2021
Effective interest rates:		
Fixed rate loans	**3.98%-6.78%**	2.16%–5.20%
Variable rate loans	**8.35%**	4.16%

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

	2022 RMB'000	2021 RMB'000
Investment properties (note 14)	**100,480**	107,600
Property, plant and equipment (note 13)	**17,709**	18,801
Right-of-use assets (note 13)	**97,174**	55,558
Trade receivables (note 22)	**32,610**	85,130

The Group's bank loans amounted to RMB97,086,000 as at 31 December 2022 (2021: RMB79,679,000) were secured by Group's investment property. The Group's bank loans amounted to RMB129,199,000 as at 31 December 2022 (2021: RMB105,243,000) were secured by Group's right-of-use assets and property, plant and equipment, the Group's 90% equity interests in Longde and/or guarantee by Mr. Zhao Li Sheng, the ultimate controlling party and director of the Group, and Ms. Chan Lok San, the director of the Group. The Group's bank loan amounted to RMB45,000,000 as at 31 December 2022 (2021: RMB45,000,000) was secured by Group's trade receivables.

27. BANK LOANS *(Continued)*

d) During the year ended 31 December 2022, the Group has obtained a new line of banking facilities amounting to RMB210,000,000 in aggregate for financing the construction of the Longde Health Industrial Park and any of the loans granted shall be repayable by the Group by instalments starting from the 3rd year after the grant date up to 2034. During the year ended 31 December 2022, bank loan amounting to approximately RMB58,526,000 has been drawn down under the banking facility line. As at 31 December 2022, the unutilised balance of the banking facility line amounted to approximately RMB151,474,000.

28. LEASE LIABILITIES

At 31 December 2022, the lease liabilities were payable as follows:

	2022	2021
	RMB'000	RMB'000
Within 1 year	**8,006**	7,584
After 1 year but within 2 years	**6,236**	1,421
After 2 years but within 5 years	**5,149**	29
	11,385	1,450
	19,391	9,034

29. CURRENT AND DEFERRED TAX

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

	2022 RMB'000	2021 RMB'000
At 1 January	**11,897**	6,623
Provision for the year		
– Hong Kong Profits Tax	**682**	166
– PRC Enterprise Income Tax	**26,060**	19,910
	26,742	20,076
Paid during the year	**(10,235)**	(14,802)
At 31 December	**16,507**	11,897

b) *Deferred tax liabilities recognised*

The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Withholding tax on distributable profits of a PRC subsidiary RMB'000	Amortisation of intangible assets RMB'000	Revaluation of investment properties RMB'000	Total RMB'000
At 1 January 2021	–	4,091	15,884	19,975
Credited to consolidated statement of profit or loss (note 8(a))	–	(2,035)	182	(1,853)
At 31 December 2021	–	2,056	16,066	18,122
At 1 January 2022	**–**	**2,056**	**16,066**	**18,122**
Credited to consolidated statement of profit or loss (note 8(a))	**1,128**	**(2,035)**	**(1,793)**	**(2,700)**
At 31 December 2022	**1,128**	**21**	**14,273**	**15,422**

c) *Deferred tax assets and liabilities not recognised*

Save as disclosed in note 8(c), there were no significant unrecognised deferred tax assets and liabilities of the Group and the Company as at 31 December 2022 and 2021.

30. SHARE CAPITAL AND RESERVES

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of the equity between the beginning and the end of the year are set out below:

	Share capital RMB'000 (note a)	Share premium RMB'000 (note b)	Exchange reserve RMB'000 (note e)	Capital reserve RMB'000 (note f)	Accumulated loss RMB'000	Total RMB'000
At 1 January 2022	**53,468**	**152,700**	**(2,425)**	**(12,555)**	**(40,033)**	**151,155**
Change in equity:						
Loss for the year	**–**	**–**	**–**	**–**	**(13,428)**	**(13,428)**
Other comprehensive income for the year	**–**	**–**	**(7,209)**	**–**	**–**	**(7,209)**
Total comprehensive (loss)/ income for the year	**–**	**–**	**(7,209)**	**–**	**(13,428)**	**(20,637)**
Transfer for distribution	**–**	**(13,292)**	**–**	**–**	**13,292**	**–**
Dividends (note 9(b))	**–**	**–**	**–**	**–**	**(13,292)**	**(13,292)**
Shares repurchased for the share award scheme (note 37)	**–**	**–**	**–**	**(5,037)**	**–**	**(5,037)**
Shares awarded under the share award scheme (note 37)	**–**	**–**	**–**	**731**	**–**	**731**
At 31 December 2022	**53,468**	**139,408**	**(9,634)**	**(16,861)**	**(53,461)**	**112,920**
At 1 January 2021	53,468	152,700	(4,723)	(12,555)	(21,871)	167,019
Change in equity:						
Loss for the year	–	–	–	–	(14,861)	(14,861)
Other comprehensive income for the year	–	–	2,298	–	–	2,298
Total comprehensive income/ (loss) for the year	–	–	2,298	–	(14,861)	(12,563)
Dividends (note 9)	–	–	–	–	(3,301)	(3,301)
At 31 December 2021	53,468	152,700	(2,425)	(12,555)	(40,033)	151,155

30. SHARE CAPITAL AND RESERVES *(Continued)*

a) *Share Capital*

	Number of shares '000	Amount HK$'000	Amount equivalent to RMB$'000
Authorised:			
Ordinary shares of HK$0.1 each			
At beginning and end of the year	10,000,000	1,000,000	877,900
Issued and fully paid:			
Ordinary shares of HK$0.1 each			
At beginning and end of the year	622,500	62,250	53,468

b) *Share premium*

The application of the share premium account of the Company is governed by the Companies Law of the Cayman Islands.

c) *Statutory and discretionary reserves*

The Group's PRC subsidiaries are required to transfer 10% of their net profits as determined in accordance with the PRC regulations to the statutory reserve until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders.

The transfer of net profits to the discretionary reserve of the Group's PRC subsidiaries is determined by the shareholders in general meetings in accordance with the articles of association and the PRC regulations.

The statutory and discretionary reserves are non–distributable. They can be used to reduce previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

30. SHARE CAPITAL AND RESERVES *(Continued)*

d) *Fair value reserve*

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

e) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of the Group's operations outside the Mainland China. The reserve is dealt with in accordance with the accounting policies set out in note 2(s).

f) *Capital reserve*

The portion of the grant date fair value of unexercised share options granted to employees of the Company that has been recognised in accordance with the accounting policies adopted for share–based payments in note 2(w) (ii), and costs of the Company's shares purchased for the share award scheme (note 37) less the fair value of share-based payments in respect of any of shares awarded to the employees which are vested at award date and recognised in accordance with the accounting policy as set out in note 2(w) (iii).

g) *Distributable reserves of the Company*

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

ii) At 31 December 2022, the aggregate amount of reserves available for distribution to owners of the Company was RMB85,947,000 (2021: RMB112,667,000). After the end of the reporting period, the directors proposed a final dividend of HK2.47 cents (equivalent to RMB2.18 cents) (2021: HK2.39 cent (equivalent to RMB1.95 cent)) per share amounting to RMB13,571,000 (2021: RMB12,138,000) (note 9(a)). The proposed final dividend has not been recognised as a liability at the end of the reporting period.

h) *Capital management*

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while structure regularly. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt.

The Group monitors its capital structure on the basis of net debt to equity ratio. The Group defines net debt as interest–bearing bank loans, less pledged bank deposits and cash and cash equivalents. Equity comprises all components of equity.

30. SHARE CAPITAL AND RESERVES *(Continued)*

i) *Capital management (Continued)*

The Group's net debt to equity ratio at 31 December 2022 and 2021 were as follows:

	31 December 2022 (Note) RMB'000	31 December 2021 (Note) RMB'000
Current liabilities		
Bank loans	**271,285**	229,922
Lease liabilities	**8,006**	7,584
Non-current liabilities		
Lease liabilities	**11,385**	1,450
Total debt	**290,676**	238,956
Less: Cash and bank balances (including pledged bank deposits)	**(242,155)**	(187,925)
Adjusted net debt	**48,521**	51,031
Total equity	**694,215**	720,634
Net debt to equity ratio	**6.99%**	7.08%

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements in either the current or prior years.

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

The Group's major financial instruments include cash and cash equivalents, financial assets at fair value through other comprehensive income, trade and other receivables and payables, financial assets at fair value through profit or loss, pledged bank deposits, other financial asset and liabilities, and bank loans. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, interest rate risk, currency risk and business risk. The policies on how to mitigate these risks are set out as below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Financial instruments by categories

Financial assets at the end of the reporting period are as follows:

	2022 **RMB'000**	2021 RMB'000
Trade receivables	**72,896**	136,470
Bills receivables	**110,279**	101,361
Other loan and other receivables (excluding deposits and prepayments and value added tax receivables)	**48,214**	37,599
Amounts due from related parties	**398**	286
Amounts due from associates	**4,855**	4,378
Amount due from a joint venture	**2**	2
Cash and cash equivalents	**242,155**	187,925
Financial assets at amortised cost	**478,799**	468,021
Financial assets at fair value through profit or loss	**20,804**	16,941
Financial assets at fair value through other comprehensive income	**35,076**	37,490
Financial assets at fair value	**55,880**	54,431

Financial liabilities at the end of the reporting period are as follows:

	2022 **RMB'000**	2021 RMB'000
Bank loans	**271,285**	229,922
Trade payables	**138,787**	106,098
Accruals and other payables (excluding value-added-tax payables, receipts in advance and warranty provision)	**45,276**	38,774
Amounts due to related parties	**3,536**	3,267
Lease liabilities	**19,391**	9,034
Financial liabilities at amortised cost	**478,275**	387,095

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

a) *Credit risk*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group.

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on year-end staging classification. The amounts presented are net carrying amounts after provision for ECLs for financial assets.

Maximum exposure and year-end staging as at 31 December 2022

	2022				
	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables (note (i))	–	–	–	72,896	72,896
Bills receivables (note (iii))	110,279	–	–	–	110,279
Other receivables (note (ii))	48,214	–	–	–	48,214
Amounts due from related parties (note (ii))	398	–	–	–	398
Amount due from an associate (note (ii))	4,855	–	–	–	4,855
Amount due from a joint venture (note (ii))	2	–	–	–	2
Cash and cash equivalents (note (iii))	242,155	–	–	–	242,155
	405,903	–	–	72,896	478,799

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

a) *Credit risk (Continued)*

Maximum exposure and year-end staging as at 31 December 2021

	2021				
	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables (note (i))	–	–	–	136,470	136,470
Bills receivables (note (iii))	101,361	–	–	–	101,361
Other receivables (note (ii))	37,599	–	–	–	37,599
Amounts due from related parties (note (ii))	286	–	–	–	286
Amounts due from associates (note (ii))	4,378	–	–	–	4,378
Amount due from a joint venture	2	–	–	–	2
Cash and cash equivalents (note (iii))	187,925	–	–	–	187,925
	331,551	–	–	136,470	468,021

(i) Trade receivables

The Group has established a credit risk management policy under which individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 120 days from the date of billing. Debtors with balances that are more than 4 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group has no significant concentration of credit risk in industries or countries in which the customers operate. Significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 21.8% (2021: 19.2%) and 60.6% (2021: 44.1%) of the total trade receivables were due from the Group's largest debtor and the five largest debtors respectively.

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

a) Credit risk *(Continued)*

(i) Trade receivables (Continued)

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

For trade receivables, the Group applies the simplified approach for measuring the lifetime ECLs on individual basis if the amounts are significant, or collective basis using the provision matrix, as disclosed below.

The ageing analysis of trade receivables (net of allowance for doubtful debts) that are neither individually nor collectively considered to be impaired is as follows:

	As at 31 December 2022				
	Lifetime ECL %	Gross carrying amount RMB'000	Lifetime ECL RMB'000	Net carrying amount RMB'000	Credit impaired Yes/No
Not past due	**0.01%**	**53,934**	**(7)**	**53,927**	**No**
Past due:					
0-90 days	**0.17%**	**17,894**	**(31)**	**17,863**	**No**
91-180 days	**43.55%**	**1,729**	**(753)**	**976**	**No**
181-365 days	**34.03%**	**197**	**(67)**	**130**	**No**
Over 365 days	**100%**	**6,064**	**(6,064)**	**–**	**Yes**
		79,818	**(6,922)**	**72,896**	

	As at 31 December 2021				
	Lifetime ECL %	Gross carrying amount RMB'000	Lifetime ECL RMB'000	Net carrying amount RMB'000	Credit impaired Yes/NO
Not past due	0.33%	120,276	(400)	119,876	No
Past due:					
0-90 days	1.22%	16,420	(200)	16,220	No
91-180 days	12.21%	246	(30)	216	No
181-365 days	50.46%	318	(160)	158	No
Over 365 days	100%	5,395	(5,395)	–	Yes
		142,655	(6,185)	136,470	

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

a) *Credit risk (Continued)*

(i) Trade receivables (Continued)

Expected loss rates are based on actual loss experience over the past 4 years as adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, patterns of settlement history of the customers, current conditions at the end of the reporting period and the forward looking information such as forecast future economic conditions over the expected lives of the receivables.

Trade receivables that were neither past due nor impaired relate to a wide range of customers for which there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of individual customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the carrying balances are still considered fully recoverable. The Group does not hold any collateral over these carrying balances.

(ii) In respect of other receivables, amounts due from related parties, amounts due from associates and amount due from a joint venture, for which there was no significant increase in credit risk as at 31 December 2022 and 2021 by reference to the information available on the financial position of the respective debtors, past payment history, current conditions and other forward looking factors. No allowance for ECLs of these receivables was required as at 31 December 2022 and 2021, as the probability of default for these receivables is considered as low.

(iii) The Group's cash and cash equivalents are placed with and bills receivables with maturity within one year are issued by creditworthy banks with high credit ratings and the Group has limited exposure to any of these banks and no allowance for ECLs on them at the reporting period end.

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

b) *Liquidity risk*

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to board approval. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following liquidity risk tables set out the remaining contractual maturities at the end of the reporting period of the Group's non–derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current rates at the end of the reporting period) and the earliest date the Group is required to pay:

	Within 1 year or on demand RMB'000	After 1 year but within 2 years RMB'000	After 2 years but within 5 years RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amount RMB'000
2022					
Non–derivative financial liabilities					
Trade payables	**138,787**	**–**	**–**	**138,787**	**138,787**
Accruals	**6,652**	**–**	**–**	**6,652**	**6,652**
Other payables (excluding value-added-tax payables)	**38,624**	**–**	**–**	**38,624**	**38,624**
Amounts due to related parties	**3,536**	**–**	**–**	**3,536**	**3,536**
Bank loans	**302,078**	**–**	**–**	**302,078**	**271,285**
Lease liabilities	**8,732**	**6,729**	**5,400**	**20,861**	**19,391**
	498,409	**6,729**	**5,400**	**510,538**	**478,275**
2021					
Non–derivative financial liabilities					
Trade payables	106,098	–	–	106,098	106,098
Accruals	6,522	–	–	6,522	6,522
Other payables (excluding value-added-tax payables)	32,252	–	–	32,252	32,252
Amounts due to related parties	3,267	–	–	3,267	3,267
Bank loans	239,983	–	–	239,983	229,922
Lease liabilities	7,881	1,538	32	9,451	9,034
	396,003	1,538	32	397,573	387,095

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

c) *Interest rate risk*

The Group's interest rate risk arises primarily from borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts.

i) *Interest rate risk profile*

The following table, as reported to the management of the Group, details the interest rate risk profile of the Group's lease liabilities, bank loans, bank balances and deposits at the end of the reporting period:

	2022		2021	
	Effective interest rates %	**RMB'000**	Effective interest rates %	RMB'000
Fixed rate borrowings:				
Lease liabilities	**4.30%-6.00%**	**19,391**	4.30%-6.00%	9,034
Bank loans	**3.98%-6.78%**	**200,613**	2.16%-5.20%	124,679
		220,004		133,713
Variable rate borrowings:				
Bank loans	**8.35%**	**70,672**	4.16%	105,243
Total borrowings		**290,676**		238,956
Net fixed rate borrowings as a percentage of total borrowings		**75.7%**		56.0%
Variable rate bank balances		**241,944**		187,702

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

c) *Interest rate risk (Continued)*

ii) *Sensitivity analysis*

Fixed rate borrowings including fixed rate bank loans and lease liabilities are insensitive to any change in interest rates. A change in interest rates at the end of the reporting period would not affect profit or loss.

At 31 December 2022, it is estimated that a general increase/decrease of 100 basis points in interest rates for variable rate bank loans and bank balances, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately RMB1,713,000 (2021: RMB825,000). Other components of consolidated equity would not change in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for non–derivative financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until end of next annual reporting period. The analysis is performed on the same basis for the 2021.

d) *Currency risk*

The Group is exposed to currency risk primarily through purchases which give rise to trade and other payables, cash and cash equivalents, trade and other receivables and bank loans. The carrying values of these financial assets and liabilities are denominated in foreign currencies other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily US$, HK$ and Euro and RMB to the extent that they are not the functional currency of the operations to which the transactions and balances related. The management monitors foreign exchange exposure by closely reviewing the movement of the foreign currency rate and consider hedging significant foreign currency exposure should the need arise.

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

d) *Currency risk (Continued)*

i) *Exposure to currency risk*

	2022	2021
	RMB'000	RMB'000
Assets/(liabilities)		
Cash and cash equivalents		
US$	**88,043**	122,151
HK$	**4,699**	12,206
RMB	**28,295**	381
Euro	**1,989**	16,653
Trade and other receivables		
US$	**35,314**	44,666
Trade and other payables		
US$	**(16,769)**	(5,272)
HK$	**(105,227)**	(78,027)
NOK	**(259)**	(1,339)
Contract liabilities		
US$	**(25,749)**	(25,913)
Bank loans		
HK$	**(67,086)**	(59,680)
Total assets		
US$	**123,357**	166,817
HK$	**4,699**	12,206
RMB	**28,295**	381
Euro	**1,989**	16,653
Total liabilities		
US$	**(42,518)**	(31,185)
HK$	**(172,313)**	(137,707)
NOK	**(259)**	(1,339)

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

d) Currency risk *(Continued)*

ii) Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of the reporting period.

	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
At 31 December 2022			
US$	**5%**	**4,042**	**–**
	(5%)	**(4,042)**	**–**
HK$	**5%**	**(8,381)**	**–**
	(5%)	**8,381**	**–**
RMB	**5%**	**1,415**	**–**
	(5%)	**(1,415)**	**–**
Euro	**5%**	**99**	**–**
	(5%)	**(99)**	**–**
NOK	**5%**	**(13)**	**–**
	(5%)	**13**	**–**
At 31 December 2021			
US$	5%	6,782	–
	(5%)	(6,782)	–
HK$	5%	(6,275)	–
	(5%)	6,275	–
RMB	5%	19	–
	(5%)	(19)	–
Euro	5%	833	–
	(5%)	(833)	–
NOK	5%	(67)	–
	(5%)	67	–

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

d) *Currency risk (Continued)*

ii) *Sensitivity analysis (Continued)*

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the group entities' profit or loss after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

e) *Business risk*

The Group has a certain concentration of business risk as 46.5% (2021: 41.3%) of its total turnover during the year from a principal product, Nin Jiom Pei Pa Koa (京都念慈菴蜜煉川貝枇杷膏), which was purchased from a sole supplier that is the designated distributor of the manufacturer of Nin Jiom Pei Pa Koa. In November 2013, the Group entered into a four–year period distribution agreement with the manufacturer and the supplier of Nin Jiom Pei Pa Koa, pursuant to which the Group is entitled the non–exclusive distribution right to sell Nin Jiom Pei Pa Koa in certain provinces in the PRC and is granted the credit terms of 60 days. The distribution agreement was renewed in April 2017 for a four–year period, which was further renewed in 2021 to a period up to 26 January 2026. If there is any change in consumer taste and demand of the product, or the supplier does not further renew the purchase agreement, the Group's turnover and profitability will be adversely affected.

f) *Fair value*

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities, recorded at amortised cost, in the consolidated financial statements approximate their fair values.

Fair value hierarchy

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

- Level 1 valuations: Fair value measured using only Level 1 inputs, that is,unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: Fair value measured using Level 2 inputs, that is, observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

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

f) *Fair value (Continued)*

Fair value hierarchy (Continued)

The Group uses independent valuers to perform valuations of financial instruments which are categorised into Level 2 and Level 3 of the fair value hierarchy. Valuation reports with analysis of changes in fair value measurement are prepared by the independent valuer at each interim and annual reporting date, and are reviewed and approved by the financial controller. Discussion of the valuation process and results with the financial controller is held twice a year to coincide with the reporting dates.

		Fair value measurements as at 31 December 2022 categorised into				Fair value measurements as at 31 December 2021 categorised into		
	Fair value at 31 December 2022	**Level 1**	**Level 2**	**Level 3**	Fair value at 31 December 2021	Level 1	Level 2	Level 3
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurements								
Assets:								
Financial assets at fair value through other comprehensive income (non–recycling)								
– Unlisted equity investments	**35,076**	**–**	**20,712**	**14,364**	37,490	–	26,126	11,364
Financial assets at fair value through profit or loss								
– Unlisted equity investments	**6,792**	**–**	**–**	**6,792**	6,461	–	–	6,461
– Listed securities	**14,012**	**14,012**	**–**	**–**	10,480	10,480	–	–

During the years ended 31 December 2022 and 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.

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

f) Fair value *(Continued)*

Fair value hierarchy (Continued)

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

Note:

1. The valuation techniques and key inputs used of unlisted equity investments for level 3 fair value measurement at the end of the reporting period are as follows:

2022	**Valuation technique**	**Significant unobservable inputs**	**Range**
Financial assets at fair value through other comprehensive income			
– unlisted equity investment	Net asset value	N/A	N/A
	Asset–based Approach	Industry growth rate	-8.76%
Financial assets at fair value through profit or loss			
– unlisted equity investment		Discount for lack of control	21.26%
	Asset–based Approach	Discount for lack of marketability	20.60%

2021	**Valuation technique**	**Significant unobservable inputs**	**Range**
Financial assets at fair value through other comprehensive income	Net asset value	N/A	N/A
– unlisted equity investment	Asset–based Approach	Industry growth rate	14.42%
Financial assets at fair value through profit or loss			
– unlisted equity investment		Discount for lack of control	21.26%
	Asset–based Approach	Discount for lack of marketability	20.20%

The increase in discount for lack of control and discount for lack of marketability would result in decrease in fair value measurement of unlisted equity investments. No sensitivity analysis is disclosed for the impact of changes in discount for lack of control and discount for lack of marketability as the exposure is insignificant to the Group.

2. The valuation techniques and key inputs used of unlisted equity investments for level 2 fair value measurement are as follows:

   The fair value of unlisted equity investments is assessed to approximate the share of net asset values of the investees, which take into consideration the fair value of the assets held by the investees.

3. For fair value of other financial instruments for level 2 and level 3, the valuation techniques and key inputs used included discount for lack of marketability and change in share price of comparable companies. No sensitivity analysis is disclosed for the impact of changes as the management considers that the exposure is insignificant to the Group.

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

f) Fair value *(Continued)*

Fair value hierarchy (Continued)

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

The following table presents the changes in level 3 instruments for the years ended 31 December 2022 and 31 December 2021.

	Financial assets at fair value through other comprehensive income Unlisted equity investments RMB'000	Financial assets at fair value through profit or loss Unlisted equity investments RMB'000	Total RMB'000
At 1 January 2021	11,458	6,257	17,715
Fair value gain recognised in profit or loss	–	204	204
Fair value gain recognised in other comprehensive income	–	–	–
Disposal of investment	(94)	–	(94)
At 31 December 2021	11,364	6,461	17,825
At 1 January 2022	**11,364**	**6,461**	**17,825**
Addition	**3,000**	**–**	**3,000**
Fair value gain recognised in profit or loss	**–**	**331**	**331**
At 31 December 2022	**14,364**	**6,792**	**21,156**

32. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set forth in note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

a) *Depreciation and amortisation*

Property, plant and equipment and right-of-use assets are depreciated or amortised on a straight–line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. Intangible assets are amortised on a straight–line basis over the estimated useful lives. Both the period and method of amortisation are reviewed annually. The depreciation and amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

b) *Impairment of assets*

If circumstances indicate that carrying value of the Group's property, plant and equipment, deposit paid for property, plant and equipment, right-of-use assets, goodwill (also see (i) below) and other intangible assets may not be recoverable, the assets may be considered impaired, and an impairment loss may be recognised in profit or loss. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs of disposal and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volumes, sales revenue and amount of operating costs.

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

c) *Valuation of investment properties*

Investment properties are included in the consolidated statement of financial position at their open market value, which is assessed annually by independent qualified valuers, after taking into consideration on an open market value basis calculated by reference to recent market transactions in comparable properties or the net rental income allowing for reversionary income potential.

The assumptions adopted in the property valuations are based on the market conditions existing at the end of the reporting period, with reference to current market sales prices and the appropriate capitalisation rate.

d) *Provision for ECLs on trade receivables*

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

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

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

e) *Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the historical experience of selling merchandise of similar nature. It could change significantly as a result of changes in customer taste or competitor actions. The Group reassesses these estimates at the end of the reporting period.

f) *PRC corporate income tax*

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

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

g) Investments in subsidiaries

Investments in subsidiaries are carried at cost less any impairment. Judgement is required when determining whether an impairment existed. In making this judgement, historical data and factors such as industry, sector performance and financial information regarding the subsidiaries are taken into account.

h) Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

i) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash–generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash–generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2022 was RMB90,693,000 (2021: RMB90,693,000). Further details of impairment testing of goodwill are disclosed in note 16 to the financial statements.

j) Leases – Estimating the incremental borrowing rate

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

k) Functional currency of the Company

The Company is carrying out its operating activities and making management decisions in Hong Kong dollar, amongst others, on raising finance in Hong Kong dollars and has a significant degree of autonomy from its subsidiaries in the Mainland China in the way its business is managed. Hong Kong dollar is the currency of the transactions and events of the Company for which the Company primarily receives and expends. In the opinion of the Directors of the Company, its functional currency is Hong Kong dollar.

33. COMMITMENTS

Capital Commitments

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

	2022 **RMB'000**	2021 RMB'000
Property, plant and equipment:		
Contracted but not provided	**96,358**	–
Authorised but not contracted for	**136,427**	325,069
	232,785	325,069

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

34. EMPLOYEE RETIREMENT BENEFITS

The Group participates in a state–managed scheme. The employees of the Group's subsidiaries in the PRC are members of a state–managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

Defined contribution retirement plan

The Group also operates a Mandatory Provident Fund Scheme ("**the MPF scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000 (2021: HK$30,000). Contributions to the plan vest immediately.

The total expense recognised in profit or loss of RMB11,220,000 (2021: RMB10,259,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

35. RELATED PARTY TRANSACTIONS

a) During the year, the directors are of the opinion that the following companies and parties are related parties of the Group:

Name of related parties	Relationship
Mr. Zhao Li Sheng ("**Mr. Zhao**")	The Company's director and the ultimate controlling party of the Group. Mr. Zhao is the sole shareholder of the ultimate holding company of the Company.
Ms. Chan Lok San ("**Ms. Chan**")	The Company's director and the wife of Mr. Zhao
Morning Gold Medicine Company Limited ("**Morning Gold**")	Wholly owned by both Mr. Zhao and Ms. Chan
Yuen Tai Pharmaceuticals Limited ("**Yuen Tai**")	Subsidiary of Morning Gold
深圳金活利生藥業有限公司 Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited ("**SZ Kingworld Lifeshine**")	Subsidiary of Morning Gold
深圳市金活實業有限公司 Shenzhen Kingworld Industry Company Limited ("**SZ Industry**")	Indirectly wholly owned by both Mr. Zhao and Ms. Chan
Golden Morning International Limited	Shareholder of Kingworld Medicines Group Limited
Golden Land International Limited	Shareholder of Kingworld Medicines Group Limited
Kingworld Bright Future Limited	Common director of Kingworld Medicines Group Limited
Kingkok International Enterprises Limited	Wholly owned by both Mr. Zhao and Ms. Chan
Ming VitaMed Enterprise III Limited ("**Ming VitaMed**")	Associate of the Group
佛慈藥廠有限公司Fat Chi Medicine Company Limited ("**Fat Chi**")	Associate of the Group
珠海市金明醫藥有限公司 Zhuhai City Jinming Medicine Company Limited ("**Zhuhai Jinming**")	Joint venture of the Group

Notes:

i) The English names of the above PRC incorporated entities are for identification purpose only.

35. RELATED PARTY TRANSACTIONS *(Continued)*

b) *Related party transactions and balances*

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Note	**2022 RMB'000**	2021 RMB'000
Purchases of goods			
SZ Kingworld Lifeshine			
– pharmaceutical and healthcare products	(i)	**31,627**	28,645
– medical masks		**332**	354
		31,959	28,999
Yuen Tai	(i)	**97**	—
		32,056	28,999
Rental expenses			
SZ Industry	(i)	**235**	235
		235	235
Advertising expenses			
SZ Industry	(i)	**138**	138
		138	138
Interest income from a shareholder loan			
Ming VitaMed (note 6)	(iv)	**(110)**	(108)
		(110)	(108)

	Note	**2022 RMB'000**	2021 RMB'000
Trade deposits included in trade and other receivables			
SZ Kingworld Lifeshine (note 22)		**24,342**	30,300
Yuen Tai (note 22)	(ii)	**529**	29
		24,871	30,329
Amount due from/(to) related parties			
Kingkok International Enterprises Limited (note 22)	(iii)	**398**	286
Golden Morning International Limited (note 26)	(iii)	**(642)**	(593)
Golden Land International Limited (note 26)	(iii)	**(2,894)**	(2,674)
SZ Kingworld Lifeshine (note 26)	(iii)	**–**	–
Amounts due from associates (note 22)			
Ming VitaMed	(iv)	**4,678**	4,215
Fat Chi	(iii)	**177**	163
Amount due from a joint venture (note 22)	(iii)	**2**	2

35. RELATED PARTY TRANSACTIONS *(Continued)*

b) Related party transactions and balances (Continued)

Notes:

i) The transactions were based on the terms mutually agreed between the Group and the respective related parties. In the opinion of the Company's directors, these related parties transactions were conducted in the ordinary course of business.

ii) The amounts are unsecured and interest–free and will be set–off against the Group's purchases from the respective related parties in next twelve months after the end of the reporting period.

iii) The amount is unsecured, interest–free and repayable on demand.

iv) The amount includes shareholders' loan of US$600,000 (equivalent to RMB4.2 million) (2021: US$600,000 (equivalent to RMB3.8 million)) to Ming VitaMed Enterprise III Limited in which the Group held 24% interest as further detailed in note 17 and loan interest receivables. The loan is interest bearing with 2.75% per annum. The amount is unsecured and repayable on demand. The directors of the Company considered that no impairment on the amount is necessary, taking into account of the financial position of Ming VitaMed Enterprise III Limited as at 31 December 2022.

c) Key management personnel remuneration:

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 11, certain of the highest paid employees as disclosed in note 12, and the senior management of the Group is as follows:

	2022 **RMB'000**	2021 RMB'000
Short–term employee benefits	**6,066**	6,102
Post employment benefits	**277**	137
	6,343	6,239

36. IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

The directors consider the immediate holding company of the Group as at 31 December 2022 to be Golden Land International Limited, a company incorporated in the BVI which does not produce financial statements available for public use, and the ultimate controlling party of the Group as at 31 December 2022 to be Zhao Li Sheng, an executive director of the Company.

37. EQUITY–SETTLED SHARE–BASED TRANSACTIONS

Share option schemes

The Company has a share option scheme which was adopted on 5 November 2010 whereby the directors of the Company are authorised, at their discretion, to grant options to subscribe for shares in the Company to eligible participants ("**Eligible Participants**"), including directors, eligible employees, consultants, suppliers, customers, and shareholders of any member of the Group or associated company or any of their respective associates, who contributed to the success of the Group. The share option scheme shall be valid and effective for a period of ten years ending on 4 November 2021, after which no further options will be granted. During the years ended and at 31 December 2022 and 2021, there was no outstanding share option granted under the share option scheme.

Share award scheme

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

Up to 31 December 2021 and during the year ended 31 December 2022, the trustee has purchased in aggregate 16,000,000 and 8,484,000 shares of the Company, respectively. The shares purchased during the year ended 31 December 2022 were acquired at a total cost (including related transaction costs) of approximately RMB5,037,000, which had been deducted from equity. During the year ended 31 December 2022, 1,556,000 shares were resolved to be granted, among which 1,544,000 shares were distributed to the eligible employees, which were vested at the grant date, and the fair value of the shares awarded at the grant date amounted to approximately RMB731,000 (2021: Nil) based on the closing market price of the Company's shares at the grant date, which were recognised as share-based payments in the consolidated profit or loss for the year. At 31 December 2022, the trustee held 22,940,000 (2021: 16,000,000) shares of the Company purchased but not yet awarded under the share award scheme.

38. COMPANY–LEVEL STATEMENT OF FINANCIAL POSITION

	2022 RMB'000	2021 RMB'000
Non–current assets		
Investments in subsidiaries	**231,733**	231,733
Property, plant and equipment	**7,867**	7,547
Right-of-use assets	**194**	417
	239,794	239,697
Current assets		
Other receivables	**3,253**	2,205
Amount due from subsidiaries	**281,433**	278,258
Cash and cash equivalents	**2,823**	2,302
	287,509	282,765
Current liabilities		
Other payables	**1,554**	1,356
Amounts due to subsidiaries	**341,862**	264,316
Bank loans	**70,672**	105,243
Lease liabilities	**146**	244
	414,234	371,159
Net current liabilities	**(126,725)**	(88,394)
Total assets less current liabilities	**113,069**	151,303
Non–current liabilities		
Lease liabilities	**149**	148
NET ASSETS	**112,920**	151,155
CAPITAL AND RESERVES		
Share capital	**53,468**	53,468
Reserves	**59,452**	97,687
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	**112,920**	151,155

39. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2022

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, Insurance contracts, which are not yet effective for the year ended 31 December 2022 and which have not been adopted in these consolidated financial statements. These developments include the following which may be relevant to the Group.

HKFRS 17	Insurance Contracts and the related Amendments[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 16	Lease Liability in a Sales and Leaseback[2]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 and Non-current Liabilities with Covenants[2]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to HKAS 8	Definition of Accounting Estimates[1]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after 1 January 2024
3 Effective for annual periods beginning on or after a date to be determined

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

40. COMPARATIVE FIGURES

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

Financial Summary

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

	For the year ended 31 December				
	2022	2021	2020	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results					
Revenue	**957,701**	847,386	745,383	977,928	1,078,843
Profit before taxation	**67,584**	69,434	70,891	69,809	70,380
Income tax	**(24,042)**	(18,223)	(20,002)	(19,538)	(18,621)
Profit for the year	**43,542**	51,211	50,889	50,271	51,759
Attributable to:					
Owners of the Company	**22,741**	30,319	11,716	43,427	41,005

	As at 31 December				
	2022	2021	2020	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Asset and Liabilities					
Total assets	**1,263,363**	1,213,829	1,255,372	1,280,366	1,296,715
Total liabilities	**569,148**	493,195	576,862	607,176	658,485
Equity attributable to owners of the Company	**615,577**	616,897	591,803	603,343	565,792
Non-controlling interests	**78,638**	103,737	86,707	69,847	72,438

Particulars of Key Properties

Address	Use	Lease Term	Approximate gross floor area	Group's interest
Unit 801-804 and 901-904, Block A, Majialong Innovation Building, Daxin Road, Nanshan District, Shenzhen, Guangdong Province, the PRC	Commercial	Medium-term lease	5,631sqm	100%
A parcel of land, No. 6 Cuilong Road, Baolong Industrial City, Longgang District, Shenzhen, Guangdong Province, the PRC	Commercial	Medium-term lease	10,000sqm	90%
Part of the basement of Kingworld Department Store, Jiefang Road, Luohu District, Shenzhen, Guangdong Province, the PRC	Retail	Medium-term lease	956sqm	100%
Unit B on Level 9 West, Yong Xing Office Building, No. 22, Lane 376 Yan'an Road West, Jing'an District, Shanghai, the PRC	Commercial	Medium-term lease	204sqm	100%
Flat F on Level 21 and Flat E on Level 7, Weifu Building, Tai Bai Road, Luohu District, Shenzhen, Guangdong Province, the PRC	Residential	Medium-term lease	73sqm/ 100sqm	55%
The building erected on Lot No. 3-1-2, Qianshan Industrial Zone, Xiangzhou District, Zhuhai, Guangdong Province, the PRC	Commercial	Medium-term lease	26,197sqm	50%
Unit 613, 6th Floor Goodluck Industrial Centre 808 Lai Chi Kok Road Kowloon Hong Kong	Industrial	Long-term lease	149sqm	100%