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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)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2020**

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		% Changes Increase/ (Decrease)
	2020 (unaudited) RMB'000	2019 (unaudited) RMB'000	
Revenue	292,948	519,042	(43.6)%
Cost of sales	(183,024)	(373,577)	(51.0)%
Gross profit	109,924	145,465	(24.4)%
Gross profit margin	37.5%	28.0%	9.5% points
Profit for the period	31,773	38,150	(16.7)%
Profit attributable to owners of the Company	9,850	32,885	(70.0)%
Basic earning per share (RMB cents)	1.60	5.28	(69.7)%

RESULTS HIGHLIGHTS

In the first half of 2020, the economy of China was affected by the outbreak of novel coronavirus (COVID-19) (the “Pandemic”). In order to prevent the spread of the Pandemic, the Chinese government has imposed travel restrictions and lockdown of certain cities and some businesses had to halt or suspend production. As a result, both the flow of people and logistics and transportation were severely affected. The business of Kingworld Medicines Group Limited (the “Company”) and its subsidiaries (collectively, the “Group”) in the sales of pharmaceutical products and healthcare products was not immune, and had recorded a decrease in revenue for the six months ended 30 June 2020 (the “Reporting Period”). Besides, in view of the changes in the situation of Pandemic prevention and control, the Chinese government requires maintaining proper social distance between people and has limited the holding of mass promotional activities as far as possible. The Chinese government has also restricted the sales of flu and cough-reducing products and

pharmacies are no longer allowed to sell such products. People who buy antipyretic and cough-reducing medicines are required to register their real name and upon purchasing such medicine, their personal health code will change from green to yellow. As a result, some customers with mild coughing are unwilling to buy cough-reducing medicines. The ‘Stay at Home’ guidance issued by the Chinese government also led to a decrease in the number of customers visiting pharmacies. As most outdoor activities have been postponed or cancelled, the brand exposure and sales of Nin Jiom Chuan Bei Pei Pa Koa (京都念慈菴蜜煉川貝枇杷膏) (“Nin Jiom Pei Pa Koa”), the best-selling flagship product of the Group, has also been significantly reduced.

However, the decrease in the sales of pharmaceutical and healthcare products was partially offset by the drastic growth in the sale of medical devices, which grew by more than 70% during the Reporting Period, as compared to the six months ended 30 June 2019. It is due to the significant increase in the sales of infrared thermometers by Shenzhen Dong Di Xin Technology Company Limited (“Dong Di Xin”), the medical devices segment of the Group. Dong Di Xin is a medical devices manufacturer that has obtained various certifications and licences for the medical devices it manufactures and/or exports, including the certification issued by the United States of America Food and Drug Administration (FDA), the CE0197 marking, and ISO13485 certification for its infrared thermometers. During the Pandemic, according to the No. 12 announcement of 2020 jointly issued by the Ministry of Commerce, General Administration of Customs and State Administration for Market Regulation, with effect from 26 April 2020, anti-Pandemic products can only be sold and/or exported if their manufacturers are on the list by the China Chamber of Commerce for Import and Export of Medicines and Health Products (“Export White List”). Dong Di Xin, leveraging its superior production quality and comprehensive quality system, has become the fourth infrared thermometer manufacturer in China to be included on the Export White List. It indicates that Dong Di Xin is not only qualified to export to the United States (the “U.S.”) and Europe during the Pandemic, but also able to handle bulk overseas purchase order and deliver timely.

Looking forward, as the public’s awareness of Pandemic prevention increases, the general public hygiene standard will be raised and the demand for Pandemic prevention products will increase, which is positive to the prospects of Dong Di Xin. As the Pandemic stabilises and businesses resume their operations and production, the sales of pharmaceutical products and healthcare products is expected to resume to normal.

The board (the “Board”) of directors (the “Directors”) of the Company is pleased to announce the unaudited consolidated results of the Group for the Reporting Period together with the comparative figures for the six months ended 30 June 2019 with the selected notes as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX MONTHS ENDED 30 JUNE 2020 - UNAUDITED
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2020	2019
		(unaudited)	(unaudited)
		RMB'000	RMB'000
Revenue	4	292,948	519,042
Cost of sales		(183,024)	(373,577)
Gross profit		109,924	145,465
Other revenue, income and other net gains	7	40,910	18,330
Selling and distribution costs		(42,700)	(54,683)
Administrative expenses		(46,919)	(46,221)
Amortisation of intangible assets		(9,415)	(9,415)
Change in fair value of financial assets at fair value through profit or loss		(3,025)	(372)
Reversal of impairment loss on trade receivables/ (impairment losses on trade receivable)		319	(64)
Reversal of impairment loss on other receivables		234	200
Profit from operations		49,328	53,240
Finance costs	8(a)	(7,183)	(8,800)
Share of profit of a joint venture		3,174	6,069
Share of (loss)/profit of an associate		(1)	1
Profit before taxation	8	45,318	50,510
Income tax	9	(13,545)	(12,360)
Profit for the period		31,773	38,150
Attributable to:			
Owners of the Company		9,850	32,885
Non-controlling interests		21,923	5,265
Profit for the period		31,773	38,150
Earnings per share	11		
Basic (RMB cents)		1.60	5.28
Diluted (RMB cents)		1.60	5.28

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2020 - UNAUDITED

(Expressed in Renminbi)

	Six months ended 30 June	
	2020 (unaudited) RMB'000	2019 (unaudited) RMB'000
Profit for the period	<u>31,773</u>	<u>38,150</u>
Other comprehensive income/(loss) for the period		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside the PRC	<u>1,306</u>	<u>2,005</u>
	<u>1,306</u>	<u>2,005</u>
Total comprehensive income for the period (net of tax)	<u><u>33,079</u></u>	<u><u>40,155</u></u>
Attributable to:		
Owners of the Company	11,157	34,401
Non-controlling interests	<u>21,922</u>	<u>5,754</u>
Total comprehensive income for the period	<u><u>33,079</u></u>	<u><u>40,155</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020 - UNAUDITED
(Expressed in Renminbi)

	Note	30 June 2020 (unaudited) RMB'000	31 December 2019 (audited) RMB'000
Non-current assets			
Right-of-use assets		114,355	118,333
Property, plant and equipment		57,089	59,303
Investment properties		122,600	122,600
Interest in a joint venture		75,762	72,588
Interest in an associate		2,565	2,566
Goodwill		90,693	90,693
Intangible assets		31,426	40,841
Financial assets at fair value through profit or loss		5,739	5,739
Financial assets at fair value through other comprehensive income		44,345	33,697
		544,574	546,360
Current assets			
Inventories		240,491	205,121
Trade and other receivables	12	273,047	391,516
Financial assets at fair value through profit or loss		12,578	15,325
Pledged bank deposits		8,683	8,549
Cash and cash equivalents		263,324	113,495
		798,123	734,006
Current liabilities			
Contract liabilities		74,265	72,342
Trade and other payables	13	153,087	273,412
Bank loans		393,970	214,327
Lease liabilities		9,487	9,115
Tax payable		17,351	7,173
		648,160	576,369

	Note	30 June 2020 (unaudited) RMB'000	31 December 2019 (audited) RMB'000
Net current assets		<u>149,963</u>	<u>157,637</u>
Total assets less current liabilities		<u>694,537</u>	<u>703,997</u>
Non-current liabilities			
Lease liabilities		4,504	8,374
Deferred tax liabilities		<u>21,021</u>	<u>22,433</u>
		<u>25,525</u>	<u>30,807</u>
NET ASSETS		<u><u>669,012</u></u>	<u><u>673,190</u></u>
CAPITAL AND RESERVES			
Share capital		53,468	53,468
Reserves		<u>547,745</u>	<u>549,875</u>
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		<u>601,213</u>	603,343
NON-CONTROLLING INTERESTS		<u>67,799</u>	<u>69,847</u>
TOTAL EQUITY		<u><u>669,012</u></u>	<u><u>673,190</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020 - UNAUDITED

(Expressed in Renminbi unless otherwise indicated)

1. GENERAL INFORMATION

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

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are set out in note 3.

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 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 adopted Hong Kong dollars (“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 its presentation currency.

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

This condensed consolidated financial statements contain selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. The condensed consolidated financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs.

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties, financial instruments classified as financial assets at fair value through other comprehensive income, trading securities and financial assets at fair value through profit or loss, which are measured at fair value.

The condensed consolidated financial statements are unaudited, but have been reviewed by the Company’s audit committee.

3. CHANGES IN ACCOUNTING POLICIES

(a) *New HKFRSs and amendments to HKFRSs adopted by the Group*

In the current interim period, the Group adopted and applied, for the first time, the following amendments to HKFRSs issued by the HKICPA:

Amendments to HKFRS 3	Definition of a business
Amendments to HKAS 1 and HKAS 8	Definition of material

The application of the above revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

(b) *New standards, amendments to standards and interpretations issued but not yet effective for the accounting period beginning on 1 January 2020 and not early adopted by the Group*

HKFRS 17	Insurance Contracts ¹
Amendments to HKFRS 3	Reference to the Conceptual Framework ³ (Released on 29 June 2020)
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended use ³ (Released on 29 June 2020)
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ³ (Released on 29 June 2020)
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020 ³ (Released on 29 June 2020)

- 1 Effective for annual periods beginning on or after 1 January 2021
- 2 Effective for annual periods beginning on or after a date to be determined
- 3 Effective for annual periods beginning on or after 1 January 2022

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 period.

	Six months ended 30 June	
	2020 (unaudited) RMB'000	2019 (unaudited) RMB'000
Sales of		
– pharmaceutical products	104,090	360,357
– healthcare products	42,492	73,906
– medical devices	146,366	84,779
	<u>292,948</u>	<u>519,042</u>
Timing of revenue recognition		
A point in time	<u>292,948</u>	<u>519,042</u>

5. SEGMENT INFORMATION

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

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

(a) Segment results, assets and liabilities

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

	Distribution sales of pharmaceutical and healthcare products				Manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices		Total	
	Hong Kong		PRC		PRC			
	2020 (unaudited) RMB'000	2019 (unaudited) RMB'000	2020 (unaudited) RMB'000	2019 (unaudited) RMB'000	2020 (unaudited) RMB'000	2019 (unaudited) RMB'000	2020 (unaudited) RMB'000	2019 (unaudited) RMB'000
For the six months ended 30 June								
Revenue from external customers	24,780	53,232	121,801	381,031	146,367	84,779	292,948	519,042
Inter-segment revenue	2,767	1,910	1,981	417	—	—	4,748	2,327
Reportable segment revenue	<u>27,547</u>	<u>55,142</u>	<u>123,782</u>	<u>381,448</u>	<u>146,367</u>	<u>84,779</u>	<u>297,696</u>	<u>521,369</u>
Reportable segment profit/(loss)(adjusted EBITDA)	<u>(11,645)</u>	<u>(3,085)</u>	<u>(8,731)</u>	<u>42,680</u>	<u>60,562</u>	<u>22,964</u>	<u>40,186</u>	<u>62,559</u>
	30 June 2020 (unaudited) RMB'000	31 December 2019 (audited) RMB'000	30 June 2020 (unaudited) RMB'000	31 December 2019 (audited) RMB'000	30 June 2020 (unaudited) RMB'000	31 December 2019 (audited) RMB'000	30 June 2020 (unaudited) RMB'000	31 December 2019 (audited) RMB'000
Reportable segment assets	281,529	265,528	661,266	768,477	250,628	192,502	1,193,423	1,226,507
Reportable segment liabilities	108,688	104,170	324,362	326,440	113,672	68,305	546,722	498,915

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

(b) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2020 (unaudited) RMB’000	2019 (unaudited) RMB’000
Reportable segment profit derived from Group’s external customers and joint venture	40,186	62,559
Other income	40,910	18,330
Depreciation and amortisation	(20,676)	(17,735)
Change in fair value of financial assets at fair value through profit or loss	(3,025)	(372)
Finance costs	(7,183)	(8,800)
Unallocated head office and corporate expenses	(4,894)	(3,472)
	<hr/> 45,318 <hr/>	<hr/> 50,510 <hr/>
Consolidated profit before taxation	45,318	50,510

6. SEASONALITY OF OPERATIONS

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

7. OTHER REVENUE, INCOME AND OTHER NET GAINS

	Six months ended 30 June	
	2020 (unaudited) RMB’000	2019 (unaudited) RMB’000
Other revenue:		
Total interest income on financial assets not at fair value through profit or loss:		
Bank interest income	37	90
Interest income from financial assets at fair value through other comprehensive income	201	955
Gross rental income from investment properties	962	1,525
Dividend income from financial assets at fair value through other comprehensive income	942	740
Promotional service income	29,107	10,676
	<hr/> 31,249 <hr/>	<hr/> 13,986 <hr/>
Government grants (note below)	9,436	4,565
Gain on disposal of property, plant and equipment	8	–
Exchange loss, net	(3,749)	(1,727)
Others	3,966	1,506
	<hr/> 40,910 <hr/>	<hr/> 18,330 <hr/>

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.

8. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2020 (unaudited) RMB'000	2019 (unaudited) RMB'000
a) Finance costs		
Total interest expense on financial liabilities not at fair value through profit or loss:		
Interest on bank loans	6,717	7,780
Interest on lease liabilities	466	1,020
	<u>7,183</u>	<u>8,800</u>
Total finance costs	<u>7,183</u>	<u>8,800</u>
b) Other items		
Amortisation of intangible assets	9,415	9,415
Cost of inventories (note i)	183,024	373,577
Depreciation of property, plant and equipment	5,393	4,494
Amortisation of right-of-use assets	5,868	3,143
Amortisation of leasehold land held for own use under operating leases	–	683
Write-down of inventory	3,947	2,100
Reversal of impairment loss on other receivables (Reversal of impairment loss on trade receivables)/ impairment loss on trade receivables	(234)	(200)
(Gain)/loss on disposal of property, plant and equipment	(8)	176
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	–	3,592
Rental income from investment properties less direct outgoings of RMB165,000 (six months ended 30 June 2019: RMB213,000)	(797)	(1,312)
Research and development cost (note ii)	5,346	6,365
	<u>5,346</u>	<u>6,365</u>

Notes:

- i) Cost of inventories includes approximately RMB20,743,000 (2019: RMB13,793,000) 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) Research and development cost includes approximately RMB777,000 (2019: RMB785,000) relating to depreciation of property, plant and equipment and amortisation of right-of-use assets, which are included in the respective total amounts disclosed separately above.

9. INCOME TAX

	Six months ended 30 June	
	2020 (unaudited) RMB'000	2019 (unaudited) RMB'000
Hong Kong Profits Tax		
Current period	3,165	839
PRC Enterprise Income Tax		
Current period	11,792	12,564
Under-provision in prior years	—	369
	14,957	13,772
Deferred tax		
Origination and reversal of temporary differences	(1,412)	(1,412)
	13,545	12,360

Notes:

- i) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.
- ii) On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of assessable profits of qualifying corporations will be taxed at 8.25%, and assessable profits above HK\$2 million will be taxed at 16.5%. The assessable profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. The two-tiered profits tax rates regime is applicable to the Group for the six months ended 30 June 2020 and 2019.
- iii) The PRC Enterprise Income Tax charge of the Group during the six months ended 30 June 2020 and 2019 represented mainly the PRC Enterprise Income Tax charge on the Group’s PRC subsidiaries, Shenzhen Kingworld Medicine Company Limited (“SZ Kingworld”), and Shenzhen Dong Di Xin Technology Company Limited (“Dong Di Xin”) are based on a statutory rate of 25% (six months ended 30 June 2019: 25%), except for Dong Di Xin, which is based on a preferential income tax rate of 15% (six months ended 30 June 2019: 15%).
- iv) Under the New EIT Law and its implementation rules, dividends receivable by non-PRC resident enterprises from PRC resident enterprises are subject to withholding tax at a rate of 10% unless reduced by tax treaties or agreements. Under the Agreement between the Mainland China and Hong Kong Special Administration Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion, or Mainland China/HKSAR DTA, Hong Kong corporate tax residents which hold 25% or more of a PRC enterprise are entitled to a reduced dividend withholding tax rate of 5%. Pursuant to CaiShui [2008] No. 1 Notice on Certain Preferential Enterprise Income Tax Policies, undistributed profits generated prior to 1 January 2008 are exempted from such withholding tax. Accordingly, dividends receivable by the Group’s investment holding company in Hong Kong from the PRC subsidiaries in respect of profits earned since 1 January 2008 will be subject to 5% withholding tax.

10. DIVIDENDS

- a) The Company's directors do not recommend the payment of an interim dividend for the six months ended 30 June 2020 and 2019.
- b) Dividends payable to owners of the Company attributable to the previous financial year, approved and paid during the Reporting Period:

	Six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Final dividend in respect of the previous financial year ended, approved and paid during the Reporting Period, of HK2.34 cents (equivalent to approximately RMB2.13 cents) (2019: HK2.25 cents (equivalent to approximately RMB1.98 cents))	13,287	12,310

11. EARNINGS PER SHARE

(a) *Basic earnings per share*

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

i) *Profit attributable to owners of the Company*

	Six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Profit for the year attributable to owners of the Company	9,850	32,885
Earnings for the purpose of basic earnings per share	9,850	32,885

ii) *Weighted average number of ordinary shares*

	Six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
Weighted average number of ordinary shares in issue	622,500,000	622,500,000
Effect of shares repurchased and held under share award scheme	(6,000,000)	—
Weighted average number of ordinary shares for the purpose of basic earnings per share	616,500,000	622,500,000

(b) Diluted earnings per share

Diluted earnings per share for the six months ended 30 June 2020 and 2019 was the same as the basic earnings per share because that the exercise price of the share options granted was higher than the weighted average market price of the Company's shares during the six months ended 30 June 2020 and 2019. As the conversion or exercise of the share options would have an anti-dilutive effect on earnings per share, the calculation of diluted earnings per share does not assume conversion or exercise of potential ordinary shares of the share options.

12. TRADE AND OTHER RECEIVABLES

As of the end of the Reporting Period, the ageing analysis of trade and bills receivables (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

	At 30 June 2020 (unaudited) RMB'000	At 31 December 2019 (audited) RMB'000
0-90 days	116,254	248,333
91-120 days	12,705	18,070
121-180 days	16,776	8,038
181-365 days	924	2,706
More than 1 year	1,242	2,720
Total trade and bills receivables, net of allowance for doubtful debts	147,901	279,867
Other receivables	43,544	37,923
Other loans	47,734	46,825
Amounts due from related parties	1,006	15
Amount due from an associate	4,300	4,220
Amount due from joint venture	3	–
Loans and receivables	244,488	368,850
Prepayments	19,684	17,804
Trade and other deposits	4,121	2,336
Trade deposits to related parties	1,374	2,526
Value-added tax receivable	3,380	–
	273,047	391,516

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

13. TRADE AND OTHER PAYABLES

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

	At 30 June 2020 (unaudited) RMB'000	At 31 December 2019 (audited) RMB'000
0-90 days	83,088	226,757
91-180 days	23,547	767
181-365 days	61	—
Over 365 days	39	—
	<hr/>	<hr/>
Total trade payables	106,735	227,524
Accruals	4,841	7,219
Amount due to related parties	7,761	4,035
Amount due to a joint venture	—	415
Other payables	33,750	31,718
	<hr/>	<hr/>
Financial liabilities measured at amortised cost	153,087	270,911
Value-added tax payable	—	2,501
	<hr/>	<hr/>
	153,087	273,412
	<hr/> <hr/>	<hr/> <hr/>

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET AND INDUSTRY REVIEW

The outbreak of the Pandemic was first reported in China at the end of 2019. In the first half of 2020, the Pandemic gradually spread across the world and many countries which are affected by the Pandemic have implemented infection prevention measures such as lockdowns and closure of borders, which led to a decrease in production and consumer expenditure as well as volatility in stock markets. Along with the significant reduction in trade activities in various countries, the global economy has plunged into the worst recession since World War II.

In the first half of 2020, China's gross domestic product ("GDP") was approximately RMB45,661.4 billion, representing a period-on-period decrease of 1.6%. In terms of GDP by quarters, the GDP decreased by 6.8% period-on-period in the first quarter and increased by 3.2% period-on-period in the second quarter. Among which, the added value of the service industry decreased by 5.2% period-on-period in the first quarter and increased by 1.9% period-on-period in the second quarter. In the first half of 2020, China's consumer price index increased by 3.8% period-on-period, which was 1.1% lower than that in the first quarter. The total retail sales of consumer goods was approximately RMB17,225.6 billion, representing a period-on-period decrease of 11.4%, which was 7.6% lower than that in the first quarter. In the second quarter of 2020, the total retail sales of consumer goods decreased by 3.9%, which was 15.1% lower than that in the first quarter. In the first half of 2020, most economic indicators were rebounding or decreasing at a slower pace. However, in terms of the cumulative pace in the first half of 2020, most of the economic indicators in respect of GDP, the service industry and consumption were falling. In the first half of 2020, as the Pandemic continuously spread and escalated across the world, normalised Pandemic prevention and control have brought severe challenges to China. The complex and changing domestic and international situation as well as natural disasters had caused disruption in the industry chain, supply chain and foreign trade exports in mainland China, which had adversely affected the recovery of economy of China.

According to the statistical information, the sales of medicines in the over-the-counter (the "OTC") markets and terminals, such as pharmacies and medical stores declined drastically in the first quarter of 2020. Since February 2020, due to restrictions on the flow of people and the sales of certain kinds of medicines, the average in-store sales per month plummeted. More than 50% period-on-period decrease was recorded in the peak of the Pandemic in China.

In the first half of 2020, affected by the Pandemic, the business of the Group in the pharmaceutical products and healthcare products segment in mainland China, Hong Kong and Macau had recorded a decrease in revenue. However, as the most notable symptoms of the Pandemic is fever, there has been a surge in demand for infrared body temperature monitor products, which have become essential products for businesses and households. In April 2020, leveraging on its years of experience and mature technology in research and development, manufacturing and production of infrared body temperature monitor products, Dong Di Xin, the Group's medical devices segment, was listed by the China Chamber of Commerce for Import and Export of Medicines and Health Products as one of the medical supplies manufacturers that has obtained foreign standard certification or registered licence to export infrared thermometers.

Under normalised Pandemic prevention and control, the general public has become more health consciousness. The awareness of healthy lifestyles has risen notably, and the demand for health-promoting products has increased significantly. In the first half of 2020, China's per capita expenditure on medical grade alcohol, masks and other medical and sanitary supplies increased by 3.3 times, and the per capita expenditure on washing and sanitary products increased by 19.9%. The Group assisted the country and the people in fighting against the Pandemic together by expanding its product portfolio to cover the distribution of medical masks that meet certain certification standards, thereby helping to alleviate the shortage of medical masks in the market.

On the other hand, as crises coexist with opportunities, the Pandemic has increased the public's health awareness and brought new opportunities to the Group's "Three Treasures of Pandemic Prevention" (防疫三寶), namely medical masks, infrared thermometers and Pu Ji Kang Gan Granules (普濟抗感顆粒). Since the outbreak of the Pandemic, Nin Jiom Chuan Bei Pei Pa Koa has been selected as a recommended pharmaceutical product for the treatment of the Pandemic in Wuhan Union Hospital and listed as a phlegm-reducing drug on the list of drugs for the prevention and treatment of the Pandemic recommended by the Shandong Provincial Pharmaceutical Retail Industry Association. Pu Ji Kang Gan Granules is a product made from many years of experience in treatment of respiratory tract infections by Professor Qu Jinglai and Professor Gao Xue who were previously engaged in the front-line clinical treatment for the Severe Acute Respiratory Syndrome (SARS). It can be applied to upper respiratory tract infections and other diseases having similar symptoms as flu such as acute tonsillitis. It has apparent efficacy and limited side effects and can also be used to prevent virus infections. The Group expects that Kingworld's "Three Treasures of Pandemic Prevention" will bring positive development to the Group.

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, the Group has business presence in more than 34 provinces and cities in China. The Group was named as one of the Top 100 Import Enterprises of Pharmaceutical and Healthcare Products for six consecutive years from 2009 to 2014 and one of the Top 5 Sales Enterprises of Chinese Patent Medicines in 2013. The Group was awarded as the Guangdong Province Enterprise of Observing Contract and Valuing Credit for six consecutive years, and was also ranked among Shenzhen's Top 500 Enterprises in 2018 and 2019 and continued to be recognised as a "Shenzhen Time-honoured Brand" in 2019.

The Group is a 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.

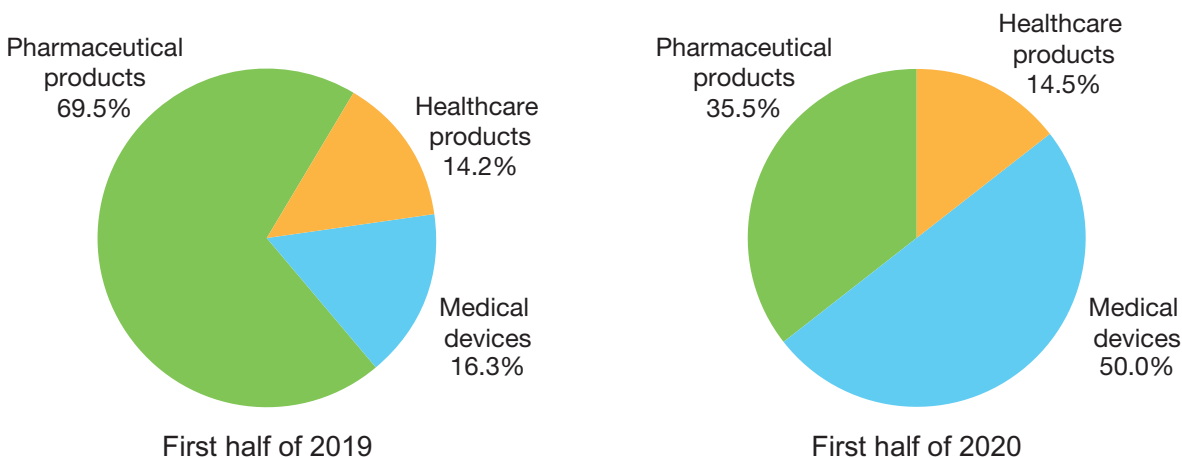
The three major business segments of the Group are:

Pharmaceutical products segment: acting as an agent and distributor of high-quality and well-known pharmaceutical products from overseas, including the acclaimed 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 flagship Culturelle (康萃樂) probiotics product series, the Lifeline Care maternal and infant fish oil nutrient product series, the “CARMEX” lipstick series and product series of medicated oils for external use; and

Medical devices segment: undertaking research and development (R&D), manufacturing and production of medical devices such as infrared thermometers and distributing medical supplies such as medical masks.

During the Reporting Period, revenue from the pharmaceutical products segment amounted to approximately RMB104,090,000, representing a period-on-period decrease of 71.1% and accounting for 35.5% of the Group’s total revenue; revenue from the healthcare products segment was approximately RMB42,492,000, representing a period-on-period decrease of 42.5% and accounting for 14.5% of the Group’s total revenue; and revenue from the medical devices segment amounted to approximately RMB146,366,000, representing a period-on-period increase of 72.6% and accounting for 50.0% of the Group’s total revenue.



During the Pandemic, owing to the lockdown of certain cities, the flow of people and logistics and transportation were affected. Distribution sales of the Group’s pharmaceutical products and health-care products decreased over 60% in total in the first half of 2020. However, the decrease was partially offset by the significant growth in the sale of medical devices, which grew by more than 70% in the first half of 2020. It is due to the significant increase in the sales of infrared thermometers by Dong Di Xin, the medical devices segment of the Group. Thus, the Group’s profit for the Reporting Period still amounted to over RMB31.5 million. The overall gross profit margin increased by about 10 percentage points to 37.5%.

Looking forward, as the public's awareness of Pandemic prevention increases, the general public hygiene standard will be raised and the demand for Pandemic prevention products will increase, which is positive to the prospects of Dong Di Xin. As the Pandemic stabilises and businesses resume their operations and production, the sales of pharmaceutical products and healthcare products is expected to resume to normal.

Highlights of Pharmaceutical Products Segment

Nin Jiom product series

Nin Jiom Chuan Bei Pei Pa Koa (京都念慈菴蜜煉川貝枇杷膏) (“Nin Jiom Pei Pa Koa”) is the best-selling flagship product of the Group. Since the outbreak of the Pandemic, Nin Jiom Pei Pa Koa has been selected as a recommended pharmaceutical product for the treatment of the Pandemic infections in Wuhan Union Hospital and listed as a phlegm-reducing drug in the list of drugs for the prevention and treatment of the Pandemic recommended by the Shandong Provincial Pharmaceutical Retail Industry Association.

However, in view of the changes in the situation of Pandemic prevention and control, the Chinese government has restricted the sales of flu and cough-reducing products, and pharmacies are no longer allowed to sell such products. The Chinese government also requires retail pharmacies to standardise and implement prevention and control measures such as environmental cleanliness, disinfection, ventilation, temperature monitoring, staff trainings on knowledge of prevention and control of infection, maintaining proper social distance between people, limiting the holding of mass promotional activities as far as possible, requiring real-name registration for consumers who buy antipyretic and cough-reducing medicines. The ‘Stay at Home’ guidance issued by the Chinese government also led to a decrease in the number of customers visiting pharmacies. As most outdoor activities have been postponed or cancelled, brand exposure and sales have also been reduced. Meanwhile, consumers have developed the habit of wearing masks and washing hands frequently, which have reduced the chance of catching a flu and thereby reduced consumer demand, and resulted in a decrease in the Group's sales revenue. Due to the above reasons, during the Reporting Period, revenue from Nin Jiom Pei Pa Koa decreased significantly by 71.6% period-on-period to RMB72,851,000; and revenue from Nin Jiom Herbal Candies also decreased by 28.8% period-on-period to RMB14,131,000.

As the situation of Pandemic in China stabilises, work, production, business and markets in various regions have gradually resumed, and production and living have gradually returned to normal. The Chinese government has stepped up its efforts in promoting domestic demand and releasing consumption potential, so as to boost market recovery. The Group expects that the overall sales in the second half of 2020 will gradually stabilise.

Taiko Seirogan

The Pandemic also affected the sales of Taiko Seirogan to a certain extent. During the Reporting Period, the overall revenue of Taiko Seirogan decreased by 95.2% period-on-period to RMB3,117,000.

Although the sales of Taiko Seirogan was affected by the Pandemic, the Group has strengthened the distribution and channel penetration for Taiko Seirogan through online trainings provided to store staff and strengthened promotional activities with consumers through internet during the Reporting Period. The Group actively carried out online medicine marketing in micro business malls such as JD Pharmacy (京東大藥房), Ali Health Pharmacy (阿里健康大藥房), Dingdang Smart (叮噹智慧), Neptunus (海王) and DaShenLin (大參林) to integrate online and offline marketing. Online promotion methods mainly include doctors' live broadcast, Baidu Q&As, advertorials of key opinion leaders ("KOLs") on Xiaohongshu and TikTok short videos. Offline promotion methods mainly include billboard advertisements, bus exterior advertisements, pillow cover and magazine advertisements on trains as well as advertisements in high-speed railway stations and border entry-exit gates.

Highlights of Healthcare Products Segment

Culturelle probiotics product series

In the first half of 2020, Hong Kong's overall economy and retail market had been affected by the Pandemic and social events. The sales of the Culturelle probiotics product series from the U.S., being the Group's flagship healthcare product, was also affected. During the Reporting Period, the overall revenue from the sale of Culturelle probiotics in the Hong Kong and Macau markets decreased by 69.9% period-on-period.

The Group expects that the retail market in Hong Kong and Macau will continue to be affected by the Pandemic during the year as consumers' willingness to spend decreases. However, the Group is still optimistic about the future development potential of the probiotics market. During the Reporting Period, the Group continued to actively promote the brand of Culturelle probiotics, including advertising in core MTR stations and major newspapers and cooperating with large personal care product chains such as Mannings and Sasa in product promotion and sales promotion activities, and will continue to participate in international infant and children's products expo.

Lifeline Care maternal and infant fish oil nutrient product series

Lifeline Care ("LLC") maternal and infant fish oil nutrient product series from Norway is a key healthcare product brand of the Group. During the Reporting Period, through the cooperation with a number of large-scale cross-border e-commerce platforms as well as recommendations by professional doctors, experts in the maternal and infant field and celebrities, and strengthening cooperation with KOLs for live broadcast promotions amid the Pandemic, the Group has recorded satisfactory sales in LLC products. In addition, the Group has explored a number of online marketing channels such as Tmall, Taobao masters, Kuaishou live broadcast, Nicomama and TikTok videos, and its advertising exposure has covered more than 600 spots with advertising screens and 50,000 parcels. The Group has also made light box advertisements in Luohu business district in Shenzhen, to improve its brand exposure. During the Reporting Period, LLC's sales revenue significantly increased by 23.0% period-on-period.

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, and Kingworld Imada Red Flower Oil (金活依馬打正紅花油), its own brand. During the Reporting Period, the product series of medicated oils for external use was affected by the Pandemic, which led to a decline in sales. During the Pandemic, the Group participated in various public welfare activities, including donation of Mentholatum products to units fighting on the front line of the Pandemic. The Group also carried out online promotion and marketing activities through major e-commerce platforms, including holding live broadcasts and acquisition of users, so as to promote online and offline integration. In addition, the Group gained exposure through KOLs on Xiaohongshu, advertorials on Weibo and WeChat as well as short videos on Bilibili and TikTok, so that more consumers learn about the efficacy and uses of Compound Mentholatum Ointment (曼秀雷敦複方薄荷膏) and Mentholatum Nasal Inhaler (鼻吸).

As the Chinese government implemented anti-Pandemic measures and recommended maintaining proper social distance between people, many large-scale events and gatherings have been cancelled or postponed, while tourism and business travel have been reduced. The Group has always actively supported various types of sports events. Due to the outbreak of the Pandemic, all major sports events were postponed or cancelled during the Reporting Period, which led to the significant reduction in offline promotion and exposure of Kingworld Imada Red Flower Oil (“Red Flower Oil”). To overcome the difficulties brought by the Pandemic, the Group has strengthened the cooperation with the distributors and product deployment in terminal retail stores. In addition, the Group established various WeChat groups for online staff training. The Group has established incentive schemes for salespeople and partners. In terms of branding, the Group has re-positioned and revised the promotion strategy of Red Flower Oil, using platforms such as TikTok and Xiaohongshu to increase the online exposure of Red Flower Oil. Meanwhile, through live broadcast platforms of major pharmacies, the Group explained the efficacy of Red Flower Oil to consumers, so as to drive consumers’ consumption. On the other hand, the Group actively participated in anti-Pandemic charity work, mainly including the donation of Red Flower Oil to the frontline workers of Shenzhen Metro and the cooperation with the Haikou Municipal Committee of the Communist Youth League to send Kingworld Healthcare Packages (金活關愛健康包) to the families of medical staff in Haikou who assisted in fighting against the Pandemic in Wuhan. Benefited from the increase in sales driven by effective promotions, during the Reporting Period, revenue from the sale of Kingworld Imada Red Flower Oil increased significantly by 65.7% period-on-period.

CARMEX Lipstick series

CARMEX is a renowned brand for its lipstick series, with 145 lipsticks sold every minute worldwide. Prior to the Pandemic, CARMEX lipstick series were mainly sold via offline high-end healthcare stores such as Watson’s, cosmetics stores and convenience stores. Due to decreased in customers flow at offline stores, sales were drastically affected. Thus, the Group turned to the online platform and cooperated with KOLs to hold live broadcasts to boost online sales. During the Reporting Period, two successful live broadcasts were led by leading KOLs, the Group reported encouraging sales and an online flagship shop for CARMEX brand was established, which further strengthened the brand equity and increased online sales opportunity. As a result, sales revenue from CARMEX lipstick series rose significantly by 210.9% period-on-period during the Reporting Period.

Highlights of Medical Devices Segment

The Pandemic has resulted in a rapid increase in the demand for medical devices in various countries. As China is the world's largest producer of masks and medical devices, Premier Mr. Li Keqiang put forward explicit requirements to increase the production of medical supplies while ensuring their quality. At the same time, the regulations regarding the export of certain medical supplies in China have been tightened and only companies that are listed on the Name List of Medical Devices and Supplies Companies with Certification/Authorisation from other Countries (取得國外標準認證或註冊的醫療物資生產企業清單) may export certain medical supplies.

Dong Di Xin, the medical devices segment of the Group, is a medical devices manufacturer that has obtained various certifications and licences for the medical devices it manufactures and/or exports, including the certification issued by the U.S. Food and Drug Administration (FDA), the CE0197 marking, and ISO13485 certification for its infrared thermometers. During the Pandemic, according to the No. 12 announcement in 2020 jointly issued by the Ministry of Commerce, General Administration of Customs and State Administration for Market Regulation, anti-Pandemic products can only be sold and/or exported if their manufacturers are listed on the list by the China Chamber of Commerce for Import and Export of Medicines and Health Products (the "Export White List") starting from 26 April 2020. Dong Di Xin, leveraging its superior production quality and comprehensive quality system, has become the fourth infrared thermometer manufacturer in China to be included on the Export White List. It indicates that Dong Di Xin is not only qualified to export to the U.S. and Europe during the Pandemic, but also able to handle bulk overseas purchase order and deliver timely. With more than twenty years' of experience in design and manufacture various high-end infrared thermometer products, Dong Di Xin is highly recognised for its product quality. It successfully expanded sales to over 60 countries and regions. In particular, its infrared thermometers are sold in the second largest chain pharmacies in the U.S. During the Pandemic, infrared thermometers have become an essential item for household and business units and order for infrared thermometers increased significantly. During the Reporting Period, benefited from the large increase in overseas orders, Dong Di Xin's revenue amounted to approximately RMB146,366,000, representing a period-on-period increase of 72.6%.

MANAGEMENT REVIEW

Distribution of medical masks

Since the outbreak of the Pandemic, Chinese people have made concerted efforts in fighting against the Pandemic. The Group has upheld its corporate philosophy of "serving the community and benefiting the world" (效力世人，潤澤蒼生). In response to the shortage of medical masks as a result of the Pandemic, the Group has further enriched its product portfolio to cover the distribution of medical masks that meet certain certification standards, thereby helping to alleviate the shortage of medical masks and generate positive income for the Group in the long run. As at the date of this announcement, the medical masks produced by Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited* (深圳金活利生藥業有限公司) ("Kingworld Lifeshine"), a connected person of the Company, have obtained or are applying for 22 types of qualifications. Kingworld Lifeshine has been officially listed on the Name List of Medical Devices and Supplies Companies with Certification/Authorisation from other Countries (取得國外標準認證或註冊的醫療物資生產企業清單), and its medical masks have obtained the domestic certification for exporting to Europe. During the Pandemic, the Group has enhanced the promotion of medical masks in domestic pharmacy chain stores. Currently, the medical masks distributed by the Group ("Kingworld Lifeshine medical masks") have already established strong presence in domestic chain stores and pharmacies in China.

* For identification purpose only

Working together in fighting against the Pandemic

The Group operates with integrity and meticulously manages its business. As a leading and well-known omni-channel enterprise with a complete supply chain in the greater health products and services industry, the Group actively contributes to society and is committed to shouldering its corporate responsibilities. During the Pandemic, the Group walked side by side with everyone and strived to implement Pandemic prevention measures to protect its employees, mainly including attaching great importance to the cleaning and disinfection of office spaces, measuring employees' body temperature before entering the office, providing Pandemic prevention and disinfection supplies in the office, requiring employees to wear masks during work, providing employees with masks and immune-enhancing healthcare products, and requiring employees to take turns to have meals and maintain social distance. On the other hand, the Group has actively supported the government's anti-Pandemic work. The Group has donated medical supplies, cash and anti-infective drugs worth over RMB1 million to the frontline staff in fighting against the Pandemic through various channels, and 400,000 disposable medical masks to the China Overseas Friendship Association to assist overseas patriotic Chinese associations, vowing to fight against the abrupt Pandemic together with the people of China.

Reorganisation of marketing structure

The Pandemic has resulted in a difficult business environment in many countries over the world, and the Group's business in mainland China, Hong Kong and Macau have faced severe challenges. In the first half of 2020, the Group reorganised its operational structure, revised and optimised performance appraisal targets for middle and senior managers, improved the Company's incentive and restraint mechanism, effectively mobilised the enthusiasm and creativity of its marketing and sales staff, and strengthened the Company's distribution philosophy of "the one who does more work gets more pay", so as to strive to achieve the Company's annual operating targets. Meanwhile, the Group intensely explored markets in regions with relatively weaker results, promoted the end penetration of sales, consolidated regional distribution management, made full use of the SMART system to facilitate the systematisation of market and sales data management, and actively promoted the coverage of end products in various regions to keep the prices of its product standard and stable.

Enhance Management effectiveness

During the Reporting Period, the Group has focused on internal management to enhance its various business management systems and processes by making use of its internal management systems, so as to improve the operating efficiency and reduce unnecessary expenses and management cost, creating a more competitive marketing platform for future development.

Enrich Product structure

With the advent of the aging society, there is great development potential in the chronic disease drugs market. With the implementation of national hierarchical medical system and 4+7 policy in China, some major cardiovascular drugs manufacturers are looking for opportunities in the OTC market. The Group has over 20 years of experience in the OTC market and is expected to have many collaboration opportunities in the future with those major cardiovascular drugs manufacturers. During the Reporting Period, the Group has been actively seeking product collaboration in chronic disease management, health management, and nutritional and healthcare products.

Diversified investment arrangement

During the Reporting Period, the investment projects of the Group maintained steady development and generated favourable returns. Such investment projects included the 15% equity interest investment in Dong Hua Tong Investments Limited (東華通投資有限公司) in 2015, the indirect investment 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 subscription of 2,302,000 public-offered shares of Chuangmei Pharmaceutical Co., Ltd. (02289.HK) in 2015. The Group has continued to receive favourable dividend returns from these investment projects.

The Group actively sought high-quality project investment opportunities, including the participation in BYD Semiconductor Co., Ltd.'s project to introduce strategic investors through Shenzhen Guoxin South No. 3 Investment Partnership (Limited Partnership) (深圳國新南方三號投資合夥企業(有限合夥)) and Shenzhen AVIC Kaisheng Auto Semiconductor Investment Partnership (Limited Partnership) (深圳中航凱晟汽車半導體投資合夥企業(有限合夥)) by Shenzhen Kingworld Medicine Company Limited (“Shenzhen Kingworld”), a wholly-owned subsidiary of the Group, at the beginning of 2020. The Group believes that such investment will bring favourable investment returns to the Group in the future.

HONOURS

During the Reporting Period, the Group received the following honours and awards:

- In January 2020, the Group was included in the list of “Shenzhen Top Brands” at the 17th “Shenzhen Top Brand” accreditation conference
- In January 2020, at the commendation ceremony of the sixth meeting of the sixth session of the Shenzhen Political Consultative Conference, Mr. Zhao Li Sheng, the Chairman of the board of directors (the “Board”) of the Company and a member of the Shenzhen Municipal Committee of the Chinese People’s Political Consultative Conference (CPPCC), was awarded the honour of “Excellent Member” of the CPPCC in 2019
- In May 2020, Shenzhen Dong Di Xin Technology Company Limited, the holding Company of the Group, was included in the latest “Name List of Medical Devices and Supplies Companies with Certification/Authorisation from other Countries (取得國外標準認證或註冊的醫療物資生產企業清單)” issued by the China Chamber of Commerce for Import and Export of Medicines and Health Products
- In May 2020, at the first meeting of the first session of the Shenzhen Business Environment Optimisation Advisory and Supervisory Committee (深圳市優化營商環境諮詢監督委員會) held by the Shenzhen Development and Reform Commission, Mr. Zhao Li Sheng, the Chairman of the Board, was officially appointed as a member of the first session of the Shenzhen Business Environment Optimisation Advisory and Supervisory Committee
- In June 2020, the Group was awarded the honourable title of “Guangdong Province Enterprise of Observing Contract and Valuing Credit 2019” by the Shenzhen Municipal Market and Quality Supervision and Administration Commission for the sixth consecutive year

FINANCIAL REVIEW

1. Revenue

Revenue of the Group for the six months ended 30 June 2020 amounted to approximately RMB292,948,000, representing a decrease of approximately RMB226,094,000 or 43.6% compared to approximately RMB519,042,000 for the six months ended 30 June 2019. The decrease was mainly as a result of the decrease in revenue from the sales of Nin Jiom Chuan Bei Pei Pa Koa and Culturelle probiotics product series. The decrease was mainly due to the negative impacts from the Pandemic, which drove down the demand for the pharmaceutical products and healthcare products of the Group as the movement of people and goods was restricted. Such decrease was partially offset by the increase in sales of medical devices, including infrared thermometer, manufactured by Dong Di Xin. These Pandemic preventive products were in great demand during the Reporting Period.

2. Cost of sales

For the six months ended 30 June 2020, cost of sales of the Group amounted to approximately RMB183,024,000, decreased by approximately RMB190,553,000 or 51.0% when compared to approximately RMB373,577,000 for the six months ended 30 June 2019. The decrease in cost of sales was mainly due to the decrease in revenue and the change of product mix. Gross profit margin increased from 28.0% for the six months ended 30 June 2019 to 37.5% for the six months ended 30 June 2020 as a result of the increase in proportion of revenue from products with relatively higher margin, in particular the medical device products from Dong Di Xin, during the Reporting Period.

3. Other revenue, income and other net gains

Other revenue, income and other net gains mainly included rental income, interest income, promotion service income, commission income, investment gain and exchange loss. For the six months ended 30 June 2020, other revenue, income and other net gains amounted to approximately RMB40,910,000, increased by approximately RMB22,580,000 or 123.2% when compared to approximately RMB18,330,000 for the six months ended 30 June 2019. This increase was mainly due to the increase in promotion service income during the Reporting Period.

4. Selling and distribution costs

For the six months ended 30 June 2020, selling and distribution costs amounted to approximately RMB42,700,000, decreased by approximately RMB11,983,000 or 21.9% when compared to approximately RMB54,683,000 for the six months ended 30 June 2019. This decrease was mainly due to the decrease in advertising and promotion expenses from approximately RMB17,324,000 for the six months ended 30 June 2019 to approximately RMB11,185,000 for the Reporting Period and the decrease in bonus costs from RMB6,827,000 for the six months ended 30 June 2019 to RMB5,933,000 for the Reporting Period.

5. Administrative expenses

For the six months ended 30 June 2020, administrative expenses amounted to approximately RMB46,919,000, increased by approximately RMB698,000 or 1.5% when compared to approximately RMB46,221,000 for the six months ended 30 June 2019. This increase was mainly due to the increase in provision for obsolete inventories during the Reporting Period.

6. Profit from operations

For the six months ended 30 June 2020, profit from operations for the Group amounted to approximately RMB49,328,000, decreased by approximately RMB3,912,000 or 7.3% when compared to approximately RMB53,240,000 for the six months ended 30 June 2019. The decrease in profit from operations was mainly due to the decrease in gross profit, which partially offset by the increase in other revenue, income and other net gains, and the decrease in selling and distribution costs for the Reporting Period.

7. Finance costs

For the six months ended 30 June 2020, finance costs amounted to approximately RMB7,183,000, decreased by approximately RMB1,617,000 or 18.4% when compared to approximately RMB8,800,000 for the six months ended 30 June 2019. The decrease was mainly due to the decrease in interest charged on bank loans as a result of a decrease in interest rate.

8. Profit before taxation

For the six months ended 30 June 2020, profit before taxation for the Group amounted to approximately RMB45,318,000, decreased by approximately RMB5,192,000 or 10.3% when compared to approximately RMB50,510,000 for the six months ended 30 June 2019. The decrease in profit before taxation was mainly due to the decrease in profit from operations and share of profit of a joint venture.

9. Income tax

For the six months ended 30 June 2020, income tax for the Group amounted to approximately RMB13,545,000, increased by approximately RMB1,185,000 or 9.6% when compared to approximately RMB12,360,000 for the six months ended 30 June 2019. The effective tax rate during the Reporting Period was 29.9%, compared to 24.5% for the six months ended 30 June 2019. Details of income tax are set forth in Note (9) to the condensed consolidated financial statements.

10. Profit for the period

As a result of the foregoing, for the six months ended 30 June 2020, profit for the period of the Group amounted to approximately RMB31,773,000, decreased by approximately RMB6,377,000 or 16.7% when compared to approximately RMB38,150,000 for the six months ended 30 June 2019.

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

For the six months ended 30 June 2020, profit for the period attributable to owners of the Company amounted to approximately RMB9,850,000, decreased by approximately RMB23,035,000 or 70.0% when compared to approximately RMB32,885,000 for the six months ended 30 June 2019. The decrease was mainly due to the fact that profit for the period of approximately RMB31,773,000 was mainly derived from our 55% owned subsidiary, Dong Di Xin.

12. Liquidity and capital resources

The Group has met its working capital needs mainly through cash generated from operations and various short-to-long term bank borrowings. During the Reporting Period, the effective interest rate for fixed rate loans ranged from 2.70% to 5.88%. Taking into account the cash flow generated from operations and the bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least twelve months from the date of publication of this announcement.

As at 30 June 2020, the Group had cash and cash equivalents of RMB263,324,000 mainly generated from operations of the Group.

13. Cash flows

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

During the Reporting Period, the Group's cash and cash equivalents increased by approximately RMB149,829,000, which mainly comprised the net cash inflow from operating activities with the amount of approximately RMB31,336,000, net cash outflow used in investing activities with the amount of approximately RMB11,981,000, net cash inflow from financing activities with the amount of approximately RMB126,429,000, and the positive effect of foreign exchange of approximately RMB4,045,000. The net cash inflow from financing activities was mainly net proceeds from new bank borrowings.

14. Capital structure

Indebtedness

The total amount of the borrowings of the Group which will be due within one to three years as at 30 June 2020 was approximately RMB393,970,000. During the Reporting Period, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

Asset-liability ratio

As at 30 June 2020, the Group's asset-liability ratio calculated as the total bank borrowings divided by total assets multiplied by 100% was 29.3% (as at 31 December 2019: 16.7%). The increase was mainly due to the increase in bank borrowings.

Pledge of assets

As at 30 June 2020, the Group had pledged investment properties, leasehold land held for own use under operating leases and property, plant and equipment to certain banks in the amount of approximately RMB108,900,000, RMB57,605,000 and RMB20,439,000, respectively (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).

Capital expenditure

The capital expenditures of the Group primarily included purchase of plant and equipment and leasehold improvements. The Group's capital expenditures amounted to approximately RMB3,175,000 and RMB4,090,000 for the Reporting Period and the six months ended 30 June 2019, respectively.

Foreign exchange risk

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

15. Contingent liabilities, legal and potential proceedings

As at 30 June 2020, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings. As disclosed in the 2018 annual report of the Company (the "2018 Annual Report"), a claim was filed by the former chief executive officer of Dong Di Xin (the "Plaintiff") against the substantial shareholder of Dong Di Xin (the "Substantial Shareholder") and Dong Di Xin and the appeal lodged by Dong Di Xin (the "Appeal") to Shenzhen Intermediate People's Court of Guangdong Province (廣東省深圳市中級人民法院) (the "Intermediate Court") against the judgment (the "Judgment") handed down by Shenzhen Nanshan District People's Court of Guangdong Province (廣東省深圳市南山區人民法院) (the "Court") ordering: (1) the Substantial Shareholder to transfer his 15% equity interest in Dong Di Xin to the Plaintiff (the "Equity Transfer"); (2) the Substantial Shareholder and Dong Di Xin to assist in all relevant procedures for completing the Equity Transfer; and (3) the litigation fee of RMB2,900 shall be borne by the Substantial Shareholder and Dong Di Xin. As disclosed in the 2018 Annual Report, the Judgment will not have any material adverse impact on the Group's ordinary operations and financial positions as the Company will not bear any liability or any significant litigation fee being ordered to pay and there will be no dilutive effect on the Group's holding in the equity interest in Dong Di Xin. On 30 July 2018, the Intermediate Court, among other things, set aside the Judgment of the Court and ruled the case to be returned to the Court for re-trial (the "Re-trial"). According to the judgment for the Re-trial dated 19 June 2019 (the "2019 Judgment") handed down by the Court, the Court ordered (i) the Equity Transfer; and (ii) Dong Di Xin to provide relevant assistance for completing the Equity Transfer and dismissed the claims and counterclaims of the Substantial Shareholder. The Company has been informed that each of the Substantial Shareholder and Dong Di Xin has lodged an appeal (the "2019 Appeal") against the 2019 Judgment. In relation to the appeal lodged by a substantial shareholder of Dong Di Xin who holds 30% of the equity interest in Dong Di Xin ("Dong Di Xin Shareholder A"), the People's Court of Shenzhen Qianhai Cooperation Zone (深圳前海合作區人民法院) (the "Qianhai Court") handed down a judgment (the "2020 Qianhai Judgment") on 6 May 2020. According

to the 2020 Qianhai Judgment, the Qianhai Court dismissed the claims by Dong Di Xin Shareholder A and ordered that the litigation fee in relation to the appeal shall be borne by Dong Di Xin Shareholder A. The Company has been informed that Dong Di Xin Shareholder A has lodged an appeal against the 2020 Qianhai Judgment (“2020 Qianhai Judgment Appeal”).

As at the date of this announcement, no hearing date of the 2019 Appeal or the 2020 Qianhai Judgment Appeal has been set. The Company confirmed that the Judgment, the 2019 Judgment and the 2020 Qianhai Judgment did not and will not have any material adverse impact on the ordinary operations and financial positions of the Group. The Company will keep the shareholders of the Company and the public informed of any material progress on the case or if an appeal is lodged by way of further announcement(s) as and when appropriate according to the the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

16. Major acquisitions and disposals

For the six months ended 30 June 2020, the Group did not make any material acquisition or disposal.

17. Going concern

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

FUTURE OUTLOOK

In 2020, the raging Pandemic has caused a severe blow to the economic activities and sentiment in various countries. In the second half of 2020, the complex and changing domestic and international situation, the normalised Pandemic prevention and control as well as natural disasters have all exerted great pressure to China’s economic recovery. Although there are many uncertainties in the second half of 2020, the Group remains steadfast in its determination to change and grow amid the Pandemic. In the second half of 2020, the Group will actively respond to the complex changes in the market, continue to focus on its organisational restructuring, channel sorting and optimisation of product structure, and exploring new sources of income and controlling costs to maximise profits.

Organisational restructuring

In response to the outbreak of the Pandemic, the Group decisively adopted a number of contingency measures, including reorganising its internal marketing structure and increasing the distribution of medical masks. In the second half of 2020, the Group will continue to control its operating costs and reserve sufficient working capital for emergencies. Meanwhile, the Group will continue to intensify its work in the optimisation of performance appraisal targets for all employees at the upper, middle and lower levels, further and effectively mobilise the enthusiasm and creativity of its marketing and sales staff, improve the Company’s incentive and restraint mechanism, and further sort out and simplify the procedural management of the Company’s internal system, so as to improve operational efficiency and strive to achieve its operating targets for each year.

Optimisation of product structure

In the second half of 2020, for the pharmaceutical products segment, the Group will make every effort to intensely review the markets in regions with relatively weaker results, promote the end penetration of sales, make use of the SMART system to facilitate the systematisation of market and sales data management, actively increase the coverage of end products in various regions, and also actively extend the cooperation with pharmaceutical e-commerce enterprises. For the Group's flagship product, the Nin Jiom product series, the Group will make full use of its feature as an effective medication to nourish and moisturize lungs and therefore, in response to the new situation, it is ideal for enhancing health conditions and daily care. For the healthcare products segment, the Group will continue to develop its offline channels and gradually enter into more large-scale integrated e-commerce, pharmaceutical e-commerce and professional e-commerce platforms in the future and seize the opportunities of online KOL live broadcasts to increase sales volume. For the medical devices segment, during the Reporting Period, the Group obtained the "Medical Device Trading Permit (Type III)", "Medical Device Registration Certificate" and "Medical Device Manufacturing Permit". On the other hand, in August 2020, Kingworld Lifeshine medical masks, which are exclusively distributed by the Group, have been shortlisted on the Name List of Medical Devices and Supplies Companies with Certification/Authorisation. It marked the milestone for Kingworld Lifeshine medical masks as they obtained the domestic certification for export to Europe. Kingworld Lifeshine medical masks have also obtained various important certifications, including medical device certificates, EU CE registration and the Ministry of Commerce's medical supplies export "white list". With these certifications, they are not only produced and sold domestically, but also won a "pass" to enter overseas markets to cater for the strong demand for pandemic prevention products there. In the future, in addition to increasing the distribution of medical masks, the Group also plans to gradually expand other medical device categories (such as ventilators) to contribute to prevention and control of the Pandemic around the world.

Opening up new sources of income and controlling expenditure

The World Health Organization expects that the Pandemic may become an endemic disease. Even if a vaccine is available, it will still require "enormous efforts" to control the spread of the virus. In addition, the complex and changing political and diplomatic situation between China and the rest of the world has exerted heavy pressure on China's economic growth. In the face of challenges in the internal and external environment as well as public health, the Group maintains a wait-and-see attitude towards the general environment in the second half of 2020. In order to cope with market uncertainties under the Pandemic, internally, the Group will focus on controlling costs and increasing effectiveness, while also strive to destock and replenish liquidity to maintain the smooth operation of the Group; externally, the Group will actively expand the scope of channel distribution and enrich the product line of other medical device categories and actively strive for preferential tax and fee reduction, so as to ensure the sound and stable operation of the Group and safeguard the investment returns of its shareholders and stakeholders.

HUMAN RESOURCES AND TRAINING

As at 30 June 2020, the Group had a total of 1,021 employees, of which 132 worked at the Group's headquarters in Shenzhen, and 407 were stationed in other 34 regions mainly responsible for sales and marketing, and 482 worked at Dong Di Xin. The Group releases an annual sales guideline on a yearly basis, setting out the annual sales targets and formulating quarterly sales strategies, so as to provide sales and marketing guidelines for all representative offices and their staff to observe. The Group has a management team with extensive industry experience (including sales directors and product managers). They are responsible for coordinating front-line sales and marketing teams to meet the annual sales targets.

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

OTHER INFORMATION

CAPITAL COMMITMENT

As at 30 June 2020, the Group had capital commitment of approximately RMB161,425,000 (as at 31 December 2019: approximately RMB171,827,000).

PUBLIC FLOAT

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

DIVIDENDS

Pursuant to a resolution passed by the shareholders of the Company on 27 May 2020, the Company declared a final dividend for the year ended 31 December 2019 amounting to approximately HK\$14,567,000 (equivalent to approximately RMB13,010,000) to the shareholders of the Company. The dividend was fully paid on 29 June 2020 by the internal cash resources of the Company.

The Board resolved not to recommend the payment of any interim dividend for the six months ended 30 June 2020 (2019: nil).

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

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

CORPORATE GOVERNANCE PRACTICES

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

During the Reporting Period, the Company complied with the code provisions as set out in the CG Code, other than code provision 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 (“Mr. Zhao”) is the Chairman of the Board and the chief executive officer. The Board is in the opinion that having Mr. Zhao to carry out both roles can bring about strong and consistent leadership for the Group, and can be more effective in planning and implementing long-term business strategies. The Board also considers that since members of the Board include competent and independent non-executive Directors, this structure will not impair the balance of power and authority between the Board and its management in the business of the Group. The Board is in the opinion that the structure described above will be beneficial to the Company and its business.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the “Model Code”) as its own code governing securities transactions of the Directors. After having made specific enquiries with all Directors, all Directors have confirmed that they have complied with the required standards set out in the Model Code during the Reporting Period, except for Mr. Zhao, an executive Director, who entered into securities transactions of the Company on 3 April 2020 (which was prior to the publication of the announcement of the Company dated 15 April 2020 on the update on the annual results of the Company for the year ended 31 December 2019). On 30 March 2020, the Company published its unaudited annual results announcement for the year ended 31 December 2019 (the “2019 Results Announcement”). The publication of unaudited annual results announcement is an unprecedented and peculiar arrangement due to the Pandemic. As the 2019 Results Announcement was published on 30 March 2020, Mr. Zhao confirmed that he did not possess any inside information in relation to the Group when he dealt in the Company’s securities on 3 April 2020.

AUDIT COMMITTEE

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

The financial information in this announcement and the interim report has not been audited by the auditor of the Company. The Audit Committee has reviewed the unaudited condensed consolidated financial statements, this results announcement and the interim report of the Company for the six months ended 30 June 2020 with the management of the Group and agreed with the accounting treatments adopted by the Company, and was of the opinion that the preparation of the financial statements in this result announcement and the interim report complies with the applicable accounting standards and the requirements under the Listing Rules and adequate disclosures have been made.

EVENTS AFTER THE REPORTING PERIOD

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

DISCLOSURE OF INFORMATION

The interim report for the six months ended 30 June 2020 will be duly dispatched to shareholders of the Company and published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.kingworld.com.cn>).

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

Hong Kong, 26 August 2020

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