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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)

UNAUDITED ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

UNAUDITED CONSOLIDATED RESULTS

For the reasons explained in the section headed "Events After the Reporting Period and Review of Unaudited Annual Results" of this announcement, due to the postponement of the date of resumption of work after the Chinese New Year holidays and travel restrictions in connection with the recent outbreak of coronavirus (**COVID-19**) epidemic, the reporting and audit process of the financial statements of Kingworld Medicines Group Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2019 has been disrupted, and the Company is unable to publish an audited annual results announcement by 31 March 2020 in accordance with Rule 13.49 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The unaudited consolidated financial results hereby published have not been agreed with the Company's auditors. The Company will make appropriate announcements and disclosures as and when it is aware of any material adjustment to the unaudited consolidated financial results, and will publish an announcement of the audited results for the year ended 31 December 2019 (the "**Audited Financial Results**") as soon as practicable.

In the meantime, the board (the "**Board**") of directors (the "**Directors**") of the Company is pleased to announce the unaudited consolidated results of the Group for the year ended 31 December 2019 (the "**Year Under Review**") and selected explanatory notes, together with the comparative figures of the corresponding year in 2018 as follows:

RESULTS HIGHLIGHTS

- Revenue decreased by 9.4% to approximately RMB977,928,000 (2018: RMB1,078,843,000).

- Gross profit decreased by 14.2% to approximately RMB267,403,000 (2018: RMB311,497,000).

- Gross profit margin decreased by 1.6% points to 27.3% (2018: 28.9%).

- Profit before taxation decreased by 0.8% to approximately RMB69,809,000 (2018: RMB70,380,000).

- Profit for the year ended 31 December 2019 decreased by 2.9% to approximately RMB50,271,000 (2018: RMB51,759,000).

- Profit attributable to owners of the Company increased by 5.9% to approximately RMB43,427,000 (2018: RMB41,005,000).

- Basic earnings per share increased by 6.1% to approximately RMB7.00 cents (2018: RMB6.60 cents).

- The Board recommended the distribution of a final dividend of HK2.34 cents per share for the year ended 31 December 2019 (2018: HK2.25 cents), subject to the approval of the shareholders of the Company (the "**Shareholders**") at the forthcoming annual general meeting to be held on Wednesday, 27 May 2020.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019 – Unaudited

	Note	**2019 (Unaudited) RMB'000**	2018 (Audited) RMB'000
Revenue	4	**977,928**	1,078,843
Cost of sales		**(710,525)**	(767,346)
Gross profit		**267,403**	311,497
Valuation gain on investment properties		**–**	10,000
Other revenue, income and other net loss	6	**47,663**	17,609
Selling and distribution costs		**(112,283)**	(155,073)
Administrative expenses		**(107,443)**	(96,797)
Amortisation of intangible assets		**(18,831)**	(18,831)
Reversal of impairment losses on financial assets		**235**	441
Profit from operations		**76,744**	68,846
Finance costs	7 (a)	**(15,484)**	(17,003)
Share of profit of a joint venture		**10,009**	19,512
Share of loss of an associate		**(1,460)**	(975)
Profit before taxation	7	**69,809**	70,380
Income tax	8	**(19,538)**	(18,621)
Profit for the year		**50,271**	51,759
Attributable to:			
Owners of the Company		**43,427**	41,005
Non-controlling interests		**6,844**	10,754
Profit for the year		**50,271**	51,759
Earnings per share	10		
Basic (RMB cents)		**7.00**	6.60
Diluted (RMB cents)		**7.00**	6.60

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019 – Unaudited

	2019 (Unaudited) RMB'000	2018 (Audited) RMB'000
Profit for the year	**50,271**	51,759
Other comprehensive income/(loss) for the year (net of tax)		
Items that will not be reclassified to profit or loss:		
Fair value gain/(loss) on financial assets	**11,900**	(7,900)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside the PRC	**287**	(1,956)
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)
	12,187	(9,937)
Total comprehensive income for the year (net of tax)	**62,458**	41,822
Attributable to:		
Owners of the Company	**55,614**	31,104
Non-controlling interests	**6,844**	10,718
Total comprehensive income for the year	**62,458**	41,822

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019 – Unaudited

	Note	**2019 (Unaudited) RMB'000**	2018 (Audited) RMB'000
Non-current assets			
Right-of-use assets		**118,333**	–
Leasehold land held for own use under operating leases		**–**	91,139
Property, plant and equipment		**59,303**	59,984
Investment properties		**122,600**	122,600
Interest in a joint venture		**72,588**	62,579
Interest in associates		**2,566**	4,026
Goodwill		**90,693**	90,693
Intangible assets		**40,841**	59,672
Financial assets at fair value through profit or loss		**5,739**	5,549
Financial assets at fair value through other comprehensive income		**33,697**	24,190
		546,360	520,432
Current assets			
Inventories		**205,121**	182,064
Trade and other receivables	11	**391,516**	416,782
Financial assets at fair value through profit or loss		**15,325**	15,135
Pledged bank deposits		**8,549**	1,642
Cash and cash equivalents		**113,495**	160,660
		734,006	776,283
Current liabilities			
Contract liabilities	12	**72,342**	72,718
Trade and other payables	13	**273,412**	219,711
Bank loans		**214,327**	336,676
Lease liabilities		**9,115**	–
Tax payable		**7,173**	4,123
		576,369	633,228
Net current assets		**157,637**	143,055
Total assets less current liabilities		**703,997**	663,487

	Note	2019 (Unaudited) RMB'000	2018 (Audited) RMB'000
Non-current liabilities			
Lease liabilities		**8,374**	–
Deferred tax liabilities		**22,433**	25,257
		30,807	25,257
NET ASSETS		**673,190**	638,230
CAPITAL AND RESERVES			
Share capital		**53,468**	53,468
Reserves		**549,875**	512,324
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**603,343**	565,792
NON-CONTROLLING INTERESTS		**69,847**	72,438
TOTAL EQUITY		**673,190**	638,230

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019
(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 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 2019 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 comprehensive 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 new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, Leases, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives, and HK(SIC) 27, Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("**short-term leases**") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

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

a. New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

b. Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment.

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 6%.

To ease the transition to HKFRS 16, the group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 RMB'000
Operating lease commitments at 31 December 2018	**21,339**
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	**(4,091)**
	17,248
Less: total future interest expenses	**(1,445)**
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	**15,803**

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 RMB'000	Capitalisation of operating lease contracts RMB'000	Carrying amount at 1 January 2019 RMB'000
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Leasehold land held for own use under operating leases	91,139	(91,139)	–
Right-of-use assets	–	106,942	106,942
Total non-current assets	520,432	15,803	536,235
Lease liabilities (current)	–	5,938	5,938
Current liabilities	633,228	5,938	639,166
Net current assets	143,055	(5,938)	137,117
Total assets less current liabilities	663,487	9,865	673,352
Lease liabilities (non-current)	–	9,865	9,865
Total non-current liabilities	25,257	9,865	35,122
Net assets	638,230	–	638,230

c. ***Impact on the financial result, segment results and cash flows of the Group***

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the amortisation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

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.

	2019	2018
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of HKFRS15		
Disaggregated by major products		
– pharmaceutical products	**633,700**	621,322
– healthcare products	**151,114**	252,600
– medical devices	**193,114**	204,921
	977,928	1,078,843
Timing of revenue recognition		
A point in time	**977,928**	1,078,843

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

5. SEGMENT REPORTING

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

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 2019 and 2018 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	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)
Revenue from external customers	**102,180**	119,310	**789,102**	855,082	**193,114**	204,921	**1,084,396**	1,179,313
Inter-segment revenue	**8,180**	21,728	**2,654**	24,140	**–**	–	**10,834**	45,868
Reportable segment revenue	**110,360**	141,038	**791,756**	879,222	**193,114**	204,921	**1,095,230**	1,225,181
Reportable segment profit (adjusted EBITDA)	**215**	3,406	**47,797**	62,597	**35,841**	40,666	**83,853**	106,669
Interest income from bank deposits	**126**	85	**228**	372	**312**	162	**666**	619
Interest expense	**313**	–	**5,455**	6,557	**609**	–	**6,377**	6,557
Depreciation and amortisation for the year	**581**	314	**9,634**	7,100	**26,066**	21,387	**36,281**	28,801
Reportable segment assets	**265,528**	271,072	**768,477**	832,986	**192,502**	167,837	**1,226,507**	1,271,895
(including investment in joint venture)	**–**	–	**72,588**	62,579	**–**	–	**72,588**	62,579
Additions to non-current segment assets during the year	**2,284**	–	**15,152**	14,938	**7,344**	6,500	**24,780**	21,438
Reportable segment liabilities	**104,170**	33,711	**326,440**	367,116	**68,305**	51,876	**498,915**	452,703

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

	2019	2018
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Revenue		
Reportable segment revenue	**1,095,230**	1,225,181
Elimination of inter-segment revenue	**(10,834)**	(45,868)
Elimination of Group's share of revenue of joint venture	**(106,468)**	(100,470)
Consolidated revenue (note 4)	**977,928**	1,078,843

	2019 (Unaudited) RMB'000	2018 (Audited) RMB'000
Profit		
Reportable segment profit derived from the Group's external customers and joint venture	**83,853**	106,669
Other income	**47,663**	17,609
Depreciation and amortisation	**(36,317)**	(28,801)
Finance costs	**(15,484)**	(17,003)
Unallocated head office and corporate expenses	**(9,906)**	(8,094)
Consolidated profit before taxation	**69,809**	70,380

	2019 RMB'000 (Unaudited)	2018 RMB'000 (Audited)
Assets		
Reportable segment assets	**1,226,507**	1,271,895
Elimination of inter-segment receivables	**(3,820)**	(21,083)
	1,222,687	1,250,812
Non-current financial assets	**33,697**	24,190
Financial assets at fair value through profit or loss	**15,325**	15,135
Unallocated head office and corporate assets	**8,657**	6,578
Consolidated total assets	**1,280,366**	1,296,715

	2019 RMB'000 (Unaudited)	2018 RMB'000 (Audited)
Liabilities		
Reportable segment liabilities	**498,915**	452,703
Elimination of inter-segment payables	**(61,439)**	(15,626)
	437,476	437,077
Current tax liabilities	**7,173**	4,123
Deferred tax liabilities	**22,433**	25,257
Unallocated head office and corporate liabilities	**140,094**	192,028
Consolidated total liabilities	**607,176**	658,485

c) **Geographic Information**

The following is an analysis of geographical location of (i) the Group's revenue from continuing operations from external customers and (ii) the Group's right-of-use assets, property, plant and equipment, investment properties, intangible assets, goodwill and interest in associate and a joint venture. The geographical location of customers is based on to the location at which the goods delivered. The geographical locations of right-of-use assets, property, plant and equipment and investment properties are based on the physical location of the asset under consideration. In the case of 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**	
	2019	2018	**2019**	2018
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC	**875,748**	959,533	**411,945**	399,074
Hong Kong	**102,180**	119,310	**94,979**	91,619
	977,928	1,078,843	**506,924**	490,693

d) **Information about major customers**

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

	2019	2018
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Customer A-revenue from distribution sales of pharmaceutical and healthcare products	**N/A**	N/A

6. OTHER REVENUE, INCOME AND OTHER NET LOSS

	2019 (Unaudited) RMB'000	2018 (Audited) RMB'000
Other revenue:		
Total interest income on financial assets not at fair value through profit or loss:		
Bank interest income	**668**	619
Interest income from financial assets at fair value through other comprehensive income	**1,027**	3,506
Gross rental income from investment properties	**2,911**	2,923
Dividend income from financial assets at fair value through other comprehensive income and through profit or loss	**8,106**	1,878
Promotional service income	**26,028**	13,767
	38,740	22,693
Government grants (note)	**6,450**	4,294
Change in fair value of financial assets at fair value through profit or loss	**95**	(2,750)
Compensation received arising from cancellation of purchases orders and rental agreement	**2,390**	–
Exchange loss	**(2,185)**	(7,705)
Others	**2,173**	1,077
	47,663	17,609

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:

	2019 (Unaudited) RMB'000	2018 (Audited) RMB'000
a) Finance costs		
Total interest expense on financial liabilities not at fair value through profit or loss:		
– Interest on bank loans	**14,252**	17,003
– Interest on lease liabilities (note)	**1,232**	–
	15,484	17,003

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated, see note 3.

	2019 (Unaudited) RMB'000	2018 (Audited) RMB'000
b) Staff costs (including directors' and chief executive's remuneration)		
Salaries and other benefits	**115,812**	108,318
Contributions to defined contribution retirement plan	**11,322**	11,120
	127,134	119,438
c) Other items		
Amortisation of intangible assets	**18,131**	18,831
Auditor's remuneration		
– audit service	**1,462**	1,400
– non-audit services	**417**	399
Cost of inventories sold (note i)	**710,525**	767,346
Write-down of inventories	**1,576**	2,957
Depreciation of property, plant and equipment	**8,996**	8,605
Amortisation of leasehold land held for own use under operating leases	**–**	1,365
Amortisation of right-of-use assets (note ii)	**8,490**	–
(Reversal of impairment losses on trade receivables)/ impairment losses on trade receivables	**(170)**	135
Reversal of impairment losses on other receivables	**(65)**	(576)
Loss on disposal of property, plant and equipment	**551**	36
Total minimum lease payments for leases previously classified as operating leases under HKAS 17 (note ii)	**–**	7,602
Short-term leases and leases of low-value assets	**2,638**	–
Rental income from investment properties less direct outgoings of RMB313,000 (2018: RMB391,000)	**(2,599)**	(2,533)
Research and development costs	**15,072**	13,872
Equity-settled share-based payments		
– consultancy fees to quasi-employees	**–**	332

Notes:

(i) Cost of inventories recognised as expenses includes approximately RMB35,469,000 (2018: RMB34,456,000) relating to staff costs, depreciation of property, plant and equipment and amortisation of right-of-use assets, which are included in the respective total amounts disclosed separately above.

(ii) The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the amortisation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 3.

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

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

	2019 (Unaudited) RMB'000	2018 (Audited) RMB'000
Hong Kong Profits Tax		
– Current year	**2,380**	5,383
PRC Enterprise Income Tax		
– Current year	**19,982**	13,622
Deferred tax		
– Origination and reversal of temporary differences	**(2,824)**	(384)
	19,538	18,621

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

ii) On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

Under the two-tiered profits tax rates regime, the first HK$2 million of assessable profits of qualifying corporations will be taxed at 8.25%, and assessable profits above HK$2 million will be taxed at 16.5%. The assessable profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The two-tiered profits tax rates regime is applicable to the Group for the years ended 31 December 2019 and 2018.

iii) The PRC Enterprise Income Tax charge of the Group during the years ended 31 December 2019 and 2018 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% (2018: 25%), except for Dong Di Xin, which is chargeable at a preferential income tax rate of 15% (2018: 15%).

9. DIVIDENDS

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

	2019 (Unaudited) RMB'000	2018 (Audited) RMB'000
Final dividend proposed after the end of the reporting period of HK2.34 cents (equivalent to RMB2.09 cents) (2018: HK2.25 cents (equivalent to RMB1.98 cents)) per ordinary share	**13,010**	12,326

The final dividend for the year ended 31 December 2019 proposed after the end of the reporting period is subject to approval by the Company's shareholders in the forthcoming annual general meeting to be held on Wednesday, 27 May 2020. 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**

	2019 **(Unaudited)** **RMB'000**	2018 (Audited) RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK2.25 cents (equivalent to approximately RMB2.01 cents) (2018: HK3.43 cents (equivalent to approximately RMB3.01 cents))	**12,533**	18,751

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:

	2019 **(Unaudited)** **RMB'000**	2018 (Audited) RMB'000
Earnings		
Profit for the year attributable to owners of the Company	**43,427**	41,005
Earnings for the purpose of basic earnings per share	**43,427**	41,005

	2019 **(Unaudited)** **'000**	2018 (Audited) '000
Number of shares		
Weighted average number of ordinary shares in issue	**622,500**	622,500
Effect of shares repurchased, awarded and held under share award scheme	**(1,878)**	–
Weighted average number of ordinary shares for the purpose of basic earnings per share	**620,622**	622,500

b) **Diluted earnings per share**

Diluted earnings per share for the years ended 31 December 2019 and 2018 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 2019 and 2018. 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

	2019	2018
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Trade and bills receivables	**285,272**	299,605
Less: Allowance for doubtful debts	**(5,405)**	(5,575)
	279,867	294,030
Other receivables	**37,923**	31,369
Other loan	**46,825**	45,958
Amounts due from related parties (note (c))	**15**	1,020
Amount due from an associate (note (c))	**4,220**	4,140
Loans and receivables	**368,850**	376,517
Prepayments	**17,804**	18,956
Trade and other deposits	**2,336**	2,044
Trade deposits to related parties	**2,526**	19,265
	391,516	416,782

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:

	2019	2018
	(Unaudited)	(Audited)
	RMB'000	RMB'000
0-90 days	**248,333**	250,884
91-120 days	**18,070**	9,857
121-180 days	**8,038**	11,671
181-365 days	**2,706**	21,586
More than 1 year	**2,720**	32
	279,867	294,030

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

c) The balances with related parties and an associate are unsecured, interest free and repayable on demand.

12. CONTRACT LIABILITIES

	2019 (Unaudited) RMB'000	2018 (Audited) RMB'000
Contract liabilities		
– Security deposits received	**58,701**	60,917
– Receipts in advance	**13,641**	11,801
	72,342	72,718

Security deposits are received from the Group's distributors/customers as protection against non–performance of the obligations by the distributors/customers under the relevant master distributorship agreements which were entered into between the Group and the relevant distributors/customers. Receipts in advance are collected from the distributors/customers of the Group when they placed the orders for purchase of goods from the Group. These security deposits and receipts in advance from the distributors/customers are not intended and regarded as a financing arrangement under the relevant master distributorship agreements.

Movements in contract liabilities	2019 (Unaudited) RMB'000	2018 (Audited) RMB'000
Balance at 1 January	**72,718**	69,804
Increase in contract liabilities as a result of receiving deposits during the year	**35,657**	7,681
Decrease in contract liabilities as a result of recognising revenue during the year that was included in contract liabilities at the beginning of the year	**(36,060)**	(4,822)
Exchange difference	**27**	55
Balance at 31 December	**72,342**	72,718

13. TRADE AND OTHER PAYABLES

	2019 (Unaudited) RMB'000	2018 (Audited) RMB'000
Trade payables (note (c))	**227,524**	169,084
Accruals	**7,219**	8,879
Other payables	**31,718**	28,436
Amount due to a joint venture (note (d))	**415**	–
Amount due to related parties (note (d))	**4,035**	–
Financial liabilities measured at amortised cost	**270,911**	206,399
Value–added tax payable	**2,501**	13,312
	273,412	219,711

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 2019, the pledged bank deposit amounted to RMB8,549,000 (2018: RMB1,642,000) was used for the issuance of letters of credit to the trade payables amounted to RMB3,315,000 (2018: RMB1,642,000).

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.

	2019 (Unaudited) RMB'000	2018 (Audited) RMB'000
0–90 days	**226,757**	168,678
91–180 days	**767**	406
	227,524	169,084

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

d) The balances with a joint venture and related parties are unsecured, interest free and repayable on demand.

14. COMPARATIVE INFORMATION

Certain comparative information have been amended to confirm with the current year's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET AND INDUSTRY REVIEW

1. Complex domestic and global economic environment

In the second half of 2019, as the global trade frictions intensified, manufacturing production and international investment showed signs of decline, and business confidence were affected. The trend of global economic slowdown becomes more pronounced. The global economy is facing potential financial volatility arising from looser monetary policies around the world as well as the financial turmoil arising from the weakness of certain emerging markets. The economic environment, in China and abroad, has become more complex and challenging, which the decline in external demand combined with weak domestic demand resulting the domestic economy to face downward pressure. To respond to the complex and challenging economic environment and global economy in 2019, China has adopted macroeconomic control policies including: (i) introducing additional proactive fiscal policies, (ii) maintaining appropriate counter-cyclical adjustments to monetary policies, (iii) accelerating the transformation and upgrade of industrial structure, (iv) formulating stable real estate regulatory policies, and (v) developing sound counter-cyclical regulatory mechanisms.

2. Increasing downward pressure on Chinese economy

In 2019, China's gross domestic product ("**GDP**") was approximately RMB99,086.5 billion, representing a year-on-year increase of 6.1%. The domestic consumer price index increased by 2.9% year-on-year; disposable income per capita was approximately RMB30,733, representing a year-on-year increase of 8.9%. The disposable income per capita of urban residents was approximately RMB42,359, representing a year-on-year of 7.9%, whereas that of rural residents was approximately RMB14,389, representing an increase of 10.1%, reflecting the consistently faster growth of disposable income per capita of rural residents than that of urban residents.

Generally speaking, the Chinese economy remained steady and maintained stable development momentum in 2019. Meanwhile, in view of the slowing down of the global economy and trade, the domestic economy would still face downward pressure due to the increasing sources of volatility and risk factors as well as structural, institutional and cyclical problems in China. Looking at 2020, the downward pressure faced by the domestic economy will be compounded by the unsuccessful trade negotiations between China and the United States of America (the "**US**"), the fundamentals of the Chinese economy are expected to weaken and the consumer market sentiment to turn conservative.

3. **The Group supports the establishment of a Healthy Greater Bay Area and plans to promote the development of the International Chinese Medicine in Shenzhen and Hong Kong in the future**

In February 2019, the State Council of the PRC promulgated the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area (the "**Plan**"), aimed at promoting closer cooperation in quality medical and health resources and supporting the establishment of sole-proprietorship, jointly-owned or cooperative medical institutions and development of regional medical joint ventures and medical centers in nine Pearl River Delta cities by healthcare service providers based in Hong Kong and Macao. Regarding collaboration between practitioners of Chinese medicine, the Central Government encourages the State Key Laboratory of Quality Research in Chinese Medicines in Macao and the Government Chinese Medicine Testing Institute of the HKSAR to develop a set of globally recognised Chinese medicine product quality standards together with scientific research institutions in the PRC to help promote the standardisation and internationalisation of Chinese medicine. The government also supports the collaboration of the Chinese Medicine Science and Technology Industrial Park between Guangdong and Macao to develop a public services platform for the overseas registration of Chinese pharmaceutical products for promoting the healthcare industry and providing quality healthcare services. The Plan benefits the Group in promoting the development of international Chinese medicine facilities in Shenzhen and Hong Kong. Such development assists China in gaining autonomy, authority, pricing rights and control in the development of Chinese medicine, as well as promotes the development of the Chinese medicine industry in Hong Kong and call for a "Healthy China, Healthy Greater Bay Area, Healthy Shenzhen, Healthy Kingworld".

4. **Distribution of a wider range of products, Pu Ji Kang Gan Granules and Fengbao Jianfu Capsules meet market demand**

As a pioneer in introducing quality branded products from overseas, the Group is the agent and distributor of more than 60 types of pharmaceutical and healthcare products to cater to different needs of consumers. Since the COVID-19 outbreak in Mainland China starting at the end of 2019, confirmed infected cases have continued to increase creating tense atmosphere in the community. The nation has stepped up efforts in all aspects to emphasise the treatment of the COVID-19. Reportedly, the Chinese medicines have achieved significant results in treating and preventing the COVID-19. Consequently, a new interest in Chinese medicine has begun among the public. The Group's "Pu Ji Kang Gan Granules" is a product made from many years of experience treating upper respiratory tract infections by Professor Qu Jinglai and Professor Gao Xue who were previously engaged in the front-line clinical treatment during the Severe Acute Respiratory Syndrome (SARS). The medicine can be applied to upper respiratory tract infection and other diseases having similar symptoms as flu or acute tonsillitis, and is with apparent efficacy and limited side effects and can also be used as a preventive against infections. Moreover, the infertility has increased year by year in China due to pollution, increasing stress at work and postpone of childbearing by women. The implementation of the two-child policy stimulates fertility demand, and thus results growth in the reproduction market. The Group's Good Manufacturing Practices ("**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 ("**HKUST**") 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 in Shanghai, Wuhan, Hainan and Liaoning and was popular at maternity hospitals. Looking forward, with the continuous expansion of marketing for infertility products and enhancement of the brand power, the Group expects "Fengbao Jianfu Capsules" will become more popular among doctors and consumers.

BUSINESS REVIEW

The Group has been committed to developing a well-established upstream and downstream supply chain system for the greater health products and services industry for the past 25 years. Currently, it has a business footprint covers more than 34 provinces and cities in China. From 2009 to 2014, the Group was among the Top 100 Import Enterprises of Pharmaceutical and Healthcare Products for six consecutive years and was named as one of the Top 5 Sales Enterprises of Chinese Patent Medicines in terms of sales in 2013. The Group was rewarded as the Guangdong Province Enterprise of Observing Contract and Valuing Credit for five consecutive years, and was also ranked among Shenzhen Top 500 Enterprises in 2018 and 2019 and continued to be recognised as a "Shenzhen Time-honoured Brand" in 2019.

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

The three major business segments of the Group in the greater health services industry are:

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 and the Taiko Seirogan (喇叭牌正露丸);

Healthcare products segment: distributing high-quality and well-known healthcare products from overseas, including the Culturelle (康萃樂) probiotics product series, the Lifeline Care maternal and infant fish oil nutrient product series, "Global Slimming" product series and product series of medicated oils for external use; and

Medical devices segment: undertaking research and development ("**R&D**"), manufacturing and production of medical devices.

For the Year Under Review, revenue from the pharmaceutical products segment amounted to approximately RMB633,700,000, representing a slight increase of 2.0% as compared to the same period last year and accounting for 64.8% of the Group's total revenue. Revenue from the healthcare products segment was approximately RMB151,114,000, representing a decrease of 40.2% as compared to the same period last year and accounting for 15.5% of the Group's total revenue. Revenue from the medical devices segment amounted to approximately RMB193,114,000, representing a decrease of 5.8% as compared to the same period last year and accounting for 19.7% of the Group's total revenue.

Highlights of Pharmaceutical Products Segments

Nin Jiom product series

For the Year Under Review, the Group continued to optimise the structure of its distribution channel for its star product, the Nin Jiom product series. By leveraging its brand appeal and product reputation, the Group has expanded the market into lower-tier cities and enhanced terminal coverage for the products as well as the cooperation with regional pharmacy chains for the Nin Jiom product series, so that more consumers can enjoy the benefits of the Nin Jiom products. However, affected by the macroeconomic factors of the market in 2019, for the Year Under Review, revenue generated from the sales of Nin Jiom Chuan Bei Pei Pa Koa (京都念慈菴蜜煉川貝枇杷膏) decreased by 14.3% to approximately RMB485,700,000 as compared to the same period last year; revenue generated from the sales of Nin Jiom Herbal Candies increased by 5.9% to approximately RMB39,000,000 as compared to the same period last year.

According to the 2019 China Pharmaceutical Enterprises Cooperation and Development Organization Summit ("**the CPEO Summit**"), "Nin Jiom" ranked 18th in the "Brand & Value Ranking" in the industry, with a brand value of RMB3.989 billion. During the Year Under Review, the Group actively coordinated with Nin Jiom and conducted various large-scale promotional events and new media brand promotional activities which aims at cultivating younger consumer group, consolidating the loyalty of customers and injecting a contemporary sense into the brand. Promotional events mainly included launching promotional carnivals under the theme of "Protect Our Lungs" and flash-crowd events at pharmacies across a number of cities in China.

Taiko Seirogan

Taiko Seirogan (喇叭牌正露丸) from Japan is another core product of the Group's pharmaceutical segment. During the Year Under Review, the Group implemented orderly marketing activities and maintained price stability for Taiko Seirogan. The Group, through full-scale distribution and market perpetration and product display in key areas, had enhanced its relationship with its partners. The Group, through different product deployment activities, had expanded its market coverage, enhanced staff training and the consumer education. As for branding promotion, the Group placed large billboard advertisements in high-traffic areas such as alongside busy roads in cities, trains, magazine and bus advertising campaigns as well as the advertising campaigns at high-speed train stations. In addition, the Group launched promotional events with various cooperative companies and online merchandising platforms, mainly including JD.com, Alibaba Health, and Dingdang Medicine Express in order to facilitate integration of online and offline channels. For the Year Under Review, Taiko Seirogan recorded approximately RMB93,800,000 of revenue from sales, representing an increase of 39.1% as compared to the same period last year.

Highlights of Healthcare Products Segment

Culturelle probiotics product series

In 2019, China was affected by macroeconomic factors and the segmentation of consumer market in China has become complicated. There was keen competition among numerous probiotics products in the domestic market. The Culturelle (康萃樂) probiotics product had been out of stock for more than one year in the Chinese market due to formula adjustment and there were various factors to be resolved for the newly formulated product. As such, the Group fully reviewed the business scope of its mainstream products so as to focus its efforts on those more profitable and mature products. After evaluating different factors, the Group adjusted its marketing strategy correspondingly and invested the core sales resources for the development of the Culturelle probiotics product in Hong Kong and Macao markets in 2019.

However, Hong Kong's economic growth was affected by the global economic slowdown and the Sino-US trade frictions in 2019. Moreover, the Hong Kong economy was seriously affected by the local social unrest since June 2019. Such deterioration has severely hindered a serve downward faced by the inbound tourism and the retail industry in Hong Kong. The sales of Culturelle probiotics product was also affected in the second half of 2019. For the Year Under Review, the total revenue of Culturelle Probiotics product series in Hong Kong and Macao markets decreased by 16.4% as compared to the same period last year.

Lifeline Care maternal and infant fish oil nutrient product series

Lifeline Care maternal and infant fish oil nutrient product series from Norway is another star healthcare product brand of the Group. During the Year Under Review, the Group formulated comprehensive promotion strategies for Lifeline Care maternal and infant fish oil, which mainly included establishing strategic cooperation with cross-border e-commerce platforms and maternal and infant public accounts, to reach a wider group of target audience. As for the word-of-mouth communication, the Group captured the trend of promotion platform by cooperating with key opinion leaders ("**KOL**") to raise hot topics on different promotion platforms like Xiaohongshu (小紅書) and Kaola.com. Meanwhile, through recommendations from professional doctors, maternal and infant experts and celebrities, consumers' trust in our brand was greatly enhanced. Lifeline care maternal and infant fish oil nutrient product series gained well-deserved reputation towards its brand and products, which resulted in a significant increase in sales volume. For the Year Under Review, the sales revenue of Lifeline Care maternal and infant fish oil grew significantly by 78.5% as compared to the same period last year.

Product series of medicated oils for external use

The Group is an agent and distributor of various renowned medicated oil products for external use, including the Mentholatum (曼秀雷敦) series, its own brand, Kingworld Imada Red Flower Oil (金活依馬打正紅花油) as well as Hoe Hin White Flower Embrocation (和興白花油). During the Year Under Review, through product deployment activities, concentrated display activities in prioritised key cities and staff training and customer education activities, the Mentholatum series increased its market share. As for brand promotion of the Mentholatum series, the Group placed large billboard advertisements in high-traffic areas such as alongside busy road in cities and participated in the large-scale promotion activities "In the Workplace," held at office buildings. In addition, the Mentholatum series kept strengthening its close cooperation with online pharma retail while conducting KOL advertorials through TikTok and Xiaohongshu to create a trendy and caring brand image. As for the promotion for Hoe Hin White Flower Embrocation, the Group actively launched marketing activities during shopping festivals on e-commerce platforms and offered gift-with-purchase activities for consumers during major festivals to improve terminal sales and brand influence. The Group has also entered into cooperation agreements with terminal retail store customers with respect to Hoe Hin White Flower Embrocation for the entire year in order to further enhance the competitiveness of these products in terminal retail stores.

For the Year Under Review, Kingworld Imada Red Flower Oil has made breakthrough in channel, terminal sales as well as brand promotion development. In terms of developing channels, the Group strived to strengthen the cooperation with downstream enterprises, so as to enlarge the market coverage of this product. As for terminals sales, the Group enlarged the deployment of products in terminal retail stores to increase market coverage. As for brand promotion, the Group proactively supported a variety of sports events, such as Shenzhen Guangming Town International Half Marathon, Shenzhen's Mofang 100km Hike, Shanxi Youyu Marathon and Shenzhen Longgang City Orienteering Race. In addition, the Group continued to distribute product trial packs and offer massage service of Kingworld Imada Red Flower Oil to the residents in various communities and launched several charitable activities of "Quality Goods Welcome Your Trial" to relieve the fatigue of more than 10,000 hiking fans and residents in various communities. Through the experience of the consumers and services rendered to consumers, both the product recognition and purchase confidence were enhanced. During the Chinese New Year in 2019, the Group sponsored the weather forecast broadcast by the News Channel of CCTV-13 to publicise and add "oil" to promote people's health and well-being. For the Year Under Review, the sales revenue of the Kingworld Imada Red Flower Oil increased by 24.5% as compared to the same period last year.

Highlights of Medical Devices Segment

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, manufacturing and production integrated within one entity. Dong Di Xin was awarded with the title of Guangdong Province Quality and Credit AAA Grade Enterprise for three consecutive years. In the context of both continuing China-US trade frictions and the slowing of global economy, there was a great downward pressure on Chinese export. In 2019, Dong Di Xin recorded a slight decrease in sales and profit, due to the increase in the US tariffs and exchange rate fluctuation. For the Year Under Review, revenue from Dong Di Xin amounted to approximately RMB193,114,000, representing a decrease of 5.8% as compared to the same period last year.

MANAGEMENT REVIEW

1. Implement SMART System to enhance precise and efficient marketing management and control

Xi Jinping, President of the PRC, proposed that the country will drive the development of blockchain technology as an important breakthrough in driving core and autonomous innovation. In the 21st century, global scientific and technological innovation has entered into an era of unprecedented intensive activities. We have witnessed the innovative development and practical application of blockchain technology as a new generation of information technology which has extended to the fields of digital finance, the Internet of Things, intelligent manufacturing, supply chain management and digital assets transactions. To conform to the trend of times and strengthen the management of sales and marketing performance, in 2019, the Group officially launched the Market Sales Traceability Management system (the "**SMART System**") equipped with product sales and marketing traceability function.

As a data-linked sales management system, the "SMART System" can thoroughly analyse real time customers, products, regions and personnel date streams to enable the Group to better understand customer needs, discover potential market and product, develop reasonable sales plan, procurement and inventory, manage activates as well as optimise workflow. By securely collecting the stream of channel data, the Group has access to useful active first-hand sales data, which in turn help boost the Group's work efficiency and business management standard. The "SMART System" uses scientific Big Data analysis to ascertain target consumers' needs, explore niche markets and explore new markets, that the Group may formulate more precise and profitable marketing strategy. At the same time, the system can meet the requirements for traceability and safety monitoring of pharmaceutical products and food in China. It can help the Group to systematically manage the monitoring processes of the pharmaceutical and healthcare product businesses, forming an integrated monitoring platform to achieve the objectives of traceability of product source, physical flow, quality investigation and accountability so that strong protection can be provided for customers.

2. **Optimise the management structure and control of marketing management risk**

The Group has fully implemented a "deep-rooted, optimised and refined" operation and sales management strategy. In 2019, the Group continued to optimise the organisational structure of its operations and sales systems, focusing on redeployment and structural adjustment of mid-level sales personnel in each sales area and providing a wider scope of performance evaluation for managers and mid-level management. At the same time, by improving professional competence, sense of responsibility and performance of front-line employees in sales regions, the market coverage of products has been expanded. On the other hand, the Group welcomes experienced personnel with extensive management experience to join the Group to strengthen the overall business operations and strategic planning and sales and market management. Meanwhile, by reinforcing effective management of account receivables and tightening the policy of "payment before delivery" towards downstream distributors, the Group would maintain sufficient working capital.

3. **Focus on downward penetration to foster channel sales and retain customer loyalty**

In 2019, the State Council announced the guidelines on the promotion of integrated urban-rural development, which stated that the urbanisation in China will be mature in 2035. The market expects that the present urbanisation rate of around 60% in China will increase to 70% and 75% by 2035, and this, in turn, implies that around 100 to 200 million people will be moving from the rural areas to towns and cities in the future. Increasing urbanisation can continuously generate consumption potential and effectively boost investment. In view of the uneven and incomplete development of urbanisation in the second-and third-tier cities, the Group has proactively refined its target markets. For the Year Under Review, the Group continued to define the target markets for its pharmaceutical distribution business and capture more accurate and comprehensive market information. Such information enables the Group to deploy its resources and formulate customised plans for proactive down-market penetration to different channels, strengthen channels management, explore market niches and expand the product coverage to meet the consumption needs of domestic consumers while further improving channel marketing and customer loyalty. For the Year Under Review, the distribution network of the Group has increased from 200,000 to 210,000 Over-the-Counter ("**OTC**") retail pharmacies, an increase of 5% as compared to the same period last year.

4. **Implement the Hong Kong Chinese Pharmaceutical Demonstration Platform through capital operation**

During the Year Under Review, various investment projects of the Group delivered stable and positive results. Such projects included the 15% equity interest in Dong Hua Tong Investments Limited (東華通投資有限公司) in 2015, the stake indirectly held in Miquel Alimentació (西班牙米蓋爾公司) (a Spanish company engaged in food distribution and wholesale and supply chain management) and Manassen Foods Australia (a major food company), as well as the 2,302,000 shares of Chuangmei Pharmaceutical Co., Ltd. (02289.HK) the Group subscribed for in 2015. The Group has continued to receive steady dividends from these two investments.

On 24 June 2015, the Group formed a partnership agreement with a general partner through its wholly-owned subsidiary, Kingworld Medicines Health Management Limited ("**Kingworld Medicines Health Management**"), and Kingworld Medicines Health Management subscribed for the partnership interests of SINOPHARM HEALTHCARE FUND L.P. In November 2017, SINOPHARM HEALTHCARE FUND L.P. invested in Semma Therapeutics Inc. In September 2019, such investment was realised and generated ample investment revenue for the Group. With Kingworld Medicines Health Management acting as the limited partner of SINOPHARM HEALTHCARE FUND L.P., the Group received investment revenue corresponding to the proportion of its share of the fund on 6 December 2019.

Moreover, on 2 January 2018, Shenzhen Kingworld Medicine Company Limited, a wholly-owned subsidiary of the Group, invested in the "Shenzhen Zhiyuan Healthcare Technology Innovation Center" (深圳至元健康科技創新中心), a greater health services project in the Lok Ma Chau Loop, on the Hong Kong border. Shenzhen Zhiyuan Healthcare Technology Innovation Center and the Group are the two main initiators. The two partners together, among others, also initiated development of a Hong Kong Chinese Pharmaceutical Demonstration Platform and an agreement was entered into on 12 April 2019. The parties concerned intended to use the advantageous Chinese pharmaceutical resources of Hong Kong, complemented by their industrial strength in Shenzhen to develop the Hong Kong Chinese Pharmaceutical Demonstration Platform, opening a channel for Chinese pharmaceutical products from Hong Kong to enter the mainland market. Through the platform, partners can pursue in-depth cooperation on such aspects as where to deploy resources, how to comply with policy requirements as well as commercial trade and logistics, paving the way for the smooth penetration of quality centuries-old Chinese medicine brands to enter the mainland market and deliver them to thousands of households through Kingworld's sales network across the country, thereby continuously providing customers with quality healthcare products and taking care of the health of the Chinese.

Construction of the Hong Kong Chinese Pharmaceutical Demonstration Platform is an important tool for implementing the instruction of Xi Jinping, President of the PRC, on reviving the Chinese pharmaceutical industry. This direction is also an important vehicle in facilitating the integrated development of the Chinese pharmaceutical industry in Shenzhen, Hong Kong and Macao and expediting integration of the Chinese pharmaceutical industries in Hong Kong and Macao with that in the Mainland China, as set out in the Outline of the Development Plan for the Greater Bay Area. It will also be a measure that can boost the modernisation and internationalisation of Chinese medicines and develop Shenzhen develop to become a bridgehead for pharmaceutical industry-related cooperation along the "Belt and Road".

5. Diversified training to enhance staff competitiveness

The implementation of "deep-rooted, optimised and refined" management strategy was the key initiative of the Group in 2019. The Group requested all its marketing personnel to be thoroughly perform their day-to-day basic responsibilities, fully exploit the Company's big-data-based "SMART System" to search for suitable regional market gaps of each product, rationally deploy business and manpower, integrate business and corporate resources of the Company and carefully cultivate each market gaps. To enhance the core competitiveness and achieve objectives, the Group's Human Resources Center and Kingworld Business School organised various training courses covering different subjects and targets during the Year Under Review, which mainly included (i) sales skills trainings to staff from different sales regions and sharing of outstanding cases; (ii) promptly replicating key talent training projects by cultivating a part-time internal trainer team; (iii) organising training programmes for new employees to enhance their understanding of the corporate structure, procedures and corporate culture, and boost their product knowledge as well as operational and management knowledge; (iv) organising the Kingworld talent training project in cooperation with the Food & Drug Vocational College in Guangzhou (廣州食品藥品學院), aiming to cultivate a reserve of talent for the sales system; and (v) reserving management projects for improving management's business negotiation skills in reserve management and identifying sales growth potential to nurturing future key personnel. During the Year Under Review, the Group organised more than 15 training sessions, and lively and diversified staff activities covering online and offline programmes. Outdoor activities helped employees gain physical strength while indoor activities helped foster exchanges and enhance relationships among employees, conducive to boosting the Kingworld culture. In March 2019, a staff gymnasium was built in the Shenzhen headquarters building to encourage Kingworld's employees to actively care for their health and respond to the call for a "Healthy China, Healthy Bay Area, Healthy Shenzhen, and Healthy Kingworld."

During the Year Under Review, the Kingworld Art Space "Mind Comforting Hall Living Space (舒心堂 • 生空間)" was opened at the Group's headquarters in Shenzhen. The famous contemporary Buddhist monk and painter, the Buddhist Master Xinde (心德法師), was invited to the opening ceremony and the exhibition of the series of Buddha and Buddhist icons inherited from the Chinese Han Dynasty, namely "The Buddha and Buddha Image Exhibition", which showcased the culture of healthy body and mind as well as the culture of mercy and wisdom to foster the cultural development of employees' physical and mental health, strengthen the positive relationship between the physical and mental health and improve their work efficiency. This exhibition was the first art exhibition held after the establishment of the "Mind Comforting Hall · Living Space" highly regarded for its aesthetic appeal and research value.

HONOURS

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

- In January 2019, the Group's Culturelle probiotics product series from the United States and Lifeline Care maternal and infant fish oil product series from Norway 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 March 2019, the Group was presented "The Key Logistics Company of Shenzhen" plaque by the Transport Commission of Shenzhen Municipality

- In March 2019, the Group was awarded the "Marketing Innovation Award" at the 3rd Super Brand Conference

- In April 2019, Ms. Chan Lok San, the Executive Director of the Company, was invited to be the Honorary Chairman of the Second Council of Greater Health Association of the EDP Alumni Association of Lingnan College at Sun Yat-Sen University

- In April 2019, Mr. Zhao Li Sheng, the Chairman of the Board, was awarded as the "Leader of the Shenzhen Health Industry 2018" at the Shenzhen Health Industry Annual Meeting 2018

- In April 2019, the Group was awarded the "Certificate of Quality Management Standards for Operation of Pharmaceutical Products" issued by the Shenzhen Food and Drug Administration

- In May 2019, the Group was awarded the "Certificate of Excellence" by the Hong Kong Investor Relations Association at the 5th Hong Kong Investor Relations Awards

- In June 2019, the Group was awarded the honourable title of "Guangdong Province Enterprise of Observing Contracts and Valuing Credit 2018" by the Guangdong Provincial Administration for Industry and Commerce

- In July 2019, the Group ranked the 325th on the "2019 Shenzhen Top 500 Enterprises" list in the "2019 Shenzhen Top 500 Enterprise Development Report" issued by the Shenzhen Enterprise Confederation and Shenzhen Entrepreneur Association

- In August 2019, the "Nin Jiom" brand for which the Group acted as a distributor ranked 18th in the "Brand & Value Rankings" with a brand value of more than RMB3.989 billion

- In August 2019, the "Nin Jiom" for which the Group acted as a distributor won two grand awards, namely the "Most Popular Cough Relief Brand Products" and the "Top 10 Marketing Cases for the Great Health Industry 2019"

- In September 2019, the Group ranked 25th in the corporate category of "2018 Shenzhen Charity Donation List"; and the "Kingworld Care for Health Foundation" ranked 78th on the social organisation donation income list

- In October 2019, Nin Jiom Chuan Bei Pei Pa Koa was named as the Most Recommended Brand (Cough Product Category) by Salespersons in Pharmacies of China for 2018-2019

- In November 2019, the Group was accredited as a "Shenzhen Time-honoured Brand" by the Federation of Industry & Commerce of Shenzhen, Shenzhen Media Group, Shenzhen Newspaper Group and Shenzhen Commercial News Agency

- In November 2019, Mr. Zhao Li Sheng, the Chairman of the Board, was presented with the honourable title of "Global Outstanding CSR Leadership Award – Special Award" at the Global Outstanding CSR Summit and Awards 2019 held in Cambodia

- In December 2019, the Group was included in the Top 100 list of the "Third Shenzhen Top 100 Quality Enterprises" selected by the Shenzhen Enterprise Confederation, Shenzhen Entrepreneurs Association

- In December 2019, Mr. Zhao Li Sheng, the Chairman of the Board, was appointed as Honorary President of the Second Council by the Beijing Chaozhou Chamber of Commerce at the 2019 Beijing Chaozhou Chamber of Commerce Conference, which was co-organised by the Beijing Jingchao Public Welfare Foundation

- In December 2019, Mr. Zhao Li Sheng, the Chairman of the Board, was presented a letter of appointment as a monitor of the party, political and police practice trends and clean governance under the Shenzhen Municipal Public Security Bureau

FINANCIAL REVIEW

1. Revenue

Revenue of the Group for the Year Under Review was approximately RMB977,928,000, representing a decrease of approximately RMB100,915,000 or 9.4% from approximately RMB1,078,843,000 for the year ended 31 December 2018. The decrease was mainly a result of the decreased in revenue of the Nin Jiom products and 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 RMB710,525,000, representing a decrease of approximately RMB56,821,000 or 7.4% from approximately RMB767,346,000 for the year ended 31 December 2018. The decrease in cost of sales was in line with the decrease in revenue. Gross profit margin decreased from 28.9% for the year ended 31 December 2018 to 27.3% for the Year Under Review.

3. Other revenue, income and other net loss

Other revenue, income and other net loss mainly included 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 RMB47,663,000, representing an increase of approximately RMB30,054,000 of 170.7% from approximately RMB17,609,000 for the year ended 31 December 2018. The increase was mainly due to the increase in promotional service income of approximately RMB12,261,000 and the decrease in exchange loss of approximately RMB5,520,000.

4. Selling and distribution costs

For the Year Under Review, selling and distribution costs amounted to approximately RMB112,283,000, representing a decrease of approximately RMB42,790,000 or 27.6% from approximately RMB155,073,000 for the year ended 31 December 2018. This decrease was primarily attributable to the decrease in advertising and promotional expenses of approximately RMB33,896,000.

5. Administrative expenses

For the Year Under Review, administrative expenses amounted to approximately RMB107,443,000, representing an increase of approximately RMB10,646,000 or 11.0% from approximately RMB96,797,000 for the year ended 31 December 2018. For the Year Under Review, rental expenses was approximately RMB2,223,000, administrative staff costs was approximately RMB12,946,000, legal and professional fees, which comprised mainly of financial reporting costs of the Company and legal advisory and consultancy fees, was approximately RMB6,085,000, and research and development expenses was approximately RMB15,072,000 (2018: rental expenses was approximately RMB2,679,000, administrative staff costs was approximately RMB11,520,000, legal and professional fees was approximately RMB7,651,000, and research and development expenses was approximately RMB13,872,000).

6. Profit from operations

For the Year Under Review, profit from operations for the Group amounted to approximately RMB76,744,000, representing an increase of approximately RMB7,898,000 or 11.5% from approximately RMB68,846,000 for the year ended 31 December 2018. The increase in profit from operations was mainly due to the decrease in selling and distribution costs and increase in promotional service income for the Year Under Review.

7. Finance costs

For the Year Under Review, finance costs amounted to approximately RMB15,484,000, representing a decrease of approximately RMB1,519,000 or 8.9% from approximately RMB17,003,000 for the year ended 31 December 2018. The decrease was mainly due to the decrease in bank loans.

8. Profit before taxation

For the Year Under Review, profit before taxation for the Group amounted to approximately RMB69,809,000, representing a decrease of approximately RMB571,000 or 0.8% from approximately RMB70,380,000 for the year ended 31 December 2018. The decrease in profit before taxation was mainly due to the decrease in share of profit of a joint venture of approximately RMB10,009,000.

9. Income tax

For the Year Under Review, income tax expenses for the Group amounted to approximately RMB19,538,000, representing an increase of approximately RMB917,000 or 4.9% from approximately RMB18,621,000 for the year ended 31 December 2018. This increase was mainly due to the decrease in the reversal of deferred tax. The effective tax rate for the Year Under Review was 28.0%, compared to 26.5% for the year ended 31 December 2018.

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 RMB43,427,000, representing an increase of approximately RMB2,422,000 or 5.9% from approximately RMB41,005,000 for the year ended 31 December 2018. The increase in profit for the year attributable to owners of the Company was mainly due to the increase in profit from operation of approximately RMB7,898,000 and the decrease in non-controlling interests of approximately RMB3,910,000, which was partially off-set by the decrease in share of profit of a joint venture of approximately RMB10,009,000.

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 2019 amounted to RMB391,516,000, representing a decrease of approximately RMB25,266,000 from approximately RMB416,782,000 as at 31 December 2018. The decrease was mainly due to the decrease in trade and bills receivables of approximately RMB14,163,000 and trade deposits to related parties of approximately RMB16,739,000.

2. Inventories

As at 31 December 2019, inventories owned by the Group amounted to approximately RMB205,121,000, representing an increase of approximately RMB23,057,000 when compared with that of RMB182,064,000 as at 31 December 2018. The main reason for the increase in inventories was the increase in finished goods.

3. Right-of-use assets/leasehold land held for own use under operating leases

As at 1 January 2019, leasehold land held for own use under operating leases was re-classfied as right-of-use assets of approximately RMB91,139,000 due to the adoption of HKFRS 16 (2018: approximately RMB91,139,000). As at 31 December 2019, right-of-use assets of the Group amounted to approximately RMB118,333,000.

4. Property, plant and equipment

Property, plant and equipment owned by the Group include building, leasehold improvements, furniture, fixtures and office equipment, machinery, motor vehicles and construction-in-progress. As at 31 December 2019, the net book value of property, plant and equipment owned by the Group amounted to approximately RMB59,303,000, representing a decrease of approximately RMB681,000 from approximately RMB59,984,000 as at 31 December 2018. The decrease in property, plant and equipment was mainly due to the depreciation 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 2019, trade and other payables of the Group amounted to approximately RMB273,412,000, representing an increase of approximately RMB53,701,000 from approximately RMB219,711,000 as at 31 December 2018. The increase was mainly due to the increase in trade payables of approximately RMB58,440,000, which was partially off-set by the decrease in value-added tax payables of approximately RMB10,811,000.

CAPITAL STRUCTURE

1. Indebtedness

The total indebtedness of the Group, which will be due within one year as at 31 December 2019, was approximately RMB214,327,000 (2018: approximately RMB336,676,000). 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 2019, the Group's asset-liability ratio, calculated as the total bank borrowings divided by total assets multiplied by 100%, was approximately 16.7% (2018: approximately 26.0%). The decrease was mainly due to the decrease in bank borrowings.

3. Gearing ratio

As at 31 December 2019, the Group's gearing ratio, calculated as total debts divided by total equity, was appropriately 31.8% (2018: approximately 52.8%). The decrease was mainly due to the decrease in bank borrowings.

4. Pledge of assets

As at 31 December 2019, the Group had pledged investment properties, right-of-use assets and property, plant and equipment to certain banks in the amount of approximately RMB108,900,000, RMB58,287,000 and RMB20,984,000, respectively. As at 31 December 2018, 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 RMB108,900,000, RMB59,652,000 and RMB22,076,000, respectively.

5. Capital expenditures

The capital expenditures of the Group primarily included purchases of plant, equipment, leasehold improvements and other costs for acquisition of right-of-use assets and land. The Group's capital expenditures amounted to approximately RMB20,288,000 and RMB11,864,000 for the years ended 31 December 2019 and 2018, 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 3.60% to 5.88%. 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 2019, the Group had cash and cash equivalents of approximately RMB113,495,000 (2018: approximately RMB160,660,000) which was mainly generated from operations of the Group.

CAPITAL COMMITMENT

As at 31 December 2019, the Group had capital commitment of approximately RMB171,827,000 (2018: approximately RMB173,362,000).

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

During the year ended 31 December 2019, 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 announcement of the Company dated 10 August 2018, the Intermediate Court, among other things, set aside the Judgment of the Court and ruled the case to be returned to the Court for re-trial (the "**Re-trial**"). According to the judgment for the Re-trial dated 19 June 2019 (the "**2019 Judgment**") handed down by the Court, the Court ordered (i) the Equity Transfer; and (ii) Dong Di Xin to provide relevant assistance for completing the Equity Transfer and dismissed the claims and counterclaims of the Substantial Shareholder. The Company has been informed that each of the Substantial Shareholder and Dong Di Xin has lodged an appeal (the "**2019 Appeal**") against the 2019 Judgment. As at the date of this announcement, no hearing date of the 2019 Appeal has been set. The Company confirmed that the Judgment and the 2019 Judgment did not and will not have any material adverse impact on the ordinary operations and financial positions of the Group. 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. To embark on a new journey of pursuing the dream of greater health in the 25th anniversary of Kingworld

In 2019, Kingworld celebrated its 25th anniversary. In the past 25 years, the Group succeeded in grasping development opportunities from China's reform policies and marched into the pharmaceutical industry, starting its journey of pursuing the dream "to serve the community and to benefit the world (效力世人，澤潤蒼生)" and meeting peoples' needs for a quality and healthy lifestyle. In the past 25 years, the Group has brought in high-quality and efficacy products of more than 60 long-established and renowned overseas brands. These products, with the support of the Group's sales and marketing networks across the nation and Kingworld representatives taking them direct to local retail outlets, together with effective marketing, have served thousands of household consumers in China.

For the Group, its 25th anniversary marks a new beginning. The macro-economic situation, domestic and global, is more complex and volatile. The uncertainty of the Sino-US trade negotiations, the continual launch by the Chinese government of new policies related to the pharmaceutical industry, the logistics industry and retail industry have become increasingly concentrated, the survival pressure persist for small and medium enterprises, more diverse purchase channels and flattening of purchase behaviour has also been observed. To adapt to the changes in the business environment and with market, consumption and technology, the Group must adapt to the trend of integration of online and offline channels, grasp and apply the timely experiential marketing tactics, as well as strive to refine the overall marketing strategy and focus for each product. The Group will strive to seize opportunities presented by the favourable policies for the vigorous development of the Chinese medicine industry in China. The Group can do so by actively engaging in further cooperation with long-established traditional Chinese medicine manufacturers, enriching the product lines, seizing the opportunities to participate in investment in upstream manufacturers and promoting existing products to the third- and forth-tier cities to enhance the sales scale.

In addition, the Group plans to launch collaborative projects with the HKUST regarding probiotics. Collaborating with HKUST's research and development capability with the Group's analysis and expertise regarding the future market trends, for the development of Chinese medicines with probiotics and anti-inflammatory properties. Such cooperation will enable the Group to expand its product lines and accommodate various demands of a broader spectrum of consumers.

2. Adjust product structure appropriately to support expansion of greater health industry

In 2020, the Group will utilise the scientific big data analysis from the "SMART System" to accommodate to the changes in consumers' need and competitive landscape and formulate comprehensive marketing and distribution plans for each product portfolio of the Group. In the future, the Group will concentrate its resources, based on the actual situation, on its existing product portfolio by expanding the mainstream products which will generate a higher and stable income for the Group. In addition, the Group will conduct research and analysis on a small amount of non-mainstream products with slow growth rate in order to seek and maintain an optimised product structure. Apart from pharmaceutical and healthcare products, the Group aims to cover products including household anti-epidemic items, such as face masks, disinfection supplies and hygiene products.

Furthermore, the capital operating team of the Group will continue to facilitate the Group's business in the greater health services sector by actively identifying quality overseas brands, integrating production enterprises and overseas upstream manufacturers with operations with potential products in the greater health market. At the same time, the Group will look for collaborative partners among domestic GMP enterprises in order to strengthen the development of the Group's upstream and downstream supply chain systems in the greater health industry.

3. Continuous development of channels in lower-tier cities to increase market share

In the Sixth National Population Census, consumers from China's third-tier cities and lower accounted for more than 70% of the nation's total consumers and their GDP accounted for 59% of the nation's GDP. At the same time, the third-tier cities and lower contributed two-thirds of China's economic growth. According to the "Report on In-depth Analysis and Development Trend Forecast on the Chinese Movie Industry for 2017-2023" (《2017-2023年中國電影行業深度分析及發展趨勢預測報告》) by the Intelligence Research Group, areas such as income level, infrastructure conditions, population and industrial trend as well as the business environment of lower-tier cities have continued to improve in recent years. As the purchasing power of the population of the third-and fourth-tier cities increases, they will become the next main group for boosting consumption and consumption upgrade. Looking ahead, the Group will continue to develop channels in the lower-tier cities in China. Through scientific big data analysis from the "SMART System" together with its upstream and downstream integrated supply chain and logistics, the Group will further penetrate its channels, enlarge its product coverage to the third- and fourth-tier cities and explore untapped markets, so as to increase the Group's market share and profitability.

4. Implementing employees' assessment and incentive system to enhance stable development of each business

The Group will comply with the Group's performance management guideline of "the one who does more work gets more pay" to ensure employees to achieve annual sales targets. In the future, the Group will link the performance appraisal of all employees with the Company's sales performance, together with the actual market situation and sales system management. This is aimed at further strengthening the deployment management of different sales regions, raising the deployment rate of products and reducing untapped markets in the different sales regions. In the future, the Group will further optimise the performance indicators of salespersons in different sales regions as well as employees in all positions, so as to motivate employees in related positions, and to promote a stable development in each business and business performance by implementing "the one who does more work gets more pay".

5. Strengthen risk management to foster stable and healthy operation of the Group

In 2019, facing challenges and uncertainties brought by global trade protectionism, the Sino-US trade negotiations, the social unrest in Hong Kong as well as the recent COVID-19 outbreak, growth of the global economy in the first half of 2020 is expected to slow down and become conservative, while corporates and society shall "practice austerity". The Group will exercise a stronger grip on its finance, including closely monitoring and identifying various market risks in and outside the country, measuring, analysing and rating them, so as to make adjustment to relevant solutions and implement timely measures to prevent and control risk. The Group will adopt an even more prudent investment strategy and make sure it has sufficient cash in its reserves to support the smooth operation of its business. At the same time, the Group will exercise a stronger grip on internal administration and control expenses to lower operations cost while optimising its business so as to safeguard the investment returns of Shareholders and other stakeholders.

HUMAN RESOURCES AND TRAINING

As at 31 December 2019, the Group had a total of 1,013 employees, of whom 133 worked at the Group's headquarters in Shenzhen, and 409 were stationed in 34 regions mainly responsible for sales and marketing, and 471 worked at Dong Di Xin. Total staff cost for the Year Under Review amounted to approximately RMB127,134,000 (2018: approximately RMB119,438,000). The Group releases an annual sales guideline on a yearly basis, setting out the annual sales targets and formulating quarterly sales strategies to provide sales and marketing guidelines for all representative offices and their staff. The Group has a management team with extensive industry experience (including the sales directors and product managers), which is responsible for coordinating front-line sales and marketing teams to meet the annual sales targets.

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

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

The Company has also implemented a share award scheme in August 2019 (the "**Share Award Scheme**") for the purpose of recognising the contributions made by certain participants and providing incentives in retaining the participants for the continual operation and development of the Group and attracting suitable personnel for future development of the Group. Details of the Share Award Scheme are set out in the section headed "Share Award 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 2019 of HK2.34 cents per share to Shareholders whose names appear on the register of members of the Company on Friday, 5 June 2020, amounting to approximately HK$14,567,000, subject to the approval of the Shareholders at the Company's forthcoming annual general meeting to be held on Wednesday, 27 May 2020. 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 Tuesday, 30 June 2020.

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 Thursday, 21 May 2020 to Wednesday, 27 May 2020 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for attending and voting at the forthcoming annual general meeting, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 20 May 2020.

To qualify for the proposed final dividends

The register of members of the Company will be closed from Wednesday, 3 June 2020 to Friday, 5 June 2020 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for receiving the proposed final dividends, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Tuesday, 2 June 2020.

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 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 2019, 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.

SHARE AWARD SCHEME

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

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

In September 2019, the Trustee purchased an aggregate of 6,000,000 shares of the Company from the market for the purpose of the Share Award Scheme. For details, please refer to the announcements of the Company dated 5 September 2019 and 12 September 2019, respectively. As at the date of this announcement, no shares of the Company have been awarded to any selected participants pursuant to the Share Award Scheme.

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

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 2019, 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**") in Appendix 14 to the Listing Rules, and adopted various measures to enhance the internal control system, the Directors' continuing professional training and other areas of practice of the Company. While the Board strives to maintain a high level of corporate governance, it also works hard to create value and achieve maximum return for its Shareholders. The Board will continue to conduct review and improve the quality of corporate governance practices with reference to local and international standards.

During the 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 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 of the Company. Mr. Wong Cheuk Lam has been appointed as the chairman of the Audit Committee.

Pursuant to the meeting of the Audit Committee held on 30 March 2020 attended by all the members of the Audit Committee, the Audit Committee has, together with the management of the Company, reviewed the unaudited consolidated financial statements for the year ended 31 December 2019, this unaudited results announcement, the accounting principles and practices adopted for the Group, as well as the risk management and internal control systems of the Group for the Year Under Review, and agreed with the accounting treatments adopted by the Group.

EVENTS AFTER THE REPORTING PERIOD AND REVIEW OF UNAUDITED ANNUAL RESULTS

The reporting and audit processes of the Group's financial statements for the year ended 31 December 2019 has been disrupted due to the postponement of the date of resumption of work after the Chinese New Year holidays and travel restrictions in connection with the recent outbreak of coronavirus (COVID-19) epidemic, and the Company is unable to publish an audited annual results announcement by 31 March 2020 in accordance with Rule 13.49 of the Listing Rules.

The Company will publish an announcement of the audited annual results in accordance with Rule 13.49 of the Listing Rules as soon as practicable.

The unaudited annual results contained in this announcement have been reviewed by the Audit Committee but have not been agreed by the Company's auditors.

Following the completion of the auditing process, the Company will issue further announcement(s) in relation to (i) the Audited Financial Results as agreed by the Company's auditors and the material differences (if any) as compared with the unaudited annual results contained in this announcement; and (ii) circumstances arising from the audit of the Group or financial statements which constitute price sensitive information (if any). In addition, the Company will issue further announcement(s) as and when necessary if there are other material developments in the completion of the auditing process.

The COVID-19 outbreak since the end of 2019 has brought about additional uncertainties to the Group's operating environment and may have impact on the Group's operating and financial position. The Group has been closely monitoring the impact from the COVID-19 epidemic on the Group's businesses and has commenced to put in place various measures. Based on the information currently available, the Directors confirm that there has been no material adverse change in the financial or trading position of the Group up to the date of this announcement. However, the actual impacts may differ from these estimates as the situation continues to evolve and further information becomes available.

The financial information contained in this announcement in respect of the annual results of the Group have not been audited and have not been agreed with the auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

DISCLOSURE OF INFORMATION

This unaudited 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 2019 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, 30 March 2020

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.