KINGWORLD MEDICINES GROUP LIMITED

金活醫藥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 01110)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

RESULTS HIGHLIGHTS

- Revenue increased by 4.6% to approximately RMB1,078,843,000 (2017: RMB1,031,488,000).
- Gross profit decreased by 3.6% to approximately RMB311,497,000 (2017: RMB323,171,000).
- Gross profit margin decreased by 2.4% points to 28.9% (2017: 31.3%).
- Profit before taxation decreased by 15.5% to approximately RMB70,380,000 (2017: RMB83,327,000).
- Profit for the year ended 31 December 2018 decreased by 22.2% to approximately RMB51,759,000 (2017: RMB66,532,000).
- Profit attributable to owners of the Company decreased by 19.7% to approximately RMB41,005,000 (2017: RMB51,060,000).
- Basic earnings per share decreased by 19.5% to approximately RMB6.60 cents (2017: RMB8.20 cents).
- The Board recommended the distribution of a final dividend of HK2.25 cents per share for the year ended 31 December 2018 (2017: HK3.43 cents), subject to the approval of the shareholders of the Company (the "Shareholders") at the forthcoming annual general meeting to be held on Monday, 27 May 2019.

The board (the "**Board**") of directors (the "**Directors**") of Kingworld Medicines Group Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2018 (the "**Year Under Review**") and selected explanatory notes, together with the comparative figures of the corresponding year in 2017 as follows:

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

	Note	**2018**	2017
		RMB'000	RMB'000
Revenue	4	**1,078,843**	1,031,488
Cost of sales		**(767,346)**	(708,317)
Gross profit		**311,497**	323,171
Valuation gain on investment properties		**10,000**	4,470
Other revenue, income and other net loss	6	**17,609**	38,311
Selling and distribution costs		**(155,073)**	(162,105)
Administrative expenses		**(96,356)**	(89,313)
Amortisation of intangible assets		**(18,831)**	(18,831)
Profit from operations		**68,846**	95,703
Finance costs	7 (a)	**(17,003)**	(26,210)
Share of profit of a joint venture		**19,512**	13,834
Share of loss of an associate		**(975)**	—
Profit before taxation	7	**70,380**	83,327
Income tax	8	**(18,621)**	(16,795)
Profit for the year		**51,759**	66,532
Attributable to:			
Owners of the Company		**41,005**	51,060
Non-controlling interests		**10,754**	15,472
Profit for the year		**51,759**	66,532
Earnings per share	10		
Basic (RMB cents)		**6.60**	8.20
Diluted (RMB cents)		**6.60**	8.20

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	2018	2017
	RMB'000	RMB'000
Profit for the year	**51,759**	66,532
Other comprehensive income/(loss) for the year		
Items that will not be reclassified to profit or loss:		
Fair value change on financial assets	**(7,900)**	—
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside the PRC	**(1,956)**	1,561
Financial assets at fair value through other comprehensive income:		
Reclassification adjustments for gain on disposal included in the consolidated statement of profit or loss	**(81)**	—
Available-for-sale investments:		
Change in fair value	**—**	615
Reclassification adjustments for gain on disposal included in the consolidated statement of profit or loss	**—**	(5,241)
	(9,937)	(3,065)
Total comprehensive income for the year (net of tax)	**41,822**	63,467
Attributable to:		
Owners of the Company	**31,104**	48,273
Non-controlling interests	**10,718**	15,194
Total comprehensive income for the year	**41,822**	63,467

Consolidated Statement of Financial Position

At 31 December 2018

	Note	**2018**	2017
		RMB'000	RMB'000
Non-current assets			
Leasehold land held for own use under operating leases		**91,139**	92,198
Property, plant and equipment		**59,984**	57,483
Investment properties		**122,600**	112,600
Interest in a joint venture		**62,579**	43,067
Interset in associates		**4,026**	–
Goodwill		**90,693**	90,693
Intangible assets		**59,672**	78,503
Financial assets at fair value through profit or loss		**5,549**	4,775
Financial assets at fair value through other comprehensive income		**24,190**	–
Available-for-sale financial assets		**–**	14,141
		520,432	493,460
Current assets			
Inventories		**182,064**	148,881
Trade and other receivables	11	**416,782**	412,874
Available-for-sale financial assets		**–**	25,783
Financial assets at fair value through profit or loss		**15,135**	17,895
Pledged bank deposits		**1,642**	750
Cash and cash equivalents		**160,660**	232,755
		776,283	838,938
Current liabilities			
Contract liabilities	12	**72,718**	–
Trade and other payables	13	**219,711**	242,114
Bank loans		**336,676**	412,980
Tax payable		**4,123**	10,028
		633,228	665,122
Net current assets		**143,055**	173,816
Total assets less current liabilities		**663,487**	667,276
Non-current liabilities			
Deferred tax liabilities		**25,257**	25,641
		25,257	25,641
NET ASSETS		**638,230**	641,635

	2018	2017
	RMB'000	RMB'000
CAPITAL AND RESERVES		
Share capital	**53,468**	53,468
Reserves	**512,324**	499,626
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	**565,792**	553,094
NON-CONTROLLING INTERESTS	**72,438**	88,541
TOTAL EQUITY	**638,230**	641,635

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018
(Expressed in Renminbi)

1. GENERAL INFORMATION

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

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

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

b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries and the Group's interest 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;

— derivative financial instruments;

— financial instruments classified as financial assets at fair value through other compreheasive income; and

— financial assets at fair value through profit or loss.

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.

c) 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.

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

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(i) HKFRS 9, *Financial instruments*

(ii) HKFRS 15, *Revenue from contracts with customers*

(iii) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

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

Except for the application of HKFRS 9 and HKFRS 15, the application of the new and amendments to HKFRSs in the current year are not expected to have material impact on the Group's financial performance and positions for the current and prior years and on the disclosures set out in these consolidated financial statements.

(i) HKFRS 9, Financial instruments

HKFRS 9 replaces HKAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

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

a. Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017	**Reclassification**	**HKFRS 9 carrying amount at 1 January 2018**
	RMB'000	RMB'000	RMB'000
Financial assets measured at FVOCI (non-recycling) (non-current)			
Equity securities (note (i))	—	14,141	14,141
Financial assets classified as available-for-sale (non-current) under HKAS 39 (note (i))	14,141	(14,141)	—
Financial assets measured at FVOCI (recycling) (current)			
Bank wealth management products (note (ii))	—	25,783	25,783
Financial assets classified as available-for-sale (current) under HKAS 39 (note (ii))	25,783	(25,783)	—

Notes:

(i) Under HKAS 39, equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are eligible for and designated at FVOCI under HKFRS 9 by the Group. At 1 January 2018, the Group designated its investments in equity securities at FVOCI, as the investment is held for strategic purposes.

(ii) Under HKAS 39, these investments in bank wealth management products were classified as available-for-sale financial assets. At 1 January 2018, the Group reclassified its investments in bank wealth management products at FVOCI under the requirements of HKFRS 9.

The measurement categories for all financial liabilities remain the same.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

b. Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the following items:

— financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables);

— contract assets as defined in HKFRS 15; and

— debt securities measured at FVOCI (recycling);

c. Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

— Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

— The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):

  — the determination of the business model within which a financial asset is held; and

  — the designation of certain investments in equity instruments not held for trading to be classified as at FVOCI (non-recycling).

— If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(ii) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKASs 11 and 18.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

a. Timing of revenue recognition

Previously, revenue arising from construction contracts and provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract, which is taken as single point in time and the customers have taken acceptance of the goods transferred by the Group.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises its revenue.

b. Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred.

Previously, the Group only applied such a policy when payments were significantly deferred, which was not common in the Group's arrangements with its customers. The Group did not apply such a policy when payments were received in advance.

It is not common for the Group to receive payments significantly in advance of revenue recognition in the Group's arrangements with its customers. Accordingly, this change is policy does not have a significant impact on the financial assets and liabilities as at 1 January 2018.

c. Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays non- refundable consideration, or is contractually required to pay non-refundable consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, contract assets were presented in the statement of financial position under "trade and other receivables" and contract liabilities were presented under "trade and other payables".

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of HKFRS 15:

(i) "Trade deposit received" amounting to RMB63,743,000, which were previously included in trade and other payables (note 13) now included under contract liabilities (note 12).

(ii) "Receipt in advance" amounting to RMB6,061,000, which were previously included in trade and other payables (note 13) are now included under contract liabilities (note 12); and

d. Transportation costs

Before the adoption of HKFRS 15, transportation costs were treated as distribution costs. Under HKFRS 15, the amount is classified to cost of sales as it constitutes contract cost to fulfill the performance obligation of sales of products to customers.

e. Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018.

The following tables summarise the estimated impact of adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under HKAS 18 and HKAS 11 if those superseded standards had continued to apply to 2018 instead of HKFRS 15. These tables show only those line items impacted by the adoption of HKFRS 15:

	Amounts reported in accordance with HKFRS 15	**Hypothetical amounts under HKASs 18 and 11**	**Difference: Estimated impact of adoption of HKFRS 15 on 2018**
	(A)	(B)	(A) - (B)
	RMB'000	RMB'000	RMB'000
Line items in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Cost of sales	(767,346)	(755,538)	(11,808)
Gross profit	311,497	323,305	(11,808)
Distribution costs	(155,073)	(166,881)	11,808
Line items in the consolidated statement of financial position as at 31 December 2018 impact by the adoption of HKFRS 15:			
Trade and other payables	(219,711)	(292,429)	72,718
Contract liabilities	(72,718)	—	(72,718)

	Amounts reported in accordance with HKFRS 15	Hypothetical amounts under HKASs 18 and 11	Difference: Estimated impact of adoption of HKFRS 15 on 2018
	(A)	(B)	(A) - (B)
	RMB'000	RMB'000	RMB'000
Line items in the consolidated statement of cash flow for the year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Increase in trade and other payables	57,400	60,315	(2,915)
Increase in contract liabilities	2,915	—	2,915

The significant differences arise as a result of the changes in accounting policies described above.

(iii) HK(IFRIC) 22, Foreign currency transactions and advance consideration

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency. The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non- monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

4. REVENUE

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

	2018	2017
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of HKFRS15		
Disaggregated by major products		
– pharmaceutical products	**621,322**	575,322
– healthcare products	**252,600**	246,803
– medical devices	**204,921**	209,363
	1,078,843	1,031,488
Timer of revenue recognition		
A point in time	**1,078,843**	1,031,488

Note: The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11 (see note 3(ii)).

5. SEGMENT REPORTING

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

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

2. Manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices: this segment manufactures and sells electrotherapeutic and physiotherapeutic devices and general medical examination devices. Currently, the Group's activities in this regard are primarily carried out in the PRC.

a) Segment results, assets and liabilities

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

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

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

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

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

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 2018 and 2017 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	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue from external customers	**119,310**	175,205	**855,082**	736,355	**204,921**	209,362	**1,179,313**	1,120,922
Inter-segment revenue	**21,728**	40,815	**24,140**	16,467	**—**	—	**45,868**	57,282
Reportable segment revenue	**141,038**	216,020	**879,222**	752,822	**204,921**	209,362	**1,225,181**	1,178,204
Reportable segment profit (adjusted EBITDA)	**3,406**	31,424	**62,597**	22,188	**40,666**	73,990	**106,669**	127,602
Interest income from bank deposits	**85**	10	**372**	276	**162**	347	**619**	633
Interest expense	**—**	—	**6,557**	10,103	**—**	—	**6,557**	10,103
Depreciation and amortisation for the year	**314**	311	**7,100**	4,346	**21,387**	21,118	**28,801**	25,775
Reportable segment assets	**262,574**	323,249	**841,484**	825,688	**167,837**	179,814	**1,271,895**	1,328,751
(including investment in joint venture)	**—**	—	**62,579**	43,067	**—**	—	**62,579**	43,067
Additions to non-current segment assets during the year	**—**	—	**14,938**	34,567	**6,500**	5,558	**21,438**	40,125
Reportable segment liabilities	**3,620**	25,819	**406,566**	375,893	**42,517**	42,236	**452,703**	443,948

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

	2018	2017
	RMB'000	RMB'000
Revenue		
Reportable segment revenue	**1,225,181**	1,178,204
Elimination of inter-segment revenue	**(45,868)**	(57,282)
Elimination of group's share of revenue of joint venture	**(100,470)**	(89,434)
Consolidated revenue (note 4)	**1,078,843**	1,031,488

	2018 RMB'000	2017 RMB'000
Profit		
Reportable segment profit derived from group's external customers and joint venture	**106,669**	127,602
Other income	**17,609**	38,311
Depreciation and amortisation	**(28,801)**	(25,775)
Finance costs	**(17,003)**	(26,210)
Unallocated head office and corporate expenses	**(8,094)**	(30,601)
Consolidated profit before taxation	**70,380**	83,327

	2018 RMB'000	2017 RMB'000
Assets		
Reportable segment assets	**1,271,895**	1,328,751
Elimination of inter-segment receivables	**(21,083)**	(34,454)
	1,250,812	1,294,297
Non-current financial assets	**24,190**	14,141
Financial assets at fair value though profit or loss	**15,135**	17,895
Unallocated head office and corporate assets	**6,578**	6,065
Consolidated total assets	**1,296,715**	1,332,398

	2018 RMB'000	2017 RMB'000
Liabilities		
Reportable segment liabilities	**452,703**	443,948
Elimination of inter-segment payables	**(15,626)**	(24,801)
	437,077	419,147
Current tax liabilities	**4,123**	10,028
Deferred tax liabilities	**25,257**	25,641
Unallocated head office and corporate liabilities	**192,028**	235,947
Consolidated total liabilities	**658,485**	690,763

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 leasehold land held for own use under operating leases, property, plant and equipment, investment properties, deposit paid for property, plant and equipment, deposit paid for acquisition of land, 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 leasehold land held for own use under operating leases, property, plant and equipment and investment properties are based on the physical location of the asset under consideration. In the case of intangible assets and goodwill, it is based on the location of the operation to which they are allocated. In the case of interests in associate and joint venture, it is the location of operations of such associate and joint venture.

	Revenues from external customers		**Specified non-current assets**	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC	**959,533**	856,283	**399,074**	382,658
Hong Kong	**119,310**	175,205	**91,619**	91,887
	1,078,843	1,031,488	**490,693**	474,545

d) **Information about major customers**

Revenues from customers contributed 10% or more of the total revenue of the Group are as follows:

	2018	2017
	RMB'000	RMB'000
Customer A-revenue from distribution sales of pharmaceutical and healthcare products	**N/A#**	104,383

The transactions with this customer did not contribute 10% or more of total revenue of the Group during the year ended 31 December 2018.

6. OTHER REVENUE, INCOME AND OTHER NET LOSS

	2018 **RMB'000**	2017 RMB'000
Other revenue:		
Total interest income on financial assets not at fair value through profit or loss:		
Bank interest income	**619**	633
Interest income from financial assets at fair value through other comprehensive income	**3,506**	—
Interest income from available-for-sale financial assets	**—**	1,849
Gross rental income from investment properties	**2,923**	2,764
Dividend income	**1,878**	2,106
Promotional service income	**13,767**	6,668
	22,693	14,020
Government grants (note)	**4,294**	1,082
Forward contract loss	**—**	(447)
Exchange gain/(loss)	**(7,705)**	8,486
Change in fair value of other financial liabilities	**—**	13,255
Change in fair value of financial assets at fair value through profit or loss	**(2,750)**	2,236
Others	**1,077**	(321)
	17,609	38,311

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

7. PROFIT BEFORE TAXATION

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

	2018	2017
	RMB'000	RMB'000
a) Finance costs		
Total interest expense on financial liabilities not at fair value through profit or loss:		
– Interest on bank loans	**17,003**	16,090
– Interest imputed on the liability component of convertible bonds	—	10,120
	17,003	26,210
b) Staff costs (including directors' and chief executive's remuneration)		
Salaries and other benefits	**108,318**	101,068
Contributions to defined contribution retirement plan	**11,120**	10,449
Equity-settled share-based payments	**—**	7,172
	119,438	118,689
c) Other items		
Amortisation of intangible assets	**18,831**	18,831
Auditor's remuneration		
– audit service	**1,400**	1,435
– non-audit services	**399**	409
Cost of inventories recognised as expenses	**767,346**	708,317
Depreciation of property, plant and equipment	**8,605**	5,579
Amortisation of leasehold land for own use under operating leases	**1,365**	1,365
Impairment losses on trade receivables (reversal of impairment losses on trade receivables)	**135**	(237)
Reversal of impairment loss on other receivables	**(576)**	—
Write-down of inventories	**2,957**	—
Write-off of bills receivables	**—**	248
Reversal of inventories write-down	**—**	(1,282)
Loss on disposal of property, plant and equipment	**36**	119
Operating lease charges in respect of land and buildings	**7,602**	7,863
Rental income from investment properties less direct outgoings of RMB391,000 (2017: RMB460,000)	**(2,533)**	(2,304)
Research and development cost	**13,872**	12,828
Equity-settled share-based payments		
– staff cost	**—**	7,172
– consultancy fee	**332**	442

Note:

(i) Cost of inventories recognised as expenses includes approximately RMB34,456,000 (2017: RMB31,170,000) relating to staff costs, depreciation and operating lease rentals, which are included in the respective total amounts disclosed separately above.

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

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

	2018	2017
	RMB'000	RMB'000
Hong Kong Profits Tax		
– Current year	**13,622**	6,035
PRC Enterprise Income Tax		
– Current year	**5,383**	13,288
Deferred tax		
– Origination and reversal of temporary differences	**(384)**	(2,528)
	18,621	16,795

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 the years ended 31 December 2018 and 2017 is calculated at 16.5% of the estimated assessable profits for the year.

iii) The PRC Enterprise Income Tax charge of the Group during the years ended 31 December 2018 and 2017 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% (2017: 25%), except for Dong Di Xin, which is based on a preferential income tax rate of 15%.

9. DIVIDENDS

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

	2018	2017
	RMB'000	RMB'000
Final dividend proposed after the end of the reporting period of HK2.25 cents (equivalent to RMB1.98 cents) (2017: HK3.43 cents (equivalent to RMB2.87 cents)) per ordinary share	**12,326**	**17,866**

The final dividend for the year ended 31 December 2018 proposed after the end of the reporting period is subject to approval by the Company's shareholders in the 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

	2018 **RMB'000**	2017 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK3.43 cents (equivalent to approximately RMB3.01 cents) (2017: HK2.95 cents (equivalent to approximately RMB2.47 cents))	**18,751**	**15,350**

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:

	2018 **RMB'000**	2017 RMB'000
Earnings		
Profit for the year attributable to owners of the Company	**41,005**	**51,060**
Earnings for the purpose of basic earnings per share	**41,005**	**51,060**

	2018 **'000**	2017 '000
Number of shares		
Weighted average number of ordinary shares in issue	**622,500**	**622,500**
Weighted average number of ordinary shares for the purpose of basic earnings per share	**622,500**	**622,500**

b) Diluted earnings per share

Diluted earnings per share for the years ended 31 December 2018 and 2017 was the same as the basic earnings per share because of the exercise price of the share options granted was higher than the weighted average market price of the Company's shares during the years ended 31 December 2018 and 2017. As the conversion or exercise of the share options would have an anti-dilutive effect on earnings per share, the calculation of diluted earnings per share does not assume conversion or exercise of potential ordinary shares of the share options.

11. TRADE AND OTHER RECEIVABLES

	2018	2017
	RMB'000	RMB'000
Trade and bills receivables	**299,605**	259,987
Less: Allowance for doubtful debts	**(5,575)**	(5,440)
	294,030	254,547
Other receivables	**31,369**	38,979
Other loan	**45,958**	43,743
Amounts due from related parties	**1,020**	553
Amount due from an associate	**4,140**	—
Dividend receivable from a joint venture	**—**	19,800
Loans and receivables	**376,517**	357,622
Prepayments	**18,956**	22,006
Trade and other deposits	**2,044**	1,182
Trade deposits to related parties	**19,265**	32,064
	416,782	412,874

a) All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

b) Ageing analysis

Included in trade and other receivables are trade and bills receivables (net of allowance for doubtful debts) with the following ageing analysis based on invoice date, as of the end of the reporting period:

	2018	2017
	RMB'000	RMB'000
0-90 days	**250,884**	225,323
91-120 days	**9,857**	2,843
121-180 days	**11,671**	9,159
181-365 days	**21,586**	17,209
More than 1 year	**32**	13
	294,030	254,547

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

12. CONTRACT LIABILITIES

	Notes	**31 December 2018 RMB'000**	1 January 2018 RMB'000	31 December 2017 (i) RMB'000
Contract liabilities				
– Trade deposit received	(ii)	**60,917**	63,743	—
– Receipt in advance	(ii)	**11,801**	6,061	—
		72,718	69,804	—

Notes:

(i) The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018.

(ii) Upon the adoption of HKFRS 15, deposits received from customers according to the requirements of the sales contracts previously included as trade deposits received and receipts in advance under "Trade and other payable" (note 13) were reclassified to contract liabilities since 1 January 2018.

13. TRADE AND OTHER PAYABLES

	31 December 2018 RMB'000	1 January 2018 RMB'000	**31 December 2017 RMB'000**
Trade payables	**169,084**	126,636	126,636
Accruals	**8,879**	8,500	8,500
Other payables	**28,436**	27,024	27,024
Amount due to NCI	**—**	10,000	10,000
Financial liabilities measured at amortised cost	**206,399**	172,160	172,160
Value-added tax payable	**13,312**	150	150
Trade deposits received	**—**	—	63,743
Receipts in advance	**—**	—	6,061
	219,711	172,310	242,114

a) All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

b) As at 31 December 2018, the security deposit amounted to RMB1,642,000 (2017: RMB750,000) was used for the issurance of letter of credit to pay back the trade payables amounted to RMB1,642,000 (2017: RMB750,000).

c) Ageing analysis

Included in trade and other payables are trade payables with the following ageing analysis (presented based on invoice date) as of the end of the reporting period.

	2018 RMB'000	2017 RMB'000
0-90 days	**168,678**	125,916
91-180 days	**406**	720
	169,084	126,636

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

d) Amount due to NCI represents special dividend payable to the NCI of Dong Di Xin as at 31 December 2017 and fully paid during the year ended 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET AND INDUSTRY REVIEW

1. Complicated and changing domestic and global environment and continuous release of consumption potential of Chinese people

2018 was the inaugural year for the all-round implementation of the spirit of the 19th National Congress of the Communist Party of China and also marked the 40th anniversary of China's reform and opening up. It was thus a crucial year for China. It had successfully built a prosperous society in full swing and continued with the "13th Five-Year Plan" to lead the country forward. Reform and opening up has become the most remarkable features of China's spectacular development. The year also marked an important milestone for the Chinese people to take decisive steps along their journey to improve their well-being and create wealth. At the same time, 2018 was also a critical year for China to test its ability to manage and overcome economic challenges. Despite the trade frictions between China and the United States which began in March 2018, the Chinese government was able to implement an array of measures to cope with the complicated and ever-changing domestic and global situation. As a result, the Chinese economy achieved satisfactory growth in 2018. In 2018, China's gross domestic product exceeded RMB90 trillion for the first time, representing an increase of 6.6% as compared to 2017. While the Chinese economy continues to develop steadily, China will continue to pursue critical restructuring and transformation upgrade as well as enhancing the quality of its development.

In 2018, the median per capita disposable income of all nationals in China was approximately RMB24,336, representing an increase of 8.6% as compared to 2017. The median disposable income per capita of urban residents in China was approximately RMB36,413, representing an increase of 7.6% as compared to 2017, and the median disposable income per capita of rural residents in China was approximately RMB13,066, representing an increase of 9.2% as compared to 2017. The consumption expenditure per capita of urban residents in China in 2018 was approximately RMB26,112, representing an increase of 4.6% as compared to 2017, while the consumption expenditure per capita of rural residents in China in 2018 was approximately RMB12,124, representing an increase of 8.4% as compared to 2017. The income and consumption of residents had increased steadily, while the income and expenditure of rural residents had increased even more rapidly than that of urban residents. The consumption structure and pattern is expected to continue to increase. During the Year Under Review, the Group's star products, the Nin Jiom product series, entered into untapped county and rural markets as the Group actively expanded its distribution channels in these areas.

2. The medical reform policy spurred the "Medical Treatment + Medical Insurance + Pharmacy" trend that fostered rapid expansion of pharmacy chains

In 2018, China continued to broaden the reform of the medical and health system. It has been actively strengthening the "Healthy China" strategy and supporting the continuous development of the traditional Chinese medicine industry. By focusing on improving national health, China has resolved to realize the concept of greater health and greater healthcare, and is committed to improving the basic health level, strengthening the health of the grassroots population, setting up a mechanism, as well as continuing to consolidate the linkage between medical treatment, medical insurance and pharmaceutical areas. To facilitate these efforts, the Chinese government had released a guidance document in relation to the classification and management of retail pharmacies, which supports the development of retail pharmacy chain stores and allow outpatients to buy medicines either in medical institutions or retail pharmacies. The Group is optimistic that it may leverage its competitive advantages in terms of profit ability, branding, standardization and patient management of large retail chain pharmacies. During the Year Under Review, the Group's distribution channels covered more than 200,000 over-the-counter ("OTC") retail pharmacies, the Group also engaged in strategic cooperation with more than 3,500 retail chain pharmacies and further promoted certain star products such as the Nin Jiom product series, Taiko Seirogan products and a number of topical medicated oils for external use to various large retail chain pharmacies.

3. Growth of healthcare product market benefitted the growth of the Group's healthcare products

Following the implementation of the "Healthy China 2030" strategic initiative, and with the rapidly ageing population and the change in the national consumption structure, the healthcare issue has aroused sufficient public concern and has become one of the hottest topics of discussion among Chinese. According to the statistics of Euromonitor International, the sales revenue of China's healthcare industry amounted to approximately RMB237.6 billion in 2017, representing an increase of 8.4% against 2016. The growth of China's healthcare product market was relatively fast, with the compound annual growth rate (CAGR) of 11.9% in sales revenue from 2002 to 2017. It is expected that the market scale of the healthcare product industry will reach approximately RMB350 billion in 2020. The Group was quick to seize the opportunity from the rapidly expanding healthcare product industry and has introduced a number of renowned and high-quality healthcare products from overseas, including the Culturelle probiotics product series from the United States and the Lifeline Care maternal and infant fish oil nutrient product series from Norway.

4. Increase in infertility spurred good prospects for Fengbao Jianfu Capsules

According to the National Bureau of Statistics, the number of newborns in China in 2018 was about 15.23 million, representing a decrease of 2 million against approximately 17.23 million in 2017. The birthrate in 2018 was at a historic low since 1949. According to the survey conducted by the Population Association of China, there were over 400 million infertile people in China in 2017, and the infertility rate of child-bearing age couples in China has soared to 15% in recent years from 3% for 20 years ago. The reasons for the increase in infertility include, among others, the deteriorating environmental conditions caused by pollution, increasing stress at work and unhealthy lifestyles. The Group's Good Manufacturing Practice ("GMP") certified "Fengbao Jianfu Capsules" is helpful in treating infertility and nourishing blood, and is designed for treatment of (i) infertility (due to ovulatory disorder, corpus luteum insufficiency, immune infertility and assisted reproductive technology pretreatment); (ii) irregular menstruation (due to endocrine disorders such as functional uterine bleeding); and (iii) perimenopausal syndrome. The product contains multi-target HPO that can regulate and assist ovulation and increase the probability of pregnancy in a natural and safe manner. The experiment conducted by the Hong Kong University of Science and Technology proved that the product can effectively enhance the progesterone level of females to increase the pregnancy rate and also nourish the blood. The product was distributed through various hospitals in Shanghai and Wuhan and was popular in maternity hospitals. Looking forward, with the continuous expansion of market for infertility products and enhancement of the brand power of "Fengbao Jianfu Capsules", the Group expects that its sales will increase in the future.

5. Flourishing development of medical devices boosted the Group's medical device business

According to the report released by the Prospective Industry Institute, the "Forecast on Demand of the China Medical Device Industry Market and Investment Strategy Planning Analysis Report", the medical devices market was valued at about RMB221.9 billion in China in 2012, accounting for around 9.5% of the global medical device industry. In 2017, this market increased by more than two times, accounting for around 19% of the global medical device industry. It is expected that this medical devices market in China will continue to increase. According to the report, the growth rate of the medical device market in China in the past five years exceeded the global growth rate. In view of the rapid development of China's innovative technology, the application standard of medical devices is expected to continue to improve and it is expected that China's medical device will continue to increase its share in the global medical device industry. All of the above factors will benefit the further business development of the Group's medical devices segment.

BUSINESS REVIEW

For over two decades, the Group has been committed to developing a comprehensive and greater health service supply chain system that integrates all upstream and downstream operations. The Group's business footprint covers more than 34 provinces and cities in China. It was among the Top 100 Import Enterprises of Pharmaceutical and Healthcare Products for six consecutive years from 2009 to 2014 and was named as one of the Top 5 Sales Enterprises of Chinese Patent Medicines in 2013. It was also ranked among Shenzhen Top 500 Enterprises in 2018.

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

The three major business segments of the Group in the greater health services industry are: (i) pharmaceutical products segment – acting as an agent and distributor of high-quality and well-known pharmaceutical products from overseas, including the Nin Jiom (京都念慈菴) product series, Taiko Seirogan (喇叭牌正露丸); (ii) healthcare products segment – distributing high-quality and well-known healthcare products from overseas, including the Culturelle (康萃樂) probiotics product series, the Lifeline Care maternal and infant fish oil nutrient product series, "Global Slimming" product series, and medicated oils for external use; and (iii) medical devices segment – undertaking research and development ("R&D"), manufacturing and production of medical devices.

Highlights of Pharmaceutical Products Segment

Nin Jiom product series

The Group's star product, the Nin Jiom product series, has been one of the major sources of revenue in its pharmaceutical products portfolio. In 2017, the Group collaborated with its close strategic partner of two decades, Nin Jiom, and implemented an "optimization of channels" strategy. The coordinated efforts of the Group and Nin Jiom managed to standardize channel management, fostering orderly marketing strategies across different downstream distributions and in turn safeguarded the interest of collaboration partners. During the reform period in 2017, although revenue from Nin Jiom products decreased for a short period of time, the Group's efforts to optimize and restructure channel management resulted in a steady increase in sales in Nin Jiom product series in 2018. For the Year Under Review, revenue from the sales of Nin Jiom Chuan Bei Pei Pa Koa grew significantly by 25.6% to approximately RMB555,066,000 as compared to the same period last year while the revenue from the sales of Nin Jiom Herbal Candies increased by 21.7% to approximately RMB36,257,000.

According to the China Pharmaceutical Enterprises Cooperation and Development Organization Summit 2018, "Nin Jiom" ranked first in the category of cough relief products under the "Healthy China Brand Ranking" and ranked 18th in terms of brand value. The success of the Nin Jiom brand was mainly due to the implementation of three active strategic approaches, which include strict control of production quality, precise brand positioning and strategy, and innovative marketing strategies. The Group's team had actively joined its upstream manufacturers to launch marketing and promotional activities for many years. During the Year Under Review, the Group and Nin Jiom jointly launched a promotional carnival tour under the theme of "Let's Work Out and Protect Our Lungs" across a number of cities in China, where a number of major regional pharmacy chains were invited to promote the Nin Jiom products and interact with consumers, as well as having fun-filled physical exercises with participants.

Taiko Seirogan

Taiko Seirogan from Japan is another core product of the Group's pharmaceutical segment. During the Year Under Review, the Group implemented "channel optimization and orderly marketing" strategy to facilitate orderly sales, and optimize and improve channel management. Although the business slowed down in the first half of the year, the business performance has significantly improved in the second half of the year as a result of the increase in the number of distribution channels, the increase in channel prices and retail prices, together with the greater support and increase in involvement of downstream distributors. The Group is confident that the sales will continue to improve significantly in 2019. During the Year Under Review, the Group launched a number of gifts bundled with purchase marketing promotions for Taiko Seirogan products in offline terminal stores and placed large billboard advertisements on the streets of large cities. Moreover, we made use of social media platforms such as WeChat and Baidu to strengthen communications with staff of terminal stores, organized training for in-shop sales personnel to enrich their product knowledge, sales techniques and organized consumers education activities. For the Year Under Review, the revenue from the sales of Taiko Seirogan products amounted to approximately RMB66,256,000, representing a slight decrease of 3.0% as compared to 2017.

Highlights of Healthcare Products Segment

Culturelle probiotics product series

The Culturelle (康萃樂) probiotics product series from the United States, another major product series of the Group, is a leading brand in the probiotics product market in the United States and the probiotics product brand for children most recommended by pediatricians in the United States. During the Year Under Review, the distribution channels of Culturelle's sales terminal sites in Hong Kong and Macau increased rapidly to about 1,600 retail outlets, covering Mannings, Watsons, SaSa, Colourmix, CR

Care, HealthPlus, Eugene Baby, Yue Wah Chinese Products, AEON Stores, HKTV Mall and a number of pharmacies. According to ACNielsen's report, the sales volume of Culturelle probiotics product series ranked as the No.1 probiotics brand in Hong Kong in 2018. During the Year Under Review, the sales of Culturelle probiotics product series from Hong Kong and Macau markets increased by 41.9% as compared to the same period last year. However, affected indirectly by the shortage in supply in China's domestic market, the overall revenue from the Culturelle probiotics product series decreased by 41.3% to approximately RMB107,353,000 as compared to the same period last year.

Lifeline Care maternal and infant fish oil nutrient product series

According to CTR statistics, in 2017, 94.2% of the pregnant women in China consumed pregnancy healthcare food and 66% of these women consumed over RMB1,000 in pregnancy healthcare products. Another star product of the Group, the Lifeline Care maternal and infant fish oil nutrient product series, is a nutritional supplement for pregnant women and infants, respectively. During the Year Under Review, sales of the Lifeline Care maternal and infant fish oil product series increased by 8.1%. It is expected that its sales will continue to increase in the future. During the Year Under Review, the Group utilized a mixture of integrated online and offline marketing channels to promote this product series by launching various marketing activities on Kaola.com, Tmall Global, JD.com and VIP.com. In addition, the Group also used KOLs, Baidu SEO, mother-infant vertical media platform Questions and Answers and placed advertorials about maternal and infant topics on various major social media platforms, which successfully reached millions of fans. Moreover, the Group cooperated with pediatrician Dr. Cui Yutao (崔玉濤) again to hold a live broadcast of the parenting program, which attracted over 1.5 million views. Talks were organized across cities in China and had attracted thousands of participants. In addition, advertisements were also placed at eight major Hong Kong–Shenzhen immigration control points.

"Global Slimming" product series

Having a healthy body can help people stay away from diseases and maintain self-confidence. According to the statistics from ACNielsen, 39% and 35% of the consumers within the age group of the post-80s and post-90s were more concerned about weight control than other age groups. According to the forecast of Roland Berger, the scale of the weight management industry would enjoy a CAGR of 15% from 2017 to 2020. The Group is the agent and distributor for various renowned quality overseas top slimming products, including the Tilman Plant Diet Tea series from Belgium and Zuccari Slimming Series, a concentrated slimming 100% pineapple juice from Italy. During the Year Under Review, the marketing campaigns of "Global Slimming" product series were mainly launched through offline exhibition activities and KOLs slimming experience sharing on TV programs where KOLs recommended the products to their fans through product placement. At the same time, a number of social media platforms including Xiaohongshu, Kaola.com, Weibo.com and Xiaohongchun were used as a platfrom to promote product function education and word-of-mouth sharing for consumers to foster sales conversion. As a result of these efforts, sales increased significantly by 51% compared to the same period last year.

Product series of external use medicated oils

The Group is an agent and distributor of various medicated oil products for external use, including the Mentholatum (曼秀雷敦) series, Flying Eagle Wood Lok Medicated Oil (飛鷹活絡油), Hoe Hin White Flower Embrocation (和興白花油) as well as its own brand, Kingworld Imada Red Flower Oil (金活依馬打正紅花油). During the Year Under Review, the Group's sales team launched customized marketing campaigns through integrated online and offline promotion channels to further strengthen terminal sales and boost brand influence. As a result, the sales increased by 14.4% against the same period last year.

During the Year Under Review, the Group strengthened its cooperation with the online Mentholatum series merchants. Promotional activities which coincided with online shopping festivals on e-commerce platforms were launched and key opinion leader ("KOL") advertorials were placed to encourage consumers to shop on those platforms. The promotions resulted in the increase in sales. Kingworld Imada Red Flower Oil and Hoe Hin White Flower Embrocation were also promoted in online shopping festivals on e-commerce platforms and achieved satisfactory sales growth.

In addition, the Mentholatum series, Flying Eagle Wood Lok Medicated Oil, Kingworld Imada Red Flower Oil and Hoe Hin White Flower Embrocation had launched their respective end customer purchase gift promotion campaigns through partnering with various large-scale pharmacy chains, which resulted in the increase in net sales of these products. A bus and broadcast advertising campaign was launched for Hoe Hin White Flower Embrocation. At the same time, the Group continued to support a variety of sports events, including the 40th Guangdong-Hong Kong Cup, Shenzhen's popular hiking event Mofang 100km Hike, Shenzhen International Marathon, ZhongShan International Marathon, and the Hainan Province Tamchiu International Marathon.

Highlights of Medical Device Segment

According to the National Bureau of Statistics, there were approximately 1,449 large-scale enterprises in medical device manufacturing industry in China in 2016. In 2017, the number of such enterprises increased to approximately 1,530. China's medical device market has been growing rapidly and China has become the third largest medical device market in the world after the United States and Japan. The Group's medical device segment, Shenzhen Dong Di Xin Technology Company Limited ("Dong Di Xin"), is one of the innovative pioneers and drivers of global electrotherapeutics treatment and rehabilitation equipment. It is a national high-tech enterprise, with R&D, design, manufacture and production integrated within one entity. Dong Di Xin was honored with the title of Guangdong Province Quality and Credit AAA Grade Enterprise for three consecutive years. During the Year Under Review, the profit of Dong Di Xin decreased, mainly due to the exchange rate fluctuation and decrease in sales in some of its export products caused by the increase in the US tariffs in the second half of the year. For the Year Under Review, revenue from Dong Di Xin amounted to approximately RMB204,921,000, representing a decrease of 2.1% against the same period last year.

MANAGEMENT REVIEW

1. Implementation of Channel Optimization

In the second half of 2017, the Group started to conduct channel optimization for the pharmaceutical products segment. The Group first implemented channel optimization for the Nin Jiom product series. In 2018, the Group implemented channel optimization for Taiko Seirogan. As a result of these reform efforts, the Group managed to lead and standardize channel management, where marketing strategies across different downstream distributions were standardized, distributors were encouraged to take initiative and all cooperating partners were able to earn reasonable profits. After more than a year of hard work, we succeeded in simplifying and combining sales channels, reducing the number of downstream distributors as well as screening and strengthening cooperation with high-quality distributors. During the Year Under Review, the distribution network of the pharmaceutical products distribution business of the Group covered over 200,000 OTC retail pharmacies and the Group had more than 4,000 "Kingworld Health Family" product counters, and over 3,500 pharmacy chains as strategic partners.

2. Integration of Online and Offline Channels

The Group strived to develop a new retail ecosystem. The e-commerce center was established in 2017 and the information center was constructed at the same time, which achieved the integration of online and offline marketing and logistic. Utilizing Big Data, the Group was able to develop target-oriented marketing strategy and organize interactive activities for consumers based on the actual demands of health preservation of the targeted customers. During the Year Under Review, the Group's information center has undergone reform and optimized its internal information and Big Data system, which has enhanced the safety level of core applications and optimized the business and management of the Company's application systems, such as the SAP enterprise resources planning (ERP) system. During the Year Under Review, the Group's e-commerce center focused on promoting the "Kingworld Health Family" brand to further penetrate to different channels, to enable online ordering and offline marketing, achieve online merge offline ("OMO") resources integration, and promote the brand nationwide. At the same time, efforts were made to implement the "Promoters Campaign" to cultivate "Kingworld KOLs", for tapping their influence on their fans to encourage group purchase of products.

During the Year Under Review, the Group had a presence in major integrated e-commerce platforms including Tmall Global, JD.com and Taobao, specialized e-commerce platforms including Amazon HK, Kaola.com and Dingdang Medicine Express and also its own platforms including Kingworld Health Family Qianhai e-commerce platform (www.kw1996.com), Kingworld Health Family Hong Kong e-commerce platform (www.kw1996.hk), Kingworld Health Family APP (Apple and Android systems) and Kingworld Health Family WeChat Mini Program.

3. Optimizing Structure by Introducing New Products

In 2018, the Group entered the business of daily cosmetics and personal care products market. During the Year Under Review, the Group and Carma Laboratories, Inc. ("Carma Lab") from the United States formed a strategic cooperation, whereby the Group became the exclusive distributor of the CARMEX healing lip balm series in the Greater China Region (excluding Taiwan). CARMEX, a brand with over 80 years of history in the United States, had over 15 million users in the United States. It also ranks among the Top 3 in terms of sales volume in European markets, including the United Kingdom and Norway, with over 145 jars sold every minute globally and cumulative sales exceeding 1 billion jars. It has been named the No.1 pharmacist-recommended lip balm brand for 18 consecutive years by Pharmacy Times, a professional pharmaceutical magazine in the United States. During the Year Under Review, the Group restocked CARMEX healing lip balms series in the third quarter. The Group and Carma Lab organized a large-scale press conference in Shanghai in October 2018. In just three months, CARMEX expanded its distribution coverage to various regional cities in China as well as large retail chain stores such as Watsons and Mannings and distribution channels in various cosmetic and convenience stores.

4. Speed Up the Pace of Financial Investment

In order to accelerate expansion, the Group actively seeks overseas investment opportunities that match with the Company's industrial structure. During the Year Under Review, Shenzhen Kingworld Medicine Company Limited, a wholly-owned subsidiary of the Company, invested in the "Shenzhen Zhiyuan Healthcare Technology Innovation Center" (深圳至元健康科技創新中心有限公司), a greater health services project in the Lok Ma Chau Loop, on the Hong Kong border. The aim of the project is to establish a greater health service platform in the Lok Ma Chau Loop to better serve the consumers from the Mainland using the pharmaceutical and healthcare resources in Hong Kong. During the Year Under Review, the Group invested in "MING VITAMED ENTERPRISE III LIMITED". This project company will invest in a company in Belgium which develops world-leading revolutionary and innovative medical devices for curing serious myocardial infarction and heart failure.

During the Year Under Review, the investment projects of the Group continued to receive considerable dividend income. They include the stake indirectly held in Miquel Alimentació (西班牙米蓋爾公司) (a Spanish company which engages in food distribution and wholesale and supply chain management) and Manassen Foods Australia (a major food company), the 15% equity interest in Dong Hua Tong Investments Limited (東華通投資有限公司), as well as the 2,302,000 shares in Chuangmei Pharmaceutical Co., Ltd. (02289.HK) the Group subscribed in 2015.

5. **Caring for Society and Giving back to the Community**

"To serve the community and to heal the soul" is the business philosophy of the Group. Adhering to that philosophy, the Group has strived to select high quality pharmaceutical and healthcare products for its consumers over the years, so that they can consume the products in full confidence without worries. At the same time, it has remained true to its original aspirations, and has been actively participating in social construction and giving back to the community. During the Year Under Review, the Group and "Kingworld Care for Health Foundation" donated a total of approximately RMB6,269,000 to charities. The targets for the donation of money and goods include patients, families in difficulty, charities involved in environmental protection and animal protection, major temples and donation for disaster relief. During the Year Under Review, the Group organized charitable activities including visiting the elderly in the Methodist Centre in Hong Kong during the dragon boat festival and giving out Culturelle probiotics products to the elderly living alone. "Kingworld Care for Health Foundation" also participated in "Guangdong Poverty Alleviation Day" and "Shenzhen Charity Day and Charity Month" in Shenzhen in 2018, donating RMB2,000,000 for poverty alleviation. It also assisted the China Children and Teenagers' Fund in organizing a large-scale charitable activity "Campaign for Sharing Knowledge on the Immune System of Children in China".

6. **Training and Upgrade of Staff's Skills**

The Group adheres to the "people-oriented" management concept by insisting on developing together with its staff, emphasizing cultural construction and creating a career path especially for post-80s and post-90s staff. Through focusing on the Group's core values, the strategy of the Group is consistently applied in operational management activity of the Company, and all of its staff uphold the concept of "credibility, solidarity, creativity and desire to grow". During the Year Under Review, the Group organized an annual and semi-annual sales and marketing training campaign, during which hundreds of Kingworld elites from various regions throughout the country gathered together to discuss and share business results and experiences. The human resources center actively organized healthy recreational activities, including badminton competition, Shenzhen Bay hike and staff reading month. On the other hand, the Group and the Lingnan Entrepreneurs Association of Sun Yat-sen University in Guangzhou jointly organized exchange and communication activities to study and exchange views on "Enterprises Innovation under New Circumstances" as well as "How to Develop a Super Brand".

Honor

During the Year Under Review, the Group received the following honors and achievements:

- In January 2018, the "Proposal on Land Use Planning for Constructing Specialized Automobile Repair Service Market in Shenzhen" put forth by Mr. Zhao Li Sheng, the Chairman of the Board of the Company, was rated as one of the best proposals in 2017 by the Shenzhen Committee of the Chinese People's Political Consultative Conference

- In February 2018, the Economic, Trade and Information Commission of Shenzhen Municipality approved the Group's application for 2018 Industry Transformation and Upgrade Special Fund for Brand Rewards and Brand Support Special Fund and RMB1 million was subsequently granted to the Group

- In March 2018, the Culturelle probiotics product series from the United States, which is exclusively distributed by the Group in the Greater China Region (excluding Taiwan), was named as a "Best-Selling Product" by MIKIBOBO

- In April 2018, the Group was named as the "Leading Enterprise in the Health Industry of Shenzhen" and "Social Responsible Enterprise in the Healthy Industry of Shenzhen" at the 2017 Healthcare Industry Conference themed "Building a Healthy Shenzhen Through Development of the Healthcare Industry", which was hosted by the Shenzhen Health Association (深圳市保健協會) and Shenzhen Healthcare Industry Development Association (深圳市健康產業發展促進會)

- In May 2018, the Group garnered the "Certificate of Excellence" from the Hong Kong Investor Relations Association (HKIRA) at the 4th HKIRA Investor Relations Awards

- In May 2018, the Group was again awarded the Certificate of Vice-Chairman Member from the Shenzhen Health Association

- In June 2018, Yuen Tai Pharmaceuticals Limited, a connected person of the Group, obtained the Certificate for Manufacturer (Good Manufacturing Practice in respect of Proprietary Chinese Medicines)

- In June 2018, the Group was bestowed with honorable title of "Guangdong Province Enterprise of Observing Contract and Valuing Credit 2017" by the Guangdong Provincial Administration for Industry and Commerce

- In July 2018, the Group was awarded with the 7th "Outstanding Corporate Social Responsibility Award" from The Mirror in Hong Kong

- In August 2018, "Nin Jiom", which was distributed by the Group in the Mainland China, was included on the Cough and Phlegm Product List under the Healthy China Brand Rankings 2018 at the China Pharmaceutical Enterprises Cooperation and Development Organization Summit (CPEO Summit). "Nin Jiom" ranked 18th in the China Pharmaceutical Brand Value Ranking 2018 with a brand value of RMB3.578 billion

- In August 2018, the CARMEX healing lip balm series from the United States, which is exclusively distributed by the Group in the Greater China Region (excluding Taiwan), was again elected as the Favorite Lip Balm in Watsons HWB Awards

- In August 2018, the Culturelle probiotics product series from the United States, which is exclusively distributed by the Group in the Greater China Region (excluding Taiwan), was awarded "Mannings Extraordinary Children Product for Baby 2018"

- In September 2018, the Group garnered a Bronze Award from the 4th Shenzhen Charity Corporation

- In October 2018, Nin Jiom Chuan Bei Pei Pa Koa, which is distributed by the Group in the Mainland China, was named as the Most Recommended Brand by Salesperson in Pharmacies of China for 2017 and 2018

- In December 2018, the Group ranked first among all nominees in the "80th PharmChina Benchmarking Enterprises" election campaign

- In December 2018, Ms. Chan Lok San, the Executive Director of the Group, participated in the 2nd "Fengxiang Cup" Art Exhibition for Pharmaceutical Practitioners of PharmChina and won a second prize

- In December 2018, the Group was included in the "Top 500 Shenzhen Enterprises 2018" published by Shenzhen Economic Daily, ranking of No.323

- In December 2018, the Culturelle probiotics product series from the United States and Lifeline Care maternal and infant fish oil product series from Norway, which are exclusively distributed by the Group in the Greater China Region (excluding Taiwan), were named "2018 Parents-Preferred Brand of Infant Probiotics" and "2018 Parents-Preferred Brand of Infant Fish Oil" by Baby Kingdom in Hong Kong, respectively

- In December 2018, the Group garnered the "Certificate of the Key Logistics Company of Shenzhen" by the Transport Commission of Shenzhen Municipality

FINANCIAL REVIEW

1. Revenue

Revenue of the Group for the Year Under Review was approximately RMB1,078,843,000, representing an increase of approximately RMB47,355,000, or 4.6% from approximately RMB1,031,488,000 for the year ended 31 December 2017. The increase was mainly a result of the increased in revenue of the Nin Jiom products due to the positive impact from the distribution channel restructuring in mid 2018. However, such increase was partially off-set by the decrease in Culturelle products due to the shortage in supply in China's domestic market.

2. Cost of sales

For the Year Under Review, cost of sales for the Group amounted to approximately RMB767,346,000, representing an increase of approximately RMB59,029,000 or 8.3% from approximately RMB708,317,000 for the year ended 31 December 2017. The increase in cost of sales was due to the increase in revenue. Besides, as a result of the adoption of the new requirement of HKFRS 15, transportation costs of approximately RMB11,808,000 was included in the cost of sales for the year ended 31 December 2018, while the accounting treatment for such costs was recorded in the "Selling and Distribution Costs" for the year ended 31 December 2017. Gross profit margin decreased from 31.3% for the year ended 31 December 2017 to 28.9% for the Year Under Review.

3. Other revenue, income and other net loss

Other revenue, income and other net loss mainly included change in fair value of other financial assets and liabilities, exchange gain, promotional service income, rental income, government grant, interest income and dividend income. For the Year Under Review, other revenue, income and other net loss amounted to approximately RMB17,609,000, representing a decrease of approximately RMB20,702,000 of 54.0% from approximately RMB38,311,000 for the year ended 31 December 2017. The decrease was mainly due to the decrease in the gain from the change in fair value of other financial liabilities of approximately RMB13,255,000 and the exchange loss of approximately RMB7,705,000, which was partially off-set by the increase in promotional service income of approximately RMB7,099,000.

4. Selling and distribution costs

For the Year Under Review, selling and distribution costs amounted to approximately RMB155,073,000, representing a decrease of approximately RMB7,032,000 or 4.3% from approximately RMB162,105,000 for the year ended 31 December 2017. This decrease was primarily attributable to the decrease in transportation costs. The transportation costs was reclassified into the cost of sales for the Year Under Review in accordance with HKFR 15, while the accounting treatment for such costs was recorded in the "Selling and Distribution Costs" for the year ended 31 December 2017.

5. **Administrative expenses**

For the Year Under Review, administrative expenses amounted to approximately RMB96,356,000, representing an increase of approximately RMB7,043,000 or 7.9% from approximately RMB89,313,000 for the year ended 31 December 2017. For the Year Under Review, rental expenses was approximately RMB2,679,000, administrative staff costs was approximately RMB11,520,000, legal and professional fees, which comprised mainly of financial reporting costs of the Company and legal advisory and consultancy fees, was approximately RMB7,651,000, and research and development expenses was approximately RMB13,872,000 (2017: rental expenses was approximately RMB3,144,000, administrative staff costs was approximately RMB17,865,000, legal and professional fees was approximately RMB3,893,000, and research and development expenses was approximately RMB12,828,000).

6. **Profit from operations**

For the Year Under Review, profit from operations for the Group amounted to approximately RMB68,846,000, representing a decrease of approximately RMB26,857,000 or 28.1% from approximately RMB95,703,000 for the year ended 31 December 2017. The decrease in profit from operations was mainly due to the decrease in gross profit, increase in operating cost and the decrease in other revenue, income and other net loss for the Year Under Review.

7. **Finance costs**

For the Year Under Review, finance costs amounted to approximately RMB17,003,000, representing a decrease of approximately RMB9,207,000 or 35.1% from approximately RMB26,210,000 for the year ended 31 December 2017. The decrease was mainly due to the decrease in interest charged on convertible bonds as a result of the expiration of the convertible bonds with relatively higher interest rate in December 2017.

8. **Profit before taxation**

For the Year Under Review, profit before taxation for the Group amounted to approximately RMB70,380,000, representing a decrease of approximately RMB12,947,000 or 15.5% from approximately RMB83,327,000 for the year ended 31 December 2017. The decrease in profit before taxation was mainly due to the decrease in profit from operation which was partially offset by the increase in share of profit of a joint venture and decrease in finance costs.

9. Income tax

For the Year Under Review, income tax expenses for the Group amounted to approximately RMB18,621,000, representing an increase of approximately RMB1,826,000 or 10.9% from approximately RMB16,795,000 for the year ended 31 December 2017. This increase was mainly due to the decrease in the reversal of deferred tax of approximately RMB2,144,000. The effective tax rate for the Year Under Review was 26.5%, compared to 20.2% for the year ended 31 December 2017.

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

For the Year Under Review, profit for the year attributable to owners of the Company amounted to approximately RMB41,005,000, representing a decrease of approximately RMB10,055,000 or 19.7% from approximately RMB51,060,000 for the year ended 31 December 2017. The decrease in profit for the year attributable to owners of the Company was mainly due to the decrease in profit for the year of approximately RMB14,773,000, which was partially off-set by the decrease in profit for the year attributable to non-controlling interests of approximately RMB4,718,000.

ANALYSIS OF MAJOR BALANCE SHEET ITEMS

1. Trade and other receivables

Trade and bills receivables of the Group include credit sales to the Group's distributors. Other receivables of the Group include prepayments, deposits and other receivables. Trade and other receivables of the Group as at 31 December 2018 amounted to RMB416,782,000, representing an increase of approximately RMB3,908,000 from approximately RMB412,874,000 as at 31 December 2017. The increase was mainly due to the increase in trade and bills receivables of approximately RMB39,483,000, which was partially off-set by the decrease in trade deposits to related parties of approximately RMB12,799,000, the decrease in prepayment of approximately RMB3,050,000 and the decrease in dividend receivable from a joint venture of approximately RMB19,800,000.

2. Inventories

As at 31 December 2018, inventories owned by the Group amounted to approximately RMB182,064,000, representing an increase of approximately RMB33,183,000 when compared with that of RMB148,881,000 as at 31 December 2017. The main reason for increase in inventories was the increase in finished goods of approximately RMB25,832,000.

3. Leasehold land held for own use under operating leases

As at 31 December 2018, leasehold land held for own use under operating leases amounted to approximately RMB91,139,000 (2017: approximately RMB92,198,000). The decrease was due to depreciation 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 2018, the net book value of property, plant and equipment owned by the Group amounted to approximately RMB59,984,000, representing an increase of approximately RMB2,501,000 from approximately RMB57,483,000 as at 31 December 2017. The increase in property, plant and equipment was mainly due to the increase in machineries and construction in-progress by approximately RMB3,583,000 and RMB849,000, respectively, which was partially off-set by the depreciation of approximately RMB8,605,000 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 2018, trade and other payables of the Group amounted to approximately RMB219,711,000, representing a decrease of approximately RMB22,403,000 from approximately RMB242,114,000 as at 31 December 2017. The decrease was mainly due to the decrease in trade deposits received of approximately RMB63,743,000, which was partially off-set by the increase in financial liabilities measured at amortised cost of approximately RMB34,239,000.

CASH FLOW

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.

1. **Net cash generated from operating activities**

The Group's cash generated from operations is primarily derived from receipts from for the sale of the Group's products. For the Year Under Review, the Group's net cash generated from operating activities amounted to approximately RMB62,384,000, while the net cash inflow generated from operating activities for the year ended 31 December 2017 was approximately RMB72,388,000. The decrease in net cash inflow was primarily due the decrease in profit before taxation.

2. **Net cash generated from investing activities**

The Group's net cash generated from investing activities amounted to approximately RMB17,392,000 for the Year Under Review, while the net cash generated from investing activities was approximately RMB24,229,000 for the year ended 31 December 2017. The decrease in net cash inflow generated from investing activities was mainly due to the decrease of proceeds from disposal of the available-for-sales financial assets during the Year Under Review.

3. Net cash used in financing activities

The Group's net cash outflow used in financing activities amounted to approximately RMB159,047,000 for the Year Under Review, while the net cash outflow used in financing activities was approximately RMB83,170,000 for the year ended 31 December 2017. The increase in net cash used in financing activities was mainly due to the increase in repayment of bank loans during the Year Under Review.

CAPITAL STRUCTURE

1. Indebtedness

The total indebtedness of the Group, which will be due within one year as at 31 December 2018 was approximately RMB336,676,000 (2017: approximately RMB412,980,000). During the Year Under Review, the Group did not experience any difficulties in renewing its banking facilities with the lenders.

2. Asset-liability ratio

As at 31 December 2018, the Group's asset-liability ratio, calculated as the total bank borrowings divided by total assets multiplied by 100%, was approximately 26.0% (2017: approximately 31.0%). The decrease was mainly due to the decrease in bank borrowings.

3. Gearing ratio

As at 31 December 2018, the Group's gearing ratio, calculated as total debts divided by total equity, was appropriately 52.8% (2017: approximately 64.4%). The decrease was mainly due to the decrease in bank borrowings.

4. Pledge of assets

As at 31 December 2018, the Group had pledged investment properties, leasehold land held for own use under operating leases and property, plant and equipment to certain banks in the amount of approximately RMB108,900,000, RMB59,652,000 and RMB22,076,000, respectively. As at 31 December 2017, the Group pledged investment properties, leasehold land held for own use under operating leases and property, plant and equipment to certain banks in the amount of approximately RMB100,000,000, RMB61,107,000 and RMB23,168,000, respectively.

5. Capital expenditures

The capital expenditures of the Group primarily included purchases of plant, equipment, leasehold improvements and other costs for acquisition of land. The Group's capital expenditures amounted to approximately RMB11,864,000 and RMB40,125,000 for the years ended 31 December 2018 and 2017, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long-term and short-term bank borrowings. For the Year Under Review, the effective interest rate for fixed rate loans ranged from 3.96% to 6.24%. 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 announcement.

As at 31 December 2018, the Group had cash and cash equivalents of approximately RMB160,660,000 (2017: approximately RMB232,755,000) which was mainly generated from operations of the Group.

CAPITAL COMMITMENT

As at 31 December 2018, the Group had capital commitment of approximately RMB173,362,000 (2017: approximately RMB168,793,000).

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

During the year ended 31 December 2018, the Group did not make any material acquisition or disposal.

LITIGATION

As disclosed in the 2016 annual report of the Company (the "2016 Annual Report"), a claim was filed by the former chief executive officer of Dong Di Xin (the "Plaintiff") against the substantial shareholder of Dong Di Xin (the "Substantial Shareholder") and Dong Di Xin. The related appeal has been lodged by Dong Di Xin (the"Appeal") to the Shenzhen Intermediate People's Court of Guangdong Province (廣東省深圳市中級人民法院) (the "Intermediate Court") against the judgment (the "Judgment") handed down by the Shenzhen Nanshan District People's Court of Guangdong Province (廣東省深圳市南山區人民法院) (the"Court"). The Judgment ordered: (1) the Substantial Shareholder to transfer his 15% equity interest in Dong Di Xin to the Plaintiff (the "Equity Transfer"); (2) the Substantial Shareholder and Dong Di Xin to assist in all relevant procedures for completing the Equity Transfer; and (3) the litigation fee of RMB2,900 shall be borne by the Substantial Shareholder and Dong Di Xin. As disclosed in the 2016 Annual Report, the Judgment did not and will not have any material adverse impact on the Group's ordinary operations and financial positions as the Company will not bear any liability or any significant litigation fee and there will be no dilutive effect on the Group's holding in the equity interest in Dong Di Xin. As disclosed in the announcement of the Company dated 10 August 2018, the Intermediate Court set aside the Judgment of the Court and ruled the case to be returned to the Court for re-trial. As at the date of this announcement, the re-trial of the case has not been commenced. The re-trial of the case is expected to commence on 30 April 2019. The Company will make further announcement(s) to keep the Shareholders and the public informed of any material progress on the case as and when appropriate according to the Listing Rules.

Future Outlook

1. Diversifying Product Portfolio

For more than two decades, the Group has been introducing well-known and high-quality pharmaceutical and healthcare products from overseas. As the population ages in China, citizens are increasingly health conscious. As for the pharmaceutical products, the Group plans to enter into in-depth strategic cooperation with GMP-certified enterprises that are China Time-honored Brands in the future, so as to fill the gaps in the Chinese patent medicine market together. As for healthcare products, consumers have higher demand for these products while desiring functional and specialized healthcare products. In order to cope with market trends and consumers' new demands and desire, the Group will uphold its strategy of using product functions in its positioning to further strengthen the healthcare product business sector, aiming to meet the changing needs and requirements of consumers.

During the Year Under Review, the Group established the daily cosmetics and personal care products segment and introduced its first product from a well-known international brand, the CARMEX healing lip balm series from the United States. In the future, the Group will actively expand into new business areas so as to diversify its product portfolio. Meanwhile, the capital operating team will continue to facilitate the Group's business in the greater health service sector by actively identifying high quality products with market potential and high-quality manufacturers. It will give preference to production enterprises and overseas upstream manufacturers that embraces the greater health concept as well as domestic GMP enterprises that share synergies with the Company's business. In this way, the Group aims to deepen and consolidate its image as a globally leading and well-known omni-channel enterprise with a complete supply chain in the greater health products and services industry in China.

2. OMO develops duo drivers for consumption upgrade

Online and offline consumption experiences were integrated as a result of the emerging new retail and OMO model. In order to cope with the development of consumption upgrade, the Group's information center will optimize its sales management instrument and combine it with data analysis system to build and manage an analytic information system. At the same time, through leveraging the advantages of steady offline business development, utilizing big data analysis to understand consumption preferences, consumption power, geographical location and consumption cycle and using social media platforms to interact with consumers, a greater number of target users can be reached through multiple channels, thereby achieving in-depth online and offline integration as well as targeted marketing.

3. **Enlarging the Export Volume of Medical Devices to the European Market**

Some Chinese enterprises that engage in the export trade incurred higher production costs and recorded less profit due to the increase in tariffs on products exported to United States as a result of the China–United States trade frictions in 2018. The tariff on the infrared pyrometer product series of Dong Di Xin, the Group's medical devices segment, has also increased to 10%, leading to a decline in profit in the Group's medical devices segment in 2018. In 2019, Dong Di Xin intends to expand its exporting business to European and other markets to reduce the effect of uncertainty in exports to the United States while enhancing the development and expansion of its own brand in the Chinese market.

4. **Adjusting Our Financial Risk Management Measures in a Timely Manner**

Despite the trade frictions between China and the United States in 2018, the overall macro economy of China continued to develop steadily. With the uncertainties in the global economy in 2019, the Chinese economy is under increasing downward pressure. The Group will place emphasis on and closely monitor various risks in the external markets and will identify, measure as well as analyze and evaluate them while adopting effective measures to prevent and control such risks in a timely manner. These measures include, but are not limited to, the use of forward foreign exchange transactions to hedge against risks of exchange rate fluctuation. Investment strategy will be more prudent while sufficient cash will be reserved to maintain smooth operation of the Group. Its operating strategy will also be adjusted appropriately in response to changes in the market and business to protect the return on investment of Shareholders and other stakeholders.

HUMAN RESOURCES AND TRAINING

As at 31 December 2018, the Group had a total of 998 employees, of whom 130 worked at the Group's headquarters in Shenzhen, and 392 were stationed in 34 regions responsible for sales and marketing, and 476 worked at Dong Di Xin. Total staff cost for the Year Under Review amounted to approximately RMB119,438,000 (2017: approximately RMB118,689,000). The Group releases an annual sales guideline each year, setting out the annual sales targets and quarterly sales strategies to provide sales and marketing guidelines for all representative offices and their staff to observe. The Group has a management team with extensive industry experience (including the Sales Director and Product Manager), 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.

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

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 2018 of HK2.25 cents per share to Shareholders whose names appear on the register of members of the Company on Wednesday, 5 June 2019, amounting to approximately HK$14,006,000, subject to the approval in the Company's forthcoming annual general meeting to be held on Monday, 27 May 2019. Total dividend payout ratio is approximately 30.0% of the profit for the year attributable to owners of the Company. The above-mentioned final dividend is expected to be paid on or before Friday, 28 June 2019.

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, 21 May 2019 to Monday, 27 May 2019 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for attending and voting at the forthcoming annual general meeting, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Monday, 20 May 2019.

To qualify for the proposed final dividends

The register of members of the Company will be closed from Monday, 3 June 2019 to Wednesday, 5 June 2019 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for receiving the proposed final dividends, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Friday, 31 May 2019.

USE OF PROCEEDS FROM THE LISTING OF THE COMPANY

The net proceeds from the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 25 November 2010, after deduction of related expenses, was approximately HK$241,862,000 (equivalent to approximately RMB206,167,000). As at 31 December 2018, the Group had used up all the net proceeds of approximately RMB206,167,000, of which RMB41,233,000 had been applied for upgrading the transportation and delivery services to customers, RMB20,600,000 had been applied for expanding the product display booth scheme, approximately RMB20,600,000 was used as working capital and approximately RMB123,734,000 has been applied for acquisition of Dong Di Xin.

SHARE OPTION SCHEME

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

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

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

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

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

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

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

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

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

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

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 announcement, 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 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE REPORT

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

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 Audit Committee has, together with the management of the Company and external independent auditors, reviewed the consolidated financial statements, accounting principles and practices adopted for the Group for the Year Under Review, and agreed with the accounting treatment adopted by the Group.

EVENTS AFTER THE REPORTING PERIOD

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

DISCLOSURE OF INFORMATION

This results announcement is published on the website of the Stock Exchange (http://www.hkexnews.hk) under "Listed Company Information" and the website of the Company (http://www.kingworld.com.cn) under "Investor Relations". The annual report for the year ended 31 December 2018 containing all necessary information as required by the Listing Rules will be sent to the Shareholders of the Company in due course, and will be published on the website of the Stock Exchange (http://www.hkexnews.hk) under "Listed Company Information" and the website of the Company (http://www.kingworld.com.cn) under "Investor Relations".

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

Hong Kong, 27 March 2019

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Zhao Li Sheng, Madam Chan Lok San and Mr. Zhou Xuhua, and three independent non-executive Directors, namely Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam.