KINGWORLD MEDICINES GROUP LIMITED
金活醫藥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 01110)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

RESULTS HIGHLIGHTS

- Revenue decreased by 23.8% to approximately RMB745,383,000 (2019: RMB977,928,000).
- Gross profit increased by 4.8% to approximately RMB280,154,000 (2019: RMB267,403,000).
- Gross profit margin increased by 10.3% points to 37.6% (2019: 27.3%).
- Profit before taxation increased by 1.5% to approximately RMB70,891,000 (2019: RMB69,809,000).
- Profit for the year ended 31 December 2020 increased by 1.2% to approximately RMB50,889,000 (2019: RMB50,271,000).
- Profit attributable to owners of the Company decreased by 73.0% to approximately RMB11,716,000 (2019: RMB43,427,000).
- Basic earnings per share decreased by 72.7% to approximately RMB1.91 cents (2019: RMB7.00 cents).
- The Board recommended the distribution of a final dividend of HK0.65 cents per share for the year ended 31 December 2020 (2019: HK2.34 cents), subject to the approval of the Shareholders at the forthcoming annual general meeting to be held on Thursday, 27 May 2021.

The board (the "**Board**") of directors (the "**Directors**") of Kingworld Medicines Group Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2020 (the "**Year Under Review**") and selected explanatory notes, together with the comparative figures of the corresponding year in 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	Note	**2020** **RMB'000**	2019 RMB'000
Revenue	4	**745,383**	977,928
Cost of sales		**(465,229)**	(710,525)
Gross profit		**280,154**	267,403
Other revenue, income and other net loss	6	**55,504**	47,663
Selling and distribution costs		**(132,950)**	(112,283)
Administrative expenses		**(112,559)**	(107,443)
Amortisation of intangible assets	7 (c)	**(13,569)**	(18,831)
Valuation loss on investment properties		**(1,600)**	–
(Impairment losses)/reversal of impairment losses on financial assets, net	7 (c)	**(1,331)**	235
Profit from operations		**73,649**	76,744
Finance costs	7 (a)	**(15,161)**	(15,484)
Share of profit of a joint venture		**12,381**	10,009
Share of profit/(loss) of an associate		**22**	(1,460)
Profit before taxation	7	**70,891**	69,809
Income tax	8	**(20,002)**	(19,538)
Profit for the year		**50,889**	50,271
Attributable to:			
Owners of the Company		**11,716**	43,427
Non-controlling interests		**39,173**	6,844
Profit for the year		**50,889**	50,271
Earnings per share	10		
Basic (RMB cents)		**1.91**	7.00
Diluted (RMB cents)		**1.91**	7.00

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020 **RMB'000**	2019 RMB'000
Profit for the year	**50,889**	50,271
Other comprehensive (loss)/income for the year (net of tax)		
Items that will not be reclassified to profit or loss:		
Fair value (loss)/gain on financial assets	**(1,849)**	11,900
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside the PRC	**(2,797)**	287
	(4,646)	12,187
Total comprehensive income for the year (net of tax)	**46,243**	62,458
Attributable to:		
Owners of the Company	**7,759**	55,614
Non-controlling interests	**38,484**	6,844
Total comprehensive income for the year	**46,243**	62,458

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Note	2020 RMB'000	2019 RMB'000
Non-current assets			
Right-of-use assets		**109,518**	118,333
Property, plant and equipment		**58,368**	59,303
Investment properties		**121,000**	122,600
Interest in a joint venture		**84,969**	72,588
Interest in associates		**2,588**	2,566
Goodwill		**90,693**	90,693
Intangible assets		**27,272**	40,841
Financial assets at fair value through profit or loss		**6,257**	5,739
Financial assets at fair value through other comprehensive income		**39,962**	33,697
		540,627	546,360
Current assets			
Inventories		**130,221**	205,121
Trade and other receivables	11	**323,060**	391,516
Financial assets at fair value through profit or loss		**10,552**	15,325
Financial assets at fair value through other comprehensive income		**94**	–
Pledged bank deposits		**–**	8,549
Cash and cash equivalents		**250,818**	113,495
		714,745	734,006
Current liabilities			
Contract liabilities	12	**56,496**	72,342
Trade and other payables	13	**187,991**	273,412
Bank loans		**296,538**	214,327
Lease liabilities		**8,003**	9,115
Tax payable		**6,623**	7,173
		555,651	576,369
Net current assets		**159,094**	157,637
Total assets less current liabilities		**699,721**	703,997

	Note	2020	2019
		RMB'000	RMB'000
Non-current liabilities			
Lease liabilities		**1,236**	8,374
Deferred tax liabilities		**19,975**	22,433
		21,211	30,807
NET ASSETS		**678,510**	673,190
CAPITAL AND RESERVES			
Share capital		**53,468**	53,468
Reserves		**537,646**	549,875
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**591,114**	603,343
NON-CONTROLLING INTERESTS		**87,396**	69,847
TOTAL EQUITY		**678,510**	673,190

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020
(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 consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). A summary of the significant accounting policies adopted by the Group are disclosed below.

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

b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2020 comprise the Company and its subsidiaries and the Group's interests in a joint venture and associates.

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

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

– investment properties;

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

- Amendments to HKFRS 3, *Definition of a Business*

- Amendment to HKFRS 16, *COVID-19-Related Rent Concessions*

Other than the amendment to HKFRS 16, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

Amendments to HKFRS 3, Definition of a Business

The amendments clarify the definition of a business and provide further guidance on how to determine whether a transaction represents a business combination. In addition, the amendments introduce an optional "concentration test" that permits a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or Group of similar identifiable assets.

The Group has applied the amendments prospectively to transactions for which the acquisition date is on or after 1 January 2020. In particular, the Group has elected to apply the concentration test to an acquisition during the year.

Amendment to HKFRS 16, COVID-19-Related Rent Concessions

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 Pandemic ("COVID-19-related rent concessions") are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The Group has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the year. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred. There is no impact on the opening balance of equity at 1 January 2020.

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.

	2020	2019
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of HKFRS15		
Disaggregated by major products		
– pharmaceutical products	**284,297**	633,700
– healthcare products	**90,822**	151,114
– medical devices	**370,264**	193,114
	745,383	977,928
Timing of revenue recognition		
A point in time	**745,383**	977,928

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 2020 and 2019 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	2019	**2020**	2019	**2020**	2019	**2020**	2019
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue from external customers	**43,915**	102,180	**500,126**	789,102	**370,265**	193,114	**914,306**	1,084,396
Inter-segment revenue	**2,570**	8,180	**3,901**	2,654	**–**	–	**6,471**	10,834
Reportable segment revenue	**46,485**	110,360	**504,027**	791,756	**370,265**	193,114	**920,777**	1,095,230
Reportable segment profit (adjusted EBITDA)	**(47,725)**	215	**5,806**	47,797	**123,913**	35,841	**81,994**	83,853
Interest income from bank deposits	**134**	126	**49**	228	**1,098**	312	**1,281**	666
Interest expense	**334**	313	**7,593**	5,455	**415**	609	**8,342**	6,377
Depreciation and amortisation for the year	**1,633**	581	**9,951**	9,634	**22,023**	26,066	**33,607**	36,281
Reportable segment assets	**44,509**	70,229	**608,510**	740,047	**273,159**	185,086	**926,178**	995,362
(including investment in joint venture)	**–**	–	**84,969**	72,588	**–**	–	**84,969**	72,588
Additions to non-current segment assets during the year	**–**	2,284	**13,555**	15,152	**7,001**	7,344	**20,556**	24,780
Reportable segment liabilities	**6,715**	39,933	**301,765**	345,880	**113,297**	69,026	**421,777**	454,839

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

	2020	2019
	RMB'000	RMB'000
Revenue		
Reportable segment revenue	**920,777**	1,095,230
Elimination of inter-segment revenue	**(6,471)**	(10,834)
Elimination of Group's share of revenue of joint venture	**(168,923)**	(106,468)
Consolidated revenue (note 4)	**745,383**	977,928

	2020	2019
	RMB'000	RMB'000
Profit		
Reportable segment profit (adjusted EBITDA) derived from the Group's external customers and joint venture	**81,994**	83,853
Other income	**55,504**	47,663
Depreciation and amortisation	**(34,537)**	(36,317)
Finance costs	**(15,161)**	(15,484)
Unallocated head office and corporate expenses	**(16,909)**	(9,906)
Consolidated profit before taxation	**70,891**	69,809

	2020 RMB'000	2019 RMB'000
Assets		
Reportable segment assets	**926,178**	995,362
Elimination of inter-segment receivables	**(752)**	(1,263)
	925,426	994,099
Financial assets at fair value through other comprehensive income	**40,056**	33,697
Financial assets at fair value through profit or loss	**16,809**	21,064
Unallocated head office and corporate assets	**273,081**	231,506
Consolidated total assets	**1,255,372**	1,280,366

	2020 RMB'000	2019 RMB'000
Liabilities		
Reportable segment liabilities	**421,777**	454,839
Elimination of inter-segment payables	**(23,097)**	(18,538)
	398,680	436,301
Current tax liabilities	**6,623**	7,173
Deferred tax liabilities	**19,975**	22,433
Unallocated head office and corporate liabilities	**151,584**	141,269
Consolidated total liabilities	**576,862**	607,176

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**	
	2020 **RMB'000**	2019 RMB'000	**2020** **RMB'000**	2019 RMB'000
PRC	**701,468**	875,748	**492,747**	502,636
Hong Kong	**43,915**	102,180	**1,661**	4,288
	745,383	977,928	**494,408**	506,924

d) **Information about major customers**

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

	2020 **RMB'000**	2019 RMB'000
Customer A – revenue from manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices	**77,972**	N/A#

The transactions with this customer did not contribute 10% or more of total revenue of the Group during the year ended 31 December 2019.

6. OTHER REVENUE, INCOME AND OTHER NET LOSS

	2020	2019
	RMB'000	RMB'000
Other revenue:		
Total interest income on financial assets not at fair value through profit or loss:		
Bank interest income	**1,154**	537
Interest income from a shareholder loan	**128**	131
Interest income from financial assets at fair value through other comprehensive income	**290**	1,027
Gross rental income from investment properties	**2,205**	2,911
Dividend income from financial assets at fair value through other comprehensive income and through profit or loss	**15,594**	8,106
Promotional service income	**29,746**	26,028
	49,117	38,740
Government grants		
– HK (note i)	**946**	–
– PRC (note ii)	**11,808**	6,450
Change in fair value of financial assets at fair value through profit or loss	**(3,361)**	95
Compensation received arising from cancellation of purchases orders and rental agreement	**–**	2,390
Exchange loss, net	**(5,006)**	(2,185)
Others	**2,000**	2,173
	55,504	47,663

Note:

(i) In 2020, the Group successfully applied for funding support from the Employment Support Scheme under the Anti-epidemic Fund, set up by the Hong Kong Government. The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the grant, the Group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees.

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

7. PROFIT BEFORE TAXATION

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

	2020 RMB'000	2019 RMB'000
a) Finance costs		
Total interest expense on financial liabilities not at fair value through profit or loss:		
– Interest on bank loans	**14,368**	14,252
– Interest on lease liabilities	**793**	1,232
	15,161	15,484
b) Staff costs (including directors' and chief executive's remuneration)		
Salaries and other benefits	**146,614**	115,812
Contributions to defined contribution retirement plan	**6,160**	11,322
	152,774	127,134
c) Other items		
Amortisation of intangible assets	**13,569**	18,831
Auditor's remuneration		
– audit service	**1,424**	1,462
– non-audit services	**387**	417
Costs of inventories recognised as expense:		
– Cost of inventories sold (note (i) below)	**465,229**	710,525
– Write-down of inventories	**33,562**	1,576
Depreciation of property, plant and equipment	**10,753**	8,996
Amortisation of right-of-use assets	**10,215**	8,490
Impairment losses/(reversal of impairment losses) on:		
– Trade receivables	**962**	(170)
– Other receivables	**369**	(65)
Loss on disposal of property, plant and equipment	**117**	551
Short-term leases and leases of low-value assets	**701**	2,638
Rental income from investment properties less direct outgoings of RMB481,000 (2019: RMB313,000)	**(1,724)**	(2,598)
Research and development costs	**13,257**	15,072

Note:

(i) Cost of inventories recognised as expenses includes approximately RMB49,798,000 (2019: RMB35,469,000) relating to staff costs, depreciation of property, plant and equipment, amortisation of right-of-use assets and short-term leases and leases of low-value assets, which are included in the respective total amounts disclosed separately above.

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

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

	2020	2019
	RMB'000	RMB'000
Hong Kong Profits Tax (note (ii) below)		
– Current year	**390**	2,380
– Over-provision in prior year	**(90)**	–
PRC Enterprise Income Tax ("**EIT**") (note (iii) below)		
– Current year	**22,235**	20,801
– Over-provision in prior years	**(75)**	(819)
Deferred tax		
– Origination and reversal of temporary differences	**(2,458)**	(2,824)
	20,002	19,538

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

ii) The provision for Hong Kong Profits Tax for 2020 is calculated at 16.5% (2019: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first HK$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2019.

The provision for Hong Kong Profits Tax for 2020 takes into account a reduction granted by the Hong Kong SAR Government of 100% of the tax payable for the year of assessment 2019/20 subject to a maximum reduction of HK$20,000 for each business (2019: a maximum reduction of HK$20,000 was granted for the year of assessment 2018/19 and was taken into account in calculating the provision for 2019).

iii) The PRC Enterprise Income Tax charge of the Group during the years ended 31 December 2020 and 2019 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% (2019: 25%), except for Dong Di Xin, which is chargeable at a preferential income tax rate of 15% (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.

b) As at 31 December 2020, the undistributed profits of the Company's PRC subsidiaries amounted to approximately RMB240,270,000 (2019: RMB281,092,000) for which the potential deferred tax liabilities of approximately RMB12,014,000 (2019: RMB14,055,000) have not been recognised in these financial statements because the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

9. DIVIDENDS

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

	2020	2019
	RMB'000	RMB'000
Final dividend proposed after the end of the reporting period of HK0.65 cents (equivalent to RMB0.55 cents) (2019: HK2.34 cents (equivalent to RMB2.09 cents)) per ordinary share	**3,424**	13,010

The final dividend for the year ended 31 December 2020 proposed after the end of the reporting period is subject to approval by the Company's shareholders in its forthcoming annual general meeting. It has not been recognised as a liability at the end of the reporting period.

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

	2020	2019
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK2.34 cents (equivalent to approximately RMB1.97 cents) (2019: HK2.25 cents (equivalent to approximately RMB2.01 cents))	**12,274**	12,533

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:

	2020	2019
	RMB'000	RMB'000
Earnings		
Profit for the year attributable to owners of the Company	**11,716**	43,427
Earnings for the purpose of basic earnings per share	**11,716**	43,427

	2020	2019
	'000	'000
Number of shares		
Weighted average number of ordinary shares in issue	**622,500**	622,500
Effect of shares repurchased and held under share award scheme	**(8,091)**	(1,878)
Weighted average number of ordinary shares for the purpose of basic earnings per share	**614,409**	620,622

b) Diluted earnings per share

Diluted earnings per share for the years ended 31 December 2020 and 2019 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 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.

11. TRADE AND OTHER RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade and bills receivables	**252,558**	285,272
Less: Allowance for lifetime expected credit losses (note (c) below)	**(6,367)**	(5,405)
	246,191	279,867
Other receivables	**46,154**	37,923
Other loan (note (e))	**–**	46,825
Amounts due from related parties (note (f) below)	**295**	15
Amount due from an associate (note (f) below)	**4,244**	4,220
Amount due from a joint venture (note (f) below)	**2**	–
Loans and receivables	**296,886**	368,850
Prepayments	**18,224**	17,804
Trade and other deposits	**5,395**	2,336
Trade deposits to related parties	**2,555**	2,526
	323,060	391,516

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 lifetime expected credit losses) with the following ageing analysis based on invoice date, as of the end of the reporting period:

	2020 RMB'000	2019 RMB'000
0-90 days	**232,354**	248,333
91-120 days	**4,061**	18,070
121-180 days	**1,735**	8,038
181-365 days	**8,041**	2,706
More than 1 year	**–**	2,720
	246,191	279,867

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

c) **Impairment of trade and bills receivables**

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly.

Movements in the allowance for lifetime expected credit losses:

	2020	2019
	RMB'000	RMB'000
At 1 January	**5,405**	5,575
Impairment losses recognised during the year (note 7(c))	**962**	–
Impairment losses reversed during the year (note 7(c))	**–**	(170)
At 31 December	**6,367**	5,405

As at 31 December 2020, trade and bills receivables amounting to RMB6,367,000 (2019: RMB5,405,000) were determined to be impaired according to the expected credit loss rates. Accordingly, allowances for lifetime expected credit losses of RMB6,367,000 (2019: RMB5,405,000) were recognised as at 31 December 2020. The Group does not hold any collateral over these balances.

d) As at 31 December 2020, the trade receivables amounted to RMB123,629,000 (2019: NIL) were pledged for a short-term bank loan of the Group amounted to RMB50,000,000 (2019: NIL).

e) As at 31 December 2019, the amount represents shareholders' loan of HK$52.3 million (equivalent to RMB46.8 million) to Dong Hua Tong Investments Limited in which the Group has held 15% interests. The amount is unsecured, interest-free and repayable on demand. During the year ended 31 December 2020, Dong Hua Tong Investments Limited repaid the shareholders' loan of HK$52.3 million (equivalent to RMB46.5 million) to the Group.

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

12. CONTRACT LIABILITIES

	2020	2019
	RMB'000	RMB'000
Trade deposits received from customers:		
– Security deposits received	**33,915**	58,701
– Receipts in advance	**22,581**	13,641
	56,496	72,342

Security deposits are received from the Group's distributors/customers as protection against non–performance (including the default in payment for the goods transferring to customers) of the obligations by the distributors/customers under the relevant master distributorship agreements which were entered into between the Group and the relevant distributors/customers, which would be used as settlement for future orders if the customers fail to pay on the specified date (before sales recognised) under these orders, and thus classified as contract liabilities. Receipts in advance are collected from the distributors/customers of the Group when they placed the orders for purchase of goods from the Group. These security deposits and receipts in advance from the distributors/customers are not intended and regarded as a financing arrangement under the relevant master distributorship agreements.

Movements in contract liabilities	**2020** **RMB'000**	2019 RMB'000
Balance at 1 January	**72,342**	72,718
Increase in contract liabilities as a result of receiving deposits from the customers during the year	**56,247**	35,657
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	**(72,043)**	(36,060)
Exchange difference	**(50)**	27
Balance at 31 December	**56,496**	72,342

13. TRADE AND OTHER PAYABLES

	2020 **RMB'000**	2019 RMB'000
Trade and bills payables (note (c))	**101,537**	227,524
Accruals	**6,763**	7,219
Other payables	**48,276**	31,718
Amount due to a joint venture (note (d))	**–**	415
Amount due to related parties (note (d))	**22,243**	4,035
Financial liabilities measured at amortised cost	**178,819**	270,911
Value–added tax payable	**9,172**	2,501
	187,991	273,412

a) All of the trade and bills payables 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 2020, the pledged bank deposit amounted to RMB Nil (2019: RMB8,549,000) was used for the issuance of letters of credit to the trade payables amounted to RMB Nil (2019: RMB3,315,000).

c) Ageing analysis

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

	2020	2019
	RMB'000	RMB'000
0–90 days	**98,158**	226,757
91–180 days	**3,379**	767
	101,537	227,524

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. EVENT AFTER THE REPORTING PERIOD

a) On 7 January 2021, the Company, as purchaser, entered into the agreement with an independent third party (the "**Vendor**"), pursuant to which the Company agreed to acquire a property (the "**Property**") from the Vendor at a purchase price of HK$8,550,000 (equivalent to RMB 7,132,000). The acquisition of the Property will be completed on 1 April 2021. The Company intends to use the Property as the Group's office in Hong Kong.

b) Subsequent to the reporting period end and on 18 March 2021, the Group entered into a conditional agreement with an independent third party (the "**Vendor**"), pursuant to which the Group agreed to acquire and the Vendor agreed to sell 45.3125% of the equity interests in a company established in Hong Kong (the "**Target Company**") at the consideration of approximately RMB4,914,000. The Target Company is engaged in the import, export, distribution, manufacture and sale of pharmaceutical products. The transaction has not yet been completed at the date of approval of the consolidated financial statements.

15. 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. The COVID-19 Pandemic (the "Pandemic") dealt a severe blow to the domestic pharmaceutical industry and the impact on the Chinese Patent Medicines was relatively great

Under the general context of the negative impact of trade war between China and the United States, downward pressure faced by the domestic economy, tightening of monetary resources and market consumption, and the gradually diminishing purchasing power that affected various industries, the sudden outbreak of the once-in-a-century Pandemic around the world in early 2020 affected the domestic national economy and market consumption comprehensively. All industry sectors were severely affected while the production and manufacturing, supply chain and retail terminals of the pharmaceutical industry have suffered from varying extent of impacts. During the first quarter of 2020 when the prevalence of the Pandemic reached its peak within China, some cities implemented "lockdown" and successively issued notices to prohibit the sale of cold medicines, cough suppressants, and antipyretics. In this regard, the sales of related categories in retail pharmacies encountered a cliff fall decline. According to data analysis, the sales scale of pharmaceutical retail terminals recorded a negative growth of -0.5% in the first half of 2020 as the impact of the Pandemic on the Chinese patent medicines was greater, resulting in a shrinkage in their sales scale and a negative growth of -5.5%, among which the sales of medicines for eliminating coughing and sputum and stabilising breathing (Chinese patent medicines) were either restricted or suspended due to the impact of the Pandemic. The sales of such category of medicines in retail pharmacies decreased by more than 35% in the first half of 2020. The sale of the Nin Jiom product series, the main product of the Group, was severely affected by this policy.

2. The reform policy on medical reform continues, and the profits of pharmaceutical enterprises are further compressed

Although the normal operation of the pharmaceutical industry is still affected by the Pandemic, the progress of imposing control on medical insurance fees will not be postponed, and the intensity will only increase rather than decrease. With the launch of centralised quantity-specific procurement reform of three batches of national medicines at the end of 2020, the average prices of medicines covered by the reform decreased by 54%. In addition to centralised procurement, pursuant to the 2020 version of the approved list of medicines eligible for reimbursement under the government-backed medical insurance plans issued on 28 December 2020, 119 types of medicines out of the 162 types of medicines being negotiated succeeded in being included in the list, including 96 exclusive medicines, leading to an average price reduction up to 50.64%. At the same time, the Chinese government continued to seek to develop two types of payment methods, namely the DRG (payment based on the diagnosis-related group) and DIP (payment based on the disease item), with 30 pilot cities entering the simulated DRG stage, and 71 cities in 27 provinces having been listed into the DIP pilot. The reform of quantity-specific procurement, medical insurance list, and payment method will further strengthen the control on national medical insurance fees, thus resulting in a significant reduction in the profit margin of pharmaceutical enterprises.

3. **In-depth integration with e-commerce and cross-border pharmaceutical e-commerce inaugurates for the first year**

In 2020, under the general context of the Pandemic and the opening-up policy of China, there was a more in-depth integration between e-commerce and pharmaceutical retailing businesses, and the sales of pharmaceutical e-commerce in 2020 amounted to nearly RMB140 billion. An increasing influx of pharmaceutical enterprises commenced businesses in the business-to-business (B2B) mainstream market. With the uplift in the health awareness of consumers and the consolidation on the growth of online shopping consumption habits, there is substantial development in the business-to-customer (B2C) market; more and more pharmaceutical enterprises have also started to develop online-to-offline (O2O) business, among which the O2O business growth of retail pharmacies increased by more than 50%. Under the Pandemic in 2020, the development models of pharmaceuticals to medical treatment and "medical treatment + pharmaceuticals" are widely accepted. In view of the strong demand of consumers for foreign high-quality Over-the-counter (OTC) household drugs, China has gradually opened up pilot points for cross-border pharmaceutical e-commerce. In 2020, as the country promulgated the "Implementation Plan for Beijing City Cross-border E-commerce Sale of Pharmaceutical Products Pilot Work ", those large e-commerce platforms like JD and Ali have become the pilot platforms for cross-border pharmaceutical e-commerce, thus officially initiating the first year of national cross-border pharmaceutical e-commerce. The Group will seize this policy opportunity, fully exploit the advantages of the global supply chain and closely keep up with the development trend in order to promote its cross-border OTC businesses.

4. **The Chinese medicine policy of Guangdong-Hong Kong-Macau Greater Bay Area promulgated one after the other**

In 2020, with a view to support the development of the Guangdong-Hong Kong-Macau Greater Bay Area, the PRC government has successively introduced various relevant policies and plans. The "Implementation Plan (2020-2025) for the Comprehensive Reform Pilot Point for Building a Pilot Demonstration Zone of Socialism with Chinese Characteristics in Shenzhen" clearly pointed out that Shenzhen should innovate its medical service system, actively develop the clinical application of international cutting-edge medicines, explore and improve the cross-border connection of medical services, establish a standard system for medical talent training and hospital accreditation that is in line with international standards. The "Work Plan for Regulatory Innovation and Development of Pharmaceutical and Medical Device in the Guangdong-Hong Kong-Macau Greater Bay Area" proposed that the Hong Kong registered drugs used by the designated healthcare institutions operating in the nine Mainland cities of the Guangdong-Hong Kong-Macau Greater Bay Area with urgent clinical use, should be subject to the approval of the People's Government of Guangdong as authorised by the State Council of the PRC instead of approval by the National Medical Products Administration (NMPA). The promulgation of the "Construction Plan for the Chinese Medicine Highlands in the Guangdong-Hong Kong-Macau Greater Bay Area (2020-2025)" will accelerate the formation of a new pattern of construction of Chinese medicine highlands. The Group will seize the industry development opportunities in the Guangdong-Hong Kong-Macau Greater Bay Area and make early deployment for implementing the pharmaceutical research and development ("**R&D**") and promoting Hong Kong Chinese medicine in the Greater Bay Area, thereby supporting the country to develop the economy of the Greater Bay Area.

5. **The overall implementation of building a Healthy China, prevention of diseases and elderly care will become the blue ocean**

During the Year Under Review, the PRC government issued the outline of China's Fourteenth Five-year Development Plan, in which a comprehensive plan for developing a healthy China was highlighted. The plan sets out a development strategy that prioritised the protection of the health of people; emphasised prevention of disease as the main approach; implemented in-depth action to foster a healthy China; improved and optimised the national health promotion policy; and solidified the protection net for national public health, thereby providing multidimensional and full-cycle health services to the people, including the support of social medical services and the promotion of telemedicine. Moreover, it emphasised the importance of integrating Chinese and Western medicine; vigorously developed Chinese medicine industries; implemented a national strategy to actively respond to the aging of the population; promoted a synergistic development of the elderly care businesses and the elderly care industry; improved the basic elderly care service system; developed generalised and all-inclusive elderly care services and promoted mutually supportive elderly care; rendered support to encourage family groups to take up the elderly care functions in order to nurture a new norm for the elderly care service sector; created an elderly care system combining home and community elderly care services and an integrated elderly care service to merge medical care with healthcare, thus setting up a comprehensive supervision system for elderly care services as a whole.

To integrate with the national "Healthy China 2030" strategy and focus on two directions, primarily focusing on the awareness of prevention; secondly aiming to improve the health promotion policy; and thirdly form a government-led protection net for public health, thus providing multidimensional and full-cycle health services for the nationals. Illustrating that the requirements of the Healthy China strategy for the medical and health industry are not confined to treating diseases and saving the lives of people, but more importantly, improving the immunity of people and their physical fitness, and building a comprehensive pharmaceutical, medical and healthcare industry with "prevention of disease" as the core, and this in turn includes the provision of various types of healthy food and healthcare products to improve the physical health of people, implement full-cycle health management and offline and online health services to improve the standard of living. In view of the aging trend, improving the elderly care industry, heightening the quality of health of the elderly population, increasing the life span of the population and completing the elderly care industry will become the blue ocean for the pharmaceutical, medical and healthcare industry in the future.

BUSINESS REVIEW

1. Highlights of the pharmaceutical products segment

(i) Nin Jiom product series

The Group's star product, the Nin Jiom product series, was impacted by the Pandemic as the Chinese government has restricted the sales of flu and cough-reducing products in terminal pharmacies and enacted the real-name registration measure, and even removed the products from shop shelves, resulting in reduced customer flow in pharmacies and decrease in consumer demand. Affected by this, during the Year Under Review, the revenue of Nin Jiom Chuan Bei Pei Pa Koa (京都念慈菴蜜煉川貝枇杷膏) decreased by 62.6% to approximately RMB181,723,000 compared with the same period last year. Nevertheless, during the Year Under Review, the Group continued to react to the trend proactively, grasping the growth trend of online consumption and live broadcast businesses during the Pandemic, and actively promoting online visits and trainings to cope with the changes in the consumption scenarios, and actively participating in the live broadcasts in major pharmacies in order to convey the messages to the consumers regard the healthcare benefits of Nin Jiom for moisturising and nourishing of lungs, thereby further enhancing the brand awareness and reputation as well as promoting sales. When the Pandemic stabilised in the PRC during the second half of 2020, the Group still adhered to the channel optimisation strategy, leveraging the power of its cooperative partners to increase terminal coverage and promote penetration into the second and third tier markets. At the same time, the Group started to launch the drainage activities of O2O and cooperated with online platforms such as ELEME Inc. to jointly organise various types of promotional activities to boost sales in terminal stores, strengthen terminal display, enhance consumer education, expand and strengthen cooperation with regional chains, thus allowing more consumers to experience the Nin Jiom products. In terms of brand promotion, the Group still continued to carry out promotion for the brand rejuvenation of Nin Jiom by launching a number of large-scale comprehensive promotional activities and new media brand promotion to attract new clusters of young consumers. At the same time, the Group organised various promotion campaigns to consolidate the loyalty of Nin Jiom's old customers and inject a contemporary image into the brand. The core activities included conducting filial piety carnivals, the "filial piety project, the youth accompanying the setting of the sun" new journey, and the Nin Jiom "Cheers for Mother" campaign during the Mother's Day, title sponsorship of Beijing Satellite TV programme "The Great Wall", title sponsorship of Jiangsu Satellite TV's popular variety shows such as "Mask Faces and Guess the Singers", "Pop Music Chart" and other well-known variety shows, advertisements on public transport and subway in cities including Hangzhou, Shanghai, Zhengzhou, and the "Big Hands hold Small Hands, Healthy Walks Together, Nin Jiom 2021 Healthy China Tour" campaign.

(ii) 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, despite the impact of the Pandemic, the Group continued to seek breakthroughs. The Group studied changes in the consumption scenarios, and rode on the trend. Moreover, the Group continued to strengthen the training of store staff and consumer education activities, and kept a close eye on the trends of market development of competing products, and enhance the distribution and recommendation of stores through terminal promotion activities which is supplemented by precise brand promotion in order to nurture consumer loyalty towards the brand and promote product distribution so as to create an active ambience at the terminal market, thus strengthening the closeness with the consumers and enhancing customer retention. As for the non-core markets, the distribution and dynamic sales rate were improved through cooperation with large-scale national chains and O2O drainage cooperation with ELEME Inc. The Group also had insight into online sales opportunities and launched precise online marketing activities with JD.com, Ali Health Pharmacy, Dingdong Kuaiyao, and ELEME Inc. Alongside this, the Group focused promotion efforts on the both the "Double 11 Day" and "Double 12 Day", thereby proactively embracing the integrated online and offline new retail format.

During the Year Under Review, the Group and the factory also increased their brand promotion efforts, launching billboard advertisements on bustling streets of cities, including the launch of Golden World's large outdoor LED screen advertisements on the most bustling zone of Dongmen business district in Shenzhen had attracted views every day. In addition, various types of advertising tools were also engaged, including bus exterior advertisements, advertisements on the pillow covers and magazine of trains, advertisements in high-speed railway stations and immigrating border, community access control, and city elevator. In order to attract new clusters of consumers, the Group also actively promoted precise marketing and nurturing of potential customers at new media, and promoted the application scenarios of products through Baidu Q&As, advertorials of key opinion leaders ("KOLs") at Xiaohongshu and TikTok short videos to reach consumers' pain points and provide solutions to them. During the Year Under Review, the sales revenue of Taiko Seirogan was RMB53,229,000, representing a decrease of 43.3% over the same period of last year.

(iii) Mentholatum series

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 its own brand, Kingworld Imada Red Flower Oil (金活依馬打正紅花油). During the Year Under Review, we formulated online and offline promotional activities for each product according to its featured characteristics and clusters of target consumers, among them, we continued to strengthen the online promotion of the Mentholatum series by enhancing close cooperation with the pharmaceutical e-commerce merchants on the online platform, and launching online promotion on various popular large APP promotion platforms and websites such as optimising the product details on various major online platforms and posting special advertorials to boost attraction. At the same time, the Group gained online exposure through advertorials by well-known KOLs on TikTok and Xiaohongshu, and placed advertisements on WeChat friend groups and Guangzhou Metro stations; continued to carry out offline promotion through store staff training and consumer education to enrich their product knowledge, conduct campus promotion and store display to further enhance brand awareness and boost sales.

(iv) Kingworld brand product series

(a) Kingworld Imada Red Flower Oil (金活依馬打正紅花油)

Kingworld Imada Red Flower Oil (金活依馬打正紅花油) is the own brand of the Group and it has established certain marketing network and awareness after years of market development. During the Year Under Review, in order to rapidly increase the sales of this product and serve more consumers, the Group formulated the brand development strategy of "Kingworld Imada Red Flower Oil becoming popular all over China". Under the guidance of this strategy, the Group will further optimise the deployment of the channel network in the key markets, and deepen the marketing reach to the third- and fourth-tier cities and even extending to towns. As for the key regions, the Group strengthened the cooperation with the chains and strengthened the product knowledge training and enhanced consumer experience. When the Pandemic became stabilised during the second half of 2020, more than 800 rounds of activities, namely the "Try the one-time experience in summer" were held in more than 30 cities to provide consumers with the trial products and conduct charity product trial activities of the Kingworld Imada Red Flower Oil. The Group actively participated in sports events and sponsored the 2020 Shanghai Jing'an New Year Run, the 2020 Shenzhen Longgang City Orienteering Event, the 2020 Guangming District Elite Running Up Building Competition, and continued to implement several rounds of "Quality Goods Welcome Your Trial "charity activities and through providing trial experience to the vast community local residents enhanced consumer's product recognition and purchase confidence. In terms of brand promotion, using the brand name of Kingworld Imada Red Flower Oil, the Group secured title sponsor of the marine weather forecast advertisement broadcast by News Channel of CCTV, and launched large-screen outdoor LED advertising in the prime locations of eight cities, including Shenzhen, Guangzhou, Foshan, Qingyuan, Zhongshan, Zhaoqing, Dongguan and Huizhou. During the Year Under Review, the Group paid great attention to online sales and new media communications and carried out promotion and publicity campaigns through channels such as TikTok, Xiaohongshu, Baidu Zhidao to increase different application scenarios of Kingworld Imada Red Flower Oil. During the Year Under Review, the sales revenue of the Kingworld Imada Red Flower Oil series increased by 22.1% compared with the same period of last year.

(b) *SZ Kingworld Lifeshine Medical Masks*

Since the outbreak of the Pandemic, the Group has actively invested in various anti-Pandemic measures, and quickly established a special anti-Pandemic team to comprehensively organise the resumption of work and production. During the period when there was shortage of medical masks to cater for the resumption of work in various enterprises, the Group boldly assumed the social responsibility of being a listed company and fully explored its own resources to engage in the distribution of medical masks produced by Shenzheu Kingworld Lifeshine Pharmaceutical Company Limited ("SZ Kingworld Lifeshine"), a connected person of the Company. During the Year Under Review, SZ Kingworld Lifeshine obtained the medical device license for the production of medical masks and the registration certificate, officially shortlisted in the "White List" of the Ministry of Commerce for export of medical supplies. During the Year Under Review, the Group proactively seized the opportunity to provide the brand of SZ Kingworld Lifeshine medical masks to the terminal pharmacies through its local marketing networks in various regions. At the same time, it also formulated product portfolio marketing, developed the opportunities of group buying for enterprises and institutions, and made deployment for online sales.

(c) Kingworld Jianfu Capsules and Pu Ji Kang Gan Granules

As the Pandemic raged around the world in 2020, the awareness of personal health and hygiene continued to escalate, and the demand for anti-influenza and upper respiratory tract medicines increased significantly in the market. In this regard, the Group was agilely seized the opportunity to promote its anti-influenza flagship "Pu Ji Kang Gan Granules" and officially started distribution in various pharmacies in Hong Kong to expand its market reach. "Pu Ji Kang Gan Granules" can be used for upper respiratory tract infections, capable of detoxification and clearing away heat, minimising the effects of cold inside the body, soothing throats and relieving coughing, and can quickly relieve certain cold symptoms to a certain extent without causing any side effects, thus helping to prevent viral infections.

Fengbao Jianfu Capsules is another type of Chinese patent medicine product of the Group's own brand. It is used to prevent and treat infertility. Experiments have shown that this product has a significant effect on improving female anaemia and has a broad market prospect. In order to better develop this product, the Group has conducted academic research in hospitals through its cooperative partners and actively participated in the bidding work in various provinces and cities. Up to now, the Group has succeeded in promoting this product in 4 provinces. However, due to the impact of the Pandemic, the meetings dealing with pharmaceutical affairs of various hospitals have been postponed and this in turn severely affected the progression of sales. It is believed that when the conditions of the Pandemic became stabilised and after the situation is back to normal, the sales of this product will increase significantly. At the same time, the Group has also distributed goods to local pharmacies in Hong Kong. In September 2020, good news came from the Jianfu Capsules again after obtaining the patent for "Chinese medicine preparations for the prevention and treatment of infertility" approved by the Patent Registry of the Hong Kong Intellectual Property Department.

2. Highlights of the healthcare products segment

(i) Culturelle probiotics product series

The Culturelle (康萃樂) probiotics product series from the United States, another major product series of the Group, is a leading brand in the probiotics product market in the United States and the probiotics product brand for children most recommended by pediatricians in the United States. According to ACNielsen's report, the sales volume of Culturelle probiotics product series ranked as the No.1 probiotics brand in Hong Kong in 2018. During the Year Under Review, the Group continued to place advertisements on MTR stations, building elevator advertisements, and TV advertisements from time to time to enhance brand awareness and guide the consumption aspect. The Group focused on exploring the sales and channel coverages in the Hong Kong and Macau markets, and adopted supplementary promotional tactics such as offering gifts to purchasers to boost sales. At present, the distribution channels mainly cover Mannings, Watsons, SaSa, Colourmix, CR Care, HealthPlus, Eugene Baby, Yue Wah Chinese Products, AEON Stores, HKTV Mall, various chain pharmacies and individual pharmacies. There were around 1,600 distribution channels of Culturelle's sales terminal sites in the Hong Kong and Macau markets. During the Year Under Review, as affected by the Pandemic, the number of travellers to Hong Kong dropped dramatically and decreased by 94% compared with the same period last year, along with the weakening local consumption sentiments in Hong Kong, the total revenue of Culturelle Probiotics product series in the Hong Kong and Macau markets decreased by 74.2% as compared to the same period last year.

(ii) 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 in the Mainland China, Hong Kong and Macau markets. During the Year Under Review, the Group continued to deepen the product advantages of Lifeline Care as the "Norwegian local pure fish oil DHA+", strengthen the promotion model of cooperation with celebrities and doctors, increase the word-of-mouth propaganda of "experts + celebrities + talents + amateurs", deepen cooperation with top anchors, thus bringing the brand a substantial flow in the market and further enhancing the brand awareness. Alongside this, by taking advantage of the popularity of short videos, the TikTok and Kuaishou marketing frenzy, it increased the exposure of Lifeline Care in the new media while achieving simultaneous sales. In addition, the Group continued to enhance strategic cooperation with large-scale cross-border e-commerce platforms and big names in maternal and infant segment. The parties cooperated in increasing brand exposure and sales. Through the sales of hot products and developing explosive matrix to develop social e-commerce, the operation in flagship store and the repurchase rate of regular customers and the return on investment of other platforms improved. During the Year Under Review, the Lifeline Care maternal and infant fish oil nutrient product series gained a considerable volume of high-quality word-of-mouth appreciation for the brand and products from consumers through diversified precise marketing tools and new channel development, and was ranked first on the sales list of the Norwegian pharmacies; ranked second on the Kaola's online shopping platform for the sales of infant DHA products; repeatedly listed on the top five of the Tmall 618 maternal and infant series live broadcast list; highly recommended by the owner of "Excellent Clinical Teaching Professor Award" and "Family Education Hundred Public Welfare Figures" and well-known obstetrician and gynecologist Dr.Ma Liangkun and by Cui Yutao Education Academy. Moreover, it was also jointly recommended by dozens of well-known pediatricians, chief doctors and well-known nutritionists of the top three hospitals. During the Year Under Review, the revenue increased by 17.4% compared with the same period last year.

(iii) CARMEX Lipstick series

During the Year Under Review, the Group continued to conduct research and development and try out brand promotion models that suit the new generation of consumers, highlight the different effects of CARMEX according to the climate changes; refine the solution as the selling points; enlarge the benefits of brand promotion; establish a public account for the product at Wechat supplemented by a portal websites; exploit the print media to build up a word-of-mouth communication (Baidu Q&A/Zhihu/Beauty Magazine); utilise social platforms to nurture sales (such as Xiaohongshu/Oasis/TikTok); invite beauty bloggers and top-notch and head anchors for live commerce and form communication channels; expand the product portfolio and create hot product specifications. The Group actively expanded online sales opportunities, including the setup of an official flagship store on Tmall, developing Taoke channels, implementation of annual advertisement agreement and pairing up with corresponding channels, and combining the promotion rhythm to guide purchases and promote sales. During the Year Under Review, the Group reached a collaboration with the top anchor Li Jiaqi that captured more than 10 million of views in a single live broadcast and achieved up to RMB2 million of sales in a single live broadcast, thus greatly enhanced the brand awareness. During the Pandemic, major offline sales channels such as Watsons encountered a decline in sales during peak seasons due to low traffic flow. During the Year Under Review, the online sales of CARMEX increased significantly compared with the same period last year.

3. **Highlights of the medical devices segment**

Shenzhen Dongdixin Technology Co., Ltd. ("Dong Di Xin"), a subsidiary of the Company and a medical device manufacturer, mainly produces infrared thermometers. This series of products has obtained a Chinese invention patent, the FDA Certification, EU CE0197 Certification, and passed the ISO13485 Certification and Canadian Medical Device System Certification and has been selling to many countries and regions around the world. During the outbreak of the Pandemic, Dong Di Xin, leveraging on its excellent product quality and complete product quality certification system, has become the fourth infrared thermometer enterprise approved for inclusion in the "White List" in China, and achieved significant increase in sales orders. In this regard, the Company has designated all employees to support the front line of the factory throughout the year, engaging in overtime work while the number of production lines has been increased to 12. So far, Dong Di Xin's infrared thermometers have successfully entered the second largest pharmaceutical chain store in the United States and the purchase orders continue to grow due to the global spread of the Pandemic,

During the Year Under Review, the revenue of Dong Di Xin amounted to approximately RMB370,264,000, representing an increase of 91.7% over the same period last year.

MANAGEMENT REVIEW

1. **Establish a flat organisational structure to improve organisational and operational efficiency**

The Group has strived to cope with the changes and uncertainties in the macro environment and the industry during the Pandemic and make faster market response and decision-making in order to further strengthen its operational strategy and management needs while fully implementing the Group's continuous "rooted, optimised and perfected" operation and sales management strategy. In the second half of 2020, the Group adopted a flat approach to optimise the organisation of the marketing system by promoting experienced sales executives to take charge of the overall operation of the domestic businesses, including sales and market management as well as adjusting the structure and personnel appointment procedure of certain sales districts in order to further streamline the organisational structure, thereby facilitating swift market response of various business districts and shortening the time required to formulate counter measures.

During the Year Under Review, the Group has also conducted evaluation on the operational efficiency of the marketing structure, made multidimensional analysis and evaluation on the sales performance and the inputs of the costs of human resources. In addition, two-way adjustments were made to the performance and deployment of human resources based on the evaluation results to improve the operation efficiency of the marketing structure, and enhance the positivity and cohesion of the employees.

The Group firmly believes that the adjustment to a flat organisational structure will play a key and consolidating role in promoting a steady growth in Group's performance, focusing on channel penetration, and further increasing the distribution rate of products and strengthening the execution capability of various business aspects in the future.

2. **Strengthen digitalised marketing and enhance the operation efficiency of the Company**

During the Year Under Review, the Group adopted the established Market Sales Traceability Management System ("SMART System") to conduct a comprehensive analysis of customers, products, regions and personnel in order to discover potential markets and customers, make reasonable plans on marketing, purchasing, inventory, and event management to accurately identify the blank spots in the market so as to formulate more precise marketing strategies and achieve higher returns as well as improving the return on equity. On the other hand, the Group also used the SMART system to assess the performance of marketing personnel across the country and to implement the system of the survival of the fittest. Through the SMART system and scientific analysis of big data to get hold of the needs of targeted consumer groups and explore market segments. At the same time, it could satisfy the country's requirements for traceability and safety monitoring of pharmaceuticals and food, and this in turn reinforced the Group to impose a systematic management on monitoring the flow of its pharmaceutical and healthcare product businesses, thus forming an integrated and platformised supervision to provide a strong guarantee for achieving the objectives of realising the origin of products, tracking their physical flow, checking the quality and investigating the responsibility. Alongside this, it enabled real-time monitoring of the effects of market activities, facilitated accurate and effective market inputs, thus achieving the integration of market, sales and finance.

3. **Grasp the new drainnage forces of live broadcast and O2O, and promote online and offline integration**

During the Pandemic, there was explosive growth in live streaming marketing in the domestic retail market. The Group also seized the development opportunities arising from the live broadcast businesses by creating a communication matrix through seasonal live broadcast of top anchors and subsequently followed up by the live broadcast of the principal and secondary anchors; using top anchors to explore store resources and simultaneously drain the offline sales to create a powerful trend; seizing the hot spots of short videos; promoting short videos on major platforms, TikTok and flagship stores, thereby creating market noise for the brand. In addition, the Group has also actively carried out live broadcast activities with offline stores, and reached cooperation with the well-known O2O platforms such as Meituan and ELEME Inc. to drain the traffic to the offline stores, promote distribution and sales, thereby building the Kingworld new retail ecosystem actively.

During the Year Under Review, the number of the Group's offline national over-the-counter medicine "OTC" retail pharmacies exceeded 200,000, and the Group had reached strategic partnerships with more than 2,700 chain pharmacies chains across the PRC. As for the online businesses, the Group's coverage in various large comprehensive e-commerce platforms mainly includes: JD.com, Taobao, Tmall International and Pinduoduo; the coverage of professional e-commerce platforms mainly includes: NetEase Kaola, Vipshop,com, and Xiaohongshu; self-owned public media accounts mainly includes: Kingworld Medicines Group WeChat public account and Weibo account, Kingwood Health Family Mini Program, Rice Cake Mom and Yuxueyuan. In the future, the Group will make full use of the online platform data to gain insight into market opportunities, implement precise marketing, and exploit big data to reinforce sales.

4. **Benefit hypertensive patients and support healthy China**

During the Year Under Review, Shenzhen Kingworld Medicine Company Limited ("**Shenzhen Kingworld**"), a wholly owned subsidiary of the Company, signed a cooperation agreement with Shenzhen Ausa Pharmaceutical Co., Ltd. ("**Ausa**"), pursuant to which Shenzhen Kingworld was appointed as Ausa's exclusive distributor for the marketing, sale and distribution of 10.4 mg Enalapril maleate and folic acid tablets ("**Enalapril**") in the China market for a term five years. Upon the expiration of the initial five-year term, the agreement may be automatically renewed for a period of five years, marking the outset of the Group to enter into the market of chronic diseases and prescription medicines. In this regard, the Group has further optimised its greater health product structure, thereby laying a solid foundation for the Company to develop different business scopes in the future. At present, Enalapril has successively entered into major chains and sales points across the PRC.

Enalapril maleate and folic acid tablet is an innovative preventive compound prescription drug of multi-risk factors control specifically designed for the effective control of H-type hypertension. In 2016, it was awarded with the second prize of the National Science and Technology Progress Award, and was included in many domestic and foreign guidelines for the prevention and treatment of hypertension and the guidelines for reasonable use of hypertension medicines. It has been classified as National Class I New Drug (Chemical) and included in the 2009 National Drug Catalogue for Basic Medical Insurance, Work-related Injury Insurance and Maternity Insurance of the PRC.

5. **Establish a learning-centric organisation, enrich the corporate culture, and enhance soft competitive power**

During the Year Under Review, in order to achieve the Group's development objectives, the "rooted, optimised and improved" marketing management strategy and improve its core competitiveness, the Group's Human Resources Centre and Kingworld Business School organised multiple training sessions through video, online and offline training aiming to build a learning-centric organisation to adapt to the rapid development of the market, improve the working skills and management level of employees at all levels, and comprehensively enhance the Company's soft competitive power. The content and objects of these trainings cover various aspects, mainly including (i) training of sales skills, business negotiation and product knowledge for different sales district personnel and sharing on outstanding cases; (ii) improvement in organisational efficiency; (iii) performance improvement in the sales system, improvement in the management capacity of the management cadre, market system training project and the best experimental extraction project; (iv) new employee training project to understand the Company's corporate system, corporate culture, product knowledges, and operation management knowledge; (v) Kingworld talent training project to train a cluster of reserve talents for the sales system through cooperation with the Guangzhou Institute of Food and Drug.

During the Year Under Review, the total number of training sessions amounted to 34, and the cumulative number of personnel trained was 3,719.

The Group has been adhering to promote innovative schooling for ten years and collaborated with the Guangdong Food and Drug Vocational College to open customised Kingworld classes, thus continuously providing the Group with a cluster of trained foundational talents. In 2020, the Group was awarded the honorary title of the "Group of Industry-Academic-Research Cooperation Advanced Unit", and Chan Lok San, the Executive Director of the Group and Dean of the Business School, was awarded the honorary title of the "Group Vocational Education Outstanding Contribution Award". In 2020, during the Pandemic, Kingworld Medicines Group fully demonstrated its people-centric way of management by providing Chinese medicine for epidemic prevention and safe meals for employees at its headquarters, and it also provided medical masks, Chinese medicine for epidemic prevention and medicine kits for employees across the country throughout the year.

In 2020, the "Mind Comforting Hall Living Space (舒心堂 • 生空間)" achieved innovative breakthroughs. From April to July 2020, it held the Guyu Art Festival Urban Dream Theme Exhibition through online and offline connections and the exhibition gathered more than 50 young artists and showcased nearly 100 pieces of original works from the cross-traditional media, alongside with resident performance projects, jointly interpreting the theme of "urban dream". In September 2020, in order to further "go out", the Mind Comforting Hall Living Space participated in the 2020 Art Shenzhen Expo and it continued to explore innovative development ideas. In November 2020, the Mind Comforting Hall Living Space brought a new set of the nine-volume "Chinese Traditional Buddha and Bodhisattva Portraits" to hold the "Grand World·Utimate Unifying" touring exhibition of Xingxin Degongbi paintings and won enthusiastic appreciation. In 2021, the Mind Comforting Hall Living Space will continue to plan different art exhibitions, seek for innovation, enrich the content of the Group's corporate culture, strengthen the Group's competitive soft power, and extend the Company's health concept to benefit the physical and mental health of people.

6. Formulate share incentive scheme for several times, repurchase shares to reward talents

During the Year Under Review, in order to expedite the development of the entire category of products operated by the Group, the Group formulated different development objectives, performance assessments and incentive methods based on the different degree of maturity of each product's market share in each region, and exploited the big data to guide the sales team to look for undeveloped markets, formulate integrated strategies and precise marketing strategies to increase sales and achieve the objective of individual employees to grow together with the Company. Through the adjustment of performance and appraisal elements, the Group was able to encourage the sales staff to fully develop their subjective initiative and nurture the mindset of "I want to do it" instead of "You ask me to do it."

In order to further stimulate the enthusiasm of the Company's key employees, the Group adhered to uphold the "people-centric" corporate spirit even in the environment of economic uncertainties and proposed to offer the share incentive scheme against the market trend and increased the quota of the share incentive scheme proposed on 27 August 2019.

The Group announced on 7 October, 9 October and 16 October 2020 and repurchased 1,136,000 shares, 944,000 shares and 3,924,000 shares on 5 to 7 October 2020, 8 to 9 October 2020 and 14 to 16 October 2020, respectively.

The increase in the limit of the share incentive scheme aimed at commending the contributions made by certain participants and providing rewards to them so as to retain key employees to support the continuous operation and development of the Group, while attracting suitable talents to drive further the development of the Group and give new impetus to facilitate the Group's future development and create greater value for shareholders of the Company (the "**Shareholders**").

7. Investment projects progressed steadily and achieved favourable returns

During the Year Under Review, the investment projects of the Group developed steady and generated favourable returns. The investment projects included the 15% equity interest investment in Dong Hua Tong Investments Limited ("**Dong Hua Tong**") (東華通投資有限公司) in 2015. Dong Hua Tong invested in (i) Miquel Alimentacio (西班牙米蓋爾公司) (a Spanish company engaged in food distribution and wholesale and supply chain management) and (ii) Manassen Foods Australia (a major food company). The divestment of the indirect investment by the Group from the above two projects has been successfully completed in September and October 2020, respectively, and realised good returns from the investment. The Group has also subscribed for 2,302,000 public-offered shares of Chuangmei Pharmaceutical Co., Ltd. (02289.HK) in 2015 and continued to receive favourable dividend returns from this investment project.

On the other hand, the Group actively sought high-quality project investment opportunities, including the participation in BYD Semiconductor Co., Ltd. ("**BYD Semiconductor**")'s project to introduce strategic investors and spin-off items 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 Shenzhen Kingworld, a wholly-owned subsidiary of the Group, at the beginning of 2020 in order to acquire favourable investment returns for the Group in the future. BYD Semiconductor is a leading manufacturer of autonomous and controllable automotive-grade IGBT in China. At the same time, IGBT products produced by BYD Semiconductor are also widely used in the industrial field.

8. Promote Hong Kong medicines, construct the Longde Health Industrial Park, and deploy the integration of research, production, and sales

In order to seize the opportunity of cross-border OTC to allow Hong Kong's high-quality Chinese medicines to benefit more mainland consumers, Shenzhen Kingworld Medicine Company Limited, a wholly-owned subsidiary of the Group, has made early deployment for carrying out the "Shenzhen-Hong Kong Loop Region" project to promote Hong Kong's Chinese medicines in China, and established Shenzhen Kingworld Chinese Medicines Technology Development Co., Ltd. in the Futian Free Trade Zone in Shenzhen on 16 December 2020. It aimed to make full use of the geographical advantages of Shenzhen and Hong Kong, and vigorously introduce colleges and universities of domestic and international Chinese medicine and related fields, scientific research institutions, Hong Kong time-honored manufacturers, and well-known domestic Chinese medicine companies to build an innovative development complex of Chinese medicine that combines clusters of brands, product distribution, and integrated industry-university-research elements. The Company will explore the innovative development and reform practice of Chinese medicine, including the reform of the Chinese medicine registration and approval system, the exploration of the Hong Kong Chinese medicine entry registration and approval system, the exploration of the path of the review and approval system for the well-known classic prescriptions, the formulation of the quality and standard of Chinese medicine to enter the international markets, and the innovation and research of Chinese medicine and its application, promotion of the cross-border e-commerce business of Chinese medicine of Hong Kong. In a nutshell, the Group has taken practical actions to make advance demonstration in order to foster the development of the industrialisation of Chinese medicine in China.

Shenzhen Kingworld Co., Ltd., a wholly-owned subsidiary of the Group, and Shenzhen Xinda Shanghenggang Cooperative Stock Company formed a joint venture company, Shenzhen City Longde Jiankang Company Limited ("**Longde Jiankang**") in 2016, which is used for land development and construction of logistics centres and supporting properties equipped with supporting facilities. On 28 December 2020, the grand opening ceremony of the Group's Longde Health Industrial Park project was held at No. 6 Cuilong Road, Baolong Community, Longgang District, the PRC. The supporting development centre of the Chinese Medicine Science and Technology Innovation Park will be constructed in the Shenzhen-Hong Kong Loop region. The completion and operation of the project is conducive to the innovative development of the healthy living and pharmaceutical industries of Shenzhen, and is conducive to the goal of Longgang District, Shenzhen to build a strategic highland in the east, and to create a new business card for Longgang's health industry.

The Longde Health Industrial Park covers a total project area of 10,000 square meters and a planned total construction area of 58,336 square meters. The park is planned to build the following four core sections: 1. a Chinese medicine research and development centre to be used by the group to establish multi-faceted laboratory with higher education institutions in Guangdong and Hong Kong and science and technology institutions; 2. a Health Industry Technology Innovation Centre in Shenzhen and the Group has held a strategic cooperation signing ceremony with the Shenzhen Health Industry Promotion Association at the groundbreaking ceremony for jointly building the "Shenzhen Health Industry Technology Innovation Centre" in the park targeting to establish a health project incubation platform; 3. build a domestic development centre for the Shenzhen-Hong Kong Loop Chinese Medicine Technology Innovation Park to realise the establishment of a Chinese Medicine Technology Park erected by the Shenzhen-Hong Kong Loop region within the park; 4. as a national logistics and distribution centre of the Group and a key logistics enterprise in Shenzhen. The Group is committed to building an omni-channel and full-chain pharmaceutical supply chain. It is believed that the completion of the distribution centre will provide strong support for the Group to build a more complete and more convenient national logistics system, and further enhance the Group's comprehensive strength in the logistics industry, thus providing positive demonstration to foster the development of logistics enterprises in Shenzhen and across the country. The estimated total construction amount of Longde Health Industrial Park amounted to approximately RMB400,000,000, in which approximately RMB357,354,000 are authorised but not contracted capital commitment.

9. Proposed acquisition of the issued share capital of Fat Chi Medicine Company Limited (佛慈藥廠有限公司)

On 18 March 2021, Kingworld Medicine Healthcare Limited (金活藥業健康發展有限公司) ("**HK Kingworld**"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the "**Fat Chi Agreement**") with Lanzhou Foci Pharmaceutical Co., Ltd (蘭州佛慈製藥股份有限公司) ("**Lanzhou Foci**") in relation to the proposed acquisition (the "**Proposed Acquisition**") of the issued share capital of Fat Chi Medicine Company Limited (佛慈藥廠有限公司) ("**Fat Chi**"). Pursuant to the Fat Chi Agreement, subject to its terms and conditions, HK Kingworld agreed to acquire not more than 49% of the total issued share capital of Fat Chi from Lanzhou Foci. Upon completion of the Proposed Acquisition, Lanzhou Foci will be the majority shareholder of Fat Chi. Fat Chi is principally engaged in the import, export, distribution, manufacture and sale of pharmaceutical products. Subject to the fulfilment of the terms and conditions of the Fat Chi Agreement, completion of the Proposed Acquisition is expected to occur in the first half of 2021. It is expected that

Fat Chi will be focusing on business development in the Hong Kong and Macau markets, expanding into businesses in Southeast Asia and overseas markets as well as radiating to conduct business cooperation in the domestic market. In the development plan of Fat Chi, it will introduce more Lanzhou Foci medicines, such as its Angong Niuhuang Wan and Ejiao products which represented a total domestic sales exceeding RMB5 billion. At the same time, it will selectively source the indigenous Chinese medicinal herb materials in Gansu. Gansu Province is one of the main production areas of Chinese medicinal herb materials, having 2,540 kinds of Chinese medicinal herb sources and more than 30 kinds of indigenous medicinal materials, all of which can be purchased through the joint venture at competitive costs. These indigenous medicinal materials can be processed as extract of semi-finished products and exported to foreign countries via Hong Kong. According to data analysis, the export scale of Chinese medicine extracts in 2019 approximately amounted to RMB5 billion.

As all of the applicable percentage ratios in respect of the transactions contemplated under the Proposed Acquisition are below 5%, the transaction contemplated under the Proposed Acquisition is not a notifiable transaction under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**").

10. Give back to the society and contribute love

The Group's business philosophy is "to serve the community and to benefit the world (效力世人，澤潤蒼生)", and is committed to carefully selecting high-quality medicines and healthcare products for consumers, so that consumers can eat with peace of mind and at ease. At the same time, we will not forget our original intention and actively participate in social construction to benefit the community. Looking back at this year, the Group and Kingworld Health Care Foundation donated a total of approximately RMB6.6 million for charitable purposes. The main areas of donation included anti-epidemic funding, environmental protection, care and mutual assistance, and maintenance and repair of temples.

At the beginning of 2020, in view of the sudden outbreak of the Pandemic, the Group adhered to the corporate philosophy of ""to serve the community and to benefit the world", actively responding to the government's appeal, taking up the due responsibilities of pharmaceutical companies, fulfilling social responsibilities, overcoming difficulties, and resuming work and production to work together to help to fight the Pandemic. In order to alleviate the shortage of medical masks in the market, the Group entered into a medical masks distribution agreement with SZ Kingworld Lifeshine, pursuant to which the Group agreed to act as the exclusive distributor for distribution of medical masks produced by SZ Kingworld Lifeshine in the PRC and overseas market. Since then, several millions of disposable medical masks have been donated to domestic and overseas Chinese through institutions such as the China Overseas Friendship Association and the Chinese Temple in Nepal. In view of the outstanding performance of the Group in contributing anti-epidemic funding, there was wide coverage by the "Shenzhen Overseas Chinese News" and other platforms such as the website of the China Overseas Friendship Association and the website of the Shenzhen Political Consultative Conference. These anti-epidemic deeds were included in the "Together we fight the Pandemic: Compilation of Guangdong CPPCC Members Fighting the Pandemic", edited and organised by the Guangdong CPPCC.

During the Year Under Review, the Group was ranked 28th in Shenzhen's 2018-2019 Corporate Donation List, and won the Pengcheng Charity Donation Enterprise Bronze Award. At the same time, the income of the Group's donation fund society was ranked 74th on the list of social organisation donations.

HONOURS

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

In January 2020, Mr. Zhao Li Sheng, the Chairman of the board of directors (the "Board") of the Company was awarded the honour of "Excellent Member"of the Shenzhen Municipal Committee of the Chinese People's Political Consultative Conference (CPPCC) in 2019;

In April 2020, the Group successfully passed the review by the Guangdong Food and Drug Administration and obtained the "Medical Device Business License (Class III)", the "Medical Device Registration Certificate" and the "Medical Device Manufacturing License";

In May 2020, 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 May 2020, the Group was awarded the "2019 Guangdong Province Contract-abiding and Credit-worthy Enterprise" again by the Guangdong Provincial Administration for Industry and Commerce. So far, the Group has won this honorary title for six consecutive years;

In August 2020, Nin Jiom, which the Group act as an agent, was ranked 18th in the 2020 "Healthy Chinese Brand List and Value Ranking", with a brand value of 4.379 billion yuan. In the same month, Nin Jiom was also shortlisted for the 38th place in the 2019 TOP100 list of Chinese traditional Chinese medicine companies;

In September 2020, the Group passed the review by the Shenzhen Famous Brand Evaluation Committee and was awarded the title of "Shenzhen Famous Brand" (2020-2022) again;

In September 2020, Jianfu Capsule, a product of the Group, was granted a new patent by the Patent Registry of the Hong Kong Intellectual Property Department: Chinese medicine preparations for the prevention and treatment of infertility;

In September 2020, the Group won the "Pengcheng Charity Award Bronze Award" co-sponsored by the Shenzhen Charity Federation, Shenzhen Newspaper Group, and Shenzhen Radio, Film and Television Group, and was ranked 28th on the list of corporate donations in Shenzhen 2018-2019. At the same time, the income of the Group's fund donation society was ranked 74th on the list of social organisation donations;

In September 2020, Nin Jiom, which the Group act as an agent, won two honors -- the honorable list of the "2019-2020 Chinese Family Standing Medicines Listed Brands" and the honorable list of "Golden Cane Honorable List of Chinese Pharmaceutical Companies -- O2O Marketing Innovation Case Award";

In September 2020, the Group passed the accreditation of the Shenzhen Municipal People's Government and entered the list of "Shenzhen Thorough Train Companies". Being a company on this list, the Group can enjoy convenient services and greatly shorten the approval time when dealing with related government departmental matters;

In October 2020, the Group was awarded the "2020 Shenzhen Top 500 Enterprises" in the "2020 Shenzhen Top 500 Enterprises Development Report" compiled by the Shenzhen Enterprise Confederation and Shenzhen Entrepreneurs Association. The Group was ranked 411th and was on the top 500 list for the third consecutive year;

In October 2020, the Group was awarded the "Group Industry-University-Research Cooperation Advanced Unit" by Guangdong Food and Drug Vocational College. Ms. Chan Lok San, the Executive Director of the Group and Dean of Business School, was awarded the "Group Vocational Education Outstanding Contribution Award"; and

In December 2020, Mr. Zhao Li Sheng, the Chairman of the Board of Directors of the Group, was successfully selected into the fourth "Shenzhen 100 Industry Leaders" list for his outstanding contributions in the field of imported Chinese patent medicines.

FINANCIAL REVIEW

1. Revenue

Revenue of the Group for the Year Under Review was approximately RMB745,383,000, representing a decrease of approximately RMB232,545,000 or 23.8% from approximately RMB977,928,000 for the year ended 31 December 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 off-set 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 Year Under Review.

2. Cost of sales

For the Year Under Review, cost of sales for the Group amounted to approximately RMB465,229,000, representing a decrease of approximately RMB245,296,000 or 34.5% from approximately RMB710,525,000 for the year ended 31 December 2019. The decrease in cost of sales was in line with the decrease in revenue. Gross profit margin increased from 27.3% for the year ended 31 December 2019 to 37.6% for the Year Under Review. Such increase is 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 Year Under Review.

3. Other revenue, income and other net loss

Other revenue, income and other net loss mainly included exchange difference, promotional service income, rental income, government grant, interest income and dividend income. For the Year Under Review, other revenue, income and other net loss amounted to approximately RMB55,504,000, representing an increase of approximately RMB7,841,000 of 16.5% from approximately RMB47,663,000 for the year ended 31 December 2019. The increase was mainly due to the increase in promotional service income of approximately RMB3,718,000 and the dividend income from financial assets at fair value through other comprehensive income and through profit or loss of approximately RMB7,488,000.

4. Selling and distribution costs

For the Year Under Review, selling and distribution costs amounted to approximately RMB132,950,000, representing an increase of approximately RMB20,667,000 or 18.4% from approximately RMB112,283,000 for the year ended 31 December 2019. This increase was primarily attributable to the increase in provision for obsolete inventories of approximately RMB34,336,000 which was mainly for Culturelle probiotics product series, while partially offset by the decrease in advertising and promotional expenses of approximately RMB7,574,000 and bonus of approximately RMB5,051,000.

5. Administrative expenses

For the Year Under Review, administrative expenses amounted to approximately RMB112,559,000, representing an increase of approximately RMB5,116,000 or 4.8% from approximately RMB107,443,000 for the year ended 31 December 2019. For the Year Under Review, rental expenses was approximately RMB2,211,000, administrative staff costs was approximately RMB14,130,000, legal and professional fees, which comprised mainly of financial reporting costs of the Company and legal advisory and consultancy fees, was approximately RMB7,409,000, and research and development expenses was approximately RMB13,257,000 (2019: rental expenses was approximately RMB2,223,000, administrative staff costs was approximately RMB12,946,000, legal and professional fees was approximately RMB6,085,000, and research and development expenses was approximately RMB15,072,000).

6. Profit from operations

For the Year Under Review, profit from operations for the Group amounted to approximately RMB73,649,000, representing a decrease of approximately RMB3,095,000 or 4.0% from approximately RMB76,744,000 for the year ended 31 December 2019. The decrease in profit from operations was mainly due to the increase in administrative expenses for the Year Under Review.

7. Finance costs

For the Year Under Review, finance costs amounted to approximately RMB15,161,000, representing a decrease of approximately RMB323,000 or 2.1% from approximately RMB15,484,000 for the year ended 31 December 2019. The decrease was mainly due to the decrease in interest charged on bank loans as a result of a decrease in interest rate of lending.

8. Profit before taxation

For the Year Under Review, profit before taxation for the Group amounted to approximately RMB70,891,000, representing an increase of approximately RMB1,082,000 or 1.5% from approximately RMB69,809,000 for the year ended 31 December 2019. The increase in profit before taxation was mainly due to the increase in share of profit of a joint venture of approximately RMB2,372,000.

9. Income tax

For the Year Under Review, income tax expenses for the Group amounted to approximately RMB20,002,000, representing an increase of approximately RMB464,000 or 2.4% from approximately RMB19,538,000 for the year ended 31 December 2019. This increase was mainly due to the increase in profit before taxation. The effective tax rate for the Year Under Review was 28.2%, compared to 28.0% for the year ended 31 December 2019. The details are set out in Note 8 to the consolidated statement of profit or loss of the Company for the Year Under Review.

10. Profit for the year

As a result of the foregoing, we recorded net profit for the Year Under Review and the year ended 31 December 2019 of approximately RMB50,889,000 and RMB50,271,000, respectively, representing an increase of approximately RMB618,000 or 1.2% from approximately RMB50,271,000 for the year ended 31 December 2019.

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

For the Year Under Review, profit for the year attributable to owners of the Company amounted to approximately RMB11,716,000, representing a decrease of approximately RMB31,711,000 or 73.0% from approximately RMB43,427,000 for the year ended 31 December 2019. The decrease in profit for the year attributable to owners of the Company was mainly due to the following factors:

(i) As affected by the Pandemic, the number of travellers to Hong Kong dropped drastically, along with the weakening consumption sentiments in Hong Kong, the total revenue generated from the Culturelle probiotics product series of the Group in Hong Kong and Macau markets decreased by approximately 74.2% for the Year Under Review as compared with the corresponding period in the previous year; and

(ii) The increase in the selling and distribution costs of the Group by approximately 18.4% for the Year Under Review as compared to approximately RMB112,283,000 for the previous year due to the increase in provision for obsolete inventories as a result of the decrease in the sale of Culturelle probiotics product series of the Group for the Year Under Review.

ANALYSIS OF MAJOR BALANCE SHEET ITEMS

1. Trade and other receivables

Trade and other 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 2020 amounted to approximately RMB323,060,000, representing a decrease of approximately RMB68,456,000 or 17.5% from approximately RMB391,516,000 as at 31 December 2019. The decrease was mainly due to the decrease in trade and bills receivables of approximately RMB33,676,000 and other loan of approximately RMB46,825,000.

2. **Inventories**

As at 31 December 2020, inventories owned by the Group amounted to approximately RMB130,221,000, representing a decrease of approximately RMB74,900,000 or 36.5% when compared with that of RMB205,121,000 as at 31 December 2019. The main reason for the decrease in inventories was the decrease in finished goods.

3. **Right-of-use assets**

As at 31 December 2020, right-of-use assets amounted to approximately RMB109,518,000. 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 2020, the net book value of property, plant and equipment owned by the Group amounted to approximately RMB58,368,000, representing a decrease of approximately RMB935,000 or 1.6% from approximately RMB59,303,000 as at 31 December 2019. The decrease in property, plant and equipment was mainly due to the depreciation charge 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 2020, trade and other payables of the Group amounted to approximately RMB187,991,000, representing a decrease of approximately RMB85,421,000 or 31.2% from approximately RMB273,412,000 as at 31 December 2019. The decrease was mainly due to the decrease in trade and bills payables of approximately RMB125,987,000.

CASH FLOWS

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

During the Year Under Review, the Group’s cash and cash equivalents increased by approximately RMB137,323,000, which mainly comprised the net cash inflow generated from operating activities with the amount of approximately RMB123,584,000, net cash outflow used in investing activities with the amount of approximately RMB2,619,000, net cash inflow generated from financing activities with the amount of approximately RMB25,303,000 and the foreign exchange loss of approximately RMB8,945,000.

CAPITAL STRUCTURE

1. Indebtedness

The total indebtedness of the Group, which will be due within one year as at 31 December 2020, was approximately RMB296,538,000 (31 December 2019: approximately RMB214,327,000). 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 2020, the Group's asset-liability ratio, calculated as the total bank borrowings divided by total assets multiplied by 100%, was approximately 23.6% (31 December 2019: approximately 16.7%). The increase was mainly due to the increase in bank borrowings.

3. Gearing ratio

As at 31 December 2020, the Group's gearing ratio, calculated as total debts divided by total equity, was appropriately 43.7% (31 December 2019: approximately 31.8%). The increase was mainly due to the increase in bank borrowings.

4. Pledge of assets

As at 31 December 2020, the Group had pledged investment properties, right-of-use assets, property, plant and equipment and trade receivables to certain banks in the amount of approximately RMB107,000,000, RMB56,923,000, RMB19,893,000 and RMB123,629,000, respectively. As at 31 December 2019, the Group 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.

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 RMB11,425,000 and RMB28,622,000 for the years ended 31 December 2020 and 2019, 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 2.16% to 6.23%. 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 2020, the Group had cash and cash equivalents of approximately RMB250,818,000 (31 December 2019: approximately RMB113,495,000) which was mainly generated from operations of the Group.

CAPITAL COMMITMENT

As at 31 December 2020, the Group had capital commitment of approximately RMB357,947,000 (31 December 2019: approximately RMB171,827,000).

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

During the year ended 31 December 2020, the Group did not make any material acquisition or disposal.

LITIGATION

As at 31 December 2020, the Group did not have any material 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. The 2019 Appeal lodged by Dong Di Xin was heard by the Shenzhen Intermediate People's Court of Guangdong Province (廣東省深圳市中級人民法院) on 18 November 2020. As at the date of this announcement, the relevant judgment has not been handed down yet.

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. Dong Di Xin Shareholder A subsequently applied for the withdrawal of the appeal on 22 January 2021. The Shenzhen Intermediate People's Court of Guangdong Province (廣東省深圳市中級人民法院) approved the withdrawal of the appeal on 1 March 2021. Such decision is a final decision.

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 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 Listing Rules.

FUTURE OUTLOOK

1. To comply with the national plan, Kingworld supports a healthy China

The year 2020 was the closing year of the "National Thirteenth Five-year Plan", and it was also a year when the world was facing the impact of the Pandemic. The Group was exposed to the sudden outbreak of the Pandemic in a century and the world economy was falling into the most severe recession since the end of World War II. We maintained our strategic determination, accurately judged the situation, carefully planned and made deployment, took decisive action, and contributed our devoted efforts to maintain the normal operations and business activities of the Group, thus capable of maintaining a steady level of revenue and profit.

The year 2021 was the inaugural year of the "National Fourteenth Five-Year Plan". While the macro environment at home and abroad is complex and volatile, there is huge pressure on the growth of the domestic economy. The reform of the medical and pharmaceutical industry has entered the "deep water zone", and the price of medicines in public medical institutions continues to fall. The profit margin of pharmaceutical companies is under pressure, and a huge outflow of hospital prescription medicines to the OTC market while the pharmaceutical e-commerce and cross-border pharmaceutical e-commerce have achieved breakthrough developments. At the same time, it comes to the era of 5G life where consumers have more convenient and diversified channels for obtaining information and making purchases. As a result, there are rapid changes in the macroeconomy, industry policies, consumer markets. In the post-epidemic era, people are more concerned with their health, and the concept of improving immunity and focusing on prevention will be more deeply rooted in the hearts of the people. The Group should follow the trend of the times and the development of the country in order to seize the opportunity arising from the outflow of prescription medicines to the OTC market by properly engaging in industry research and market planning to fully utilise its marketing advantages. Based on the foundation of "Enalapril maleate and folic acid tablets", the Group will continue to absorb new products and act as an agent for prescription medicines in the pharmaceutical retail channels to enrich the Group's product portfolio. In the future, the Group will focus on the goal of building a healthy China based on the national "2035 Vision", launch the Group's "Fifth Five-Year Strategic Development Plan", continue to introduce high-quality overseas medicines, healthcare products, healthy foods and beauty cosmetics products, and seize the opportunity to vigorously develop cross-border pharmaceutical e-commerce to provide consumers with more high-quality and greater heallth products at a faster speed.

2. Actively open up the industrial chain and expand the deployment of the greater health industry

In 2021, the Group will continue to look for upstream suppliers and production enterprises of high-quality overseas brands, and at the same time undertake to select well established domestic production-oriented enterprises with GMP certification as partners and form a strategic and close cooperation relationship with these partners in form of capital, marketing, and OEM. In this regard, the Group can gradually consolidate the supply chain system of the greater health industry and launch more high-quality products. In the future, the Group will also seek opportunities for OEM production in Europe so as to produce products belonging to the Group's own brands with intellectual property rights to cater for the changing demands of domestic consumers.

With the promulgation and implementation of the Chinese medicine policy in the Guangdong-Hong Kong-Macau Greater Bay Area, together with the opening the first batch of pilot cross-border OTC pharmaceutical e-commerce flagship stores, it will further accelerate the Group's Hong Kong medicines to enter the Greater Bay Area and in turn allow a large number of renowned Hong kong Chinese patent medicines to enter the China domestic markets and serve the Mainland consumers. In this regard, it will further expand the Group's e-commerce business and broaden the Group's distribution of pharmaceutical and healthcare products in Hong Kong, Macau and even in the rest of the world.

On the other hand, the Group continues to actively promote the research and development project of probiotic products via its cooperation with the Hong Kong University of Science and Technology, and will complete the mass production of the final product and launch it to the market as soon as possible. Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited* (深圳金活利生藥業有限公司), a connected company of the Group, is in the course of constructing a health industrial park located in Luhe, Shantou. Upon completion of the construction, the park will become the Group's red flower oil Chinese medicine extraction base and probiotic natural medicine fermentation centre.

At the same time, the Group actively promote the construction of Longde Health Industrial Park, which is positioned as an integrated health product research and development centre for R&D, testing, production, warehousing, and transportation. Upon its completion, it will complement the existing marketing advantages of the Group and broaden the realm of its health industry.

3. Exploit data to support channel penetration and apply intelligent analysis to boost sales and marketing

As the Group continues to gather data through the SMART system, the data content will become enriched, completed and continuous, which will help making scientific and accurate marketing decisions substantially. In the future, the Group will deeply explore the value of various kind of data, examine and adjust the channels deployment, and continue to optimise terminal network coverage; integrate all levels of channel business, adjust procurement and sales demand based on the flowing rate, grasp the trends of product sales, scientifically allocate and promote resources, and promote orderly development of markets at all levels; enhance the existing market coverage of existing products, expand new markets and new channels for existing products, explore new markets for new products, penetrate into the second- and third-tier and county-level channels, deepen the penetration of terminals at all levels, thereby completing the coverage of untapped markets. In addition, the Group will undertake to highly consolidate the customer data, using technology to assist in intelligent analysis to exploring and enhancing the efficiency of marketing management, thereby allowing the date to make our marketing work "visible, graspable, and manageable".

4. Enhance the efficiency of human resources organisation, optimise the incentive mechanism, and ensure the maximum cost-effectiveness of human resources

In 2021, the Group will analyse, sort out, optimise, and improve the human resources and organisational effectiveness of each region and each team, combined with the actual situation of the market and sales, and further strengthen the analysis of benefits of per capita output, and optimise the organisational structure and workforce of the employee team. The Group will further strengthen the training of talents, create talent supply chain projects, and nurture talents to fill up the core positions in a timely manner in order to ensure a smooth development of the Group's businesses. At the same time, the Group will further strengthen the management and control of labour costs and make accurate calculation of labour costs, conduct regular analysis and control, optimise remuneration and incentive mechanisms, thus stimulating the enthusiasm of the team sales, and ensure maximum efficiency in labour costs.

5. Sales performance of Dong Di Xin continues to improve despite the prevalence of the Pandemic

Up till now, the continued spread of the Pandemic in the rest of the world has led to a steady growth of orders for infrared thermometers. All the employees of the company are still working overtime at the production lines to support production, and this has been recognised by major European and American retailers, thus leading to further cooperations. Since the orders and logistics have been scheduled until after the 2021 Spring Festival, it is expected that the sale performance of Dong Di Xin will continue to grow positively.

6. Kingworld's overseas OTC flagship store officially opens and seizes the early bird benefits of cross-border pharmaceutical e-commerce business

In the context of the country's further implementation of the medical reform, the general health and medical industry is ushering in new changes. The new form of Internet model has further integrated and innovated with the medical and pharmaceutical industry, especially under the impact of the Pandemic over the past year where consumer habits are changing, and new models such as online consultation, online prescription, and home delivery of medicines have been accepted by more patients. At the same time, although the Pandemic has also affected the normal demand for purchase of overseas medicines, consumers still have strong demand for high-quality OTC household drugs commonly used overseas. In order to meet market needs, the national pharmaceutical e-commerce policy and its cross-border pharmaceutical e-commerce pilots points have been opened up further. In 2020, the country issued the "Beijing City Cross-border E-commerce Sale of Pharmaceutical Products Pilot Work Plan", and large e-commerce platforms such as Alibaba and JD.com have become cross-border pharmaceutical e-commerce pilot platforms, officially opening the first year of national cross-border pharmaceutical e-commerce.

The Group undertakes to firmly grasp the trend of pharmaceutical e-commerce development and use its own global supply chain system to actively promote cooperation with Tmall International and establish a cross-border medicine hypermarket-type corporate flagship store as well as developing in-depth operational cooperation with well-known e-commerce operators.

The overseas flagship store of Kingworld Health Home is a store-type flagship store opened by Kingworld Group based on the Tmall International's pharmaceutical section of Alibaba Group. With the Group's excellent introduction capabilities, it gathers all overseas high-quality pharmaceutical brands and products through the store-type flagship store to conduct online cross-border sales and integrate the comprehensive traffic of stores and platforms, thus providing consumers with the highest quality products. In order to expand and strengthen the operation of flagship stores, the Group has launched a five-year strategic planning layout, and is also trying to introduce new operating models (such as the introduction of investors, shareholding of operating teams), through the incubation of high-quality brands in online flagship stores to introduce offline pharmaceutical retail channels, build offline consumer experience stores, carry out online and offline integrated marketing, and form an innovative pharmaceutical product introduction marketing model that quickly introduces overseas high-quality OTC pharmaceutical products to the flagship stores on the project line to promote trial sales rapidly, and introduce sales model for innovative pharmaceutical products to promotes offline penetration. Currently, the brands that have been included in these stores include those online and high-traffic well-known brands including Hong Kong convenient pack of Nin Jiom, sugar-free Pei Pa Koa and Huang Daoyi Wood Lock Oil and so forth.

The Group believes that the launch of the flagship stores will enhance the Group's brand awareness, increase market penetration, and meet consumer demand for high-quality medicines and healthcare products, and will benefit the Company and its Shareholders as a whole.

7. Strengthen risk management to ensure steady operations of the Group

In 2021, it is generally expected in the market that the global situation will become more complex and uncertain. The Group remains cautiously optimistic about China's economic environment and undertakes to closely monitor the domestic and international economic situation, formulate various crisis response measures, prudently carry out investment business, make sufficient reserve for cash flow to maintain the smooth operation of the Group. Moreover, the Group will strictly control its internal expenses, reduce corporate operating costs, and strengthen the management of accounts receivable; and it will also take necessary measure to prepare the inventory for various products to cope with the recovery of China's economy and market consumption, carry out timely and precise marketing and promotion, actively explore new clusters of customers and channels, and resume the normal growth of the Group's business as soon as possible to ensure the return on investment of Shareholders and other stakeholders.

HUMAN RESOURCES AND TRAINING

As at 31 December 2020, the Group had a total of 1,033 employees, of whom 134 worked at the Group's headquarters in Shenzhen, and 411 were stationed in 34 regions mainly responsible for sales and marketing, and 488 worked at Dong Di Xin. Total staff cost for the Year Under Review amounted to approximately RMB152,774,000 (2019: approximately RMB127,134,000). 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 paragraph 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 paragraph 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 2020 of HK0.65 cents per share to Shareholders whose names appear on the register of members of the Company on Monday, 7 June 2021, amounting to approximately HK$4,046,000, subject to the approval of the Shareholders at the Company's forthcoming annual general meeting to be held on Thursday, 27 May 2021. Total dividend payout ratio is approximately 29.2% 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 Wednesday, 30 June 2021.

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 Friday, 21 May 2021 to Thursday, 27 May 2021 (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 Thursday, 20 May 2021.

To qualify for the proposed final dividends

The register of members of the Company will be closed from Thursday, 3 June 2021 to Monday, 7 June 2021 (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 Wednesday, 2 June 2021.

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 2020, 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 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 was valid and effective commencing on the date of adoption of the Share Option Scheme, (i.e. 5 November 2010), and expired at the close of business on the business day immediately preceding the tenth anniversary thereof.

A summary of share options granted under the Share Option Scheme of the Company is as follows:

Grantees	Position held with the Group and/or relationship with the Group	Date of grant	Option Period (Note 3)	Exercise Price per Share (HK$) (Note 4)	Number of Share Options: Outstanding as at 1 January 2020	Granted during the Year	Cancelled during the Year	Lapsed during the Year	Outstanding as at 31 December 2020	Approximate percentage of the Company's total issued share capital
Zhao Li Sheng (Note 1)	Chairman/Executive Director	23 April 2018	23 April 2018 to 22 April 2024	1.26	468,000	–	–	–	468,000	0.0751%
Chan Lok San (Note 2)	Executive Director	23 April 2018	23 April 2018 to 22 April 2024	1.26	416,000	–	–	–	416,000	0.0668%
Zhou Xuhua	Executive Director	23 April 2018	23 April 2018 to 22 April 2024	1.26	416,000	–	–	–	416,000	0.0668%
Duan Jidong	Independent non-executive Director	23 April 2018	23 April 2018 to 22 April 2024	1.26	372,000	–	–	–	372,000	0.0597%
Zhang Jianbin	Independent non-executive Director	23 April 2018	23 April 2018 to 22 April 2024	1.26	372,000	–	–	–	372,000	0.0597%
Wong Cheuk Lam	Independent non-executive Director	23 April 2018	23 April 2018 to 22 April 2024	1.26	372,000	–	–	–	372,000	0.0597%
Sub-total of Share Options granted to Directors					**2,416,000**	**–**	**–**	**–**	**2,416,000**	**0.3881%**
77 Employees	Employees of the Group	23 April 2018	23 April 2018 to 22 April 2024	1.26	15,952,000	–	–	–	15,952,000	2.5626%
Total					**18,368,000**	**–**	**–**	**–**	**18,368,000**	**2.9507%**

Note 1: Zhao Li Sheng is also a substantial shareholder of the Company through his beneficial Interest, interests of spouse and controlled corporation.

Note 2: Chan Lok San (being the spouse of Zhao Li Sheng) is also a substantial shareholder of the Company through interests of spouse and controlled corporation.

Note 3: The vesting and exercise of certain Share Options are subject to the terms of the Share Option Scheme and the performance target(s) and terms set out in the respective letters of grant.

Note 4: The closing price of the Share on the date of grant of Share Options on 23 April 2018 was HK$1.26.

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. As at the adoption date of the Share Award Scheme, the total number of shares to be awarded under the Share Award Scheme was not exceeding 6,000,000 shares of the Company (the "**Scheme Limit**") (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. On 22 May 2020, the Board resolved to increase the Scheme Limit to 16,000,000 shares of the Company (subject to adjustment in the event of subdivision of shares, consolidation of shares or bonus issue in accordance with the Award Scheme Rules) unless otherwise determined by the resolution of the Board. For details, please refer to the announcement of the Company dated 22 May 2020.

In September 2019 and October 2020, the Trustee purchased an aggregate of 6,000,000 shares and 10,000,000 shares of the Company from the market for the purpose of the Share Award Scheme, respectively. 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 2020, 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 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 Year Under Review, 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 (the "**Incident**")). 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.

After the Incident, the company secretary of the Company sent reminder to all Directors that the blackout period would last till the publication of the audited financial results (or an announcement confirming that the released results have been agreed with auditors). The Company has reviewed its compliance controls procedures to ensure adequate procedures are in place and regulatory updates and reminders are brought to the attention of the Directors.

AUDIT COMMITTEE

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

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

During the Year Under Review, the Audit Committee had held two meetings and all the members attended the meetings. The work performed by the Audit Committee during the Year Under Review included reviewing the audited consolidated financial statements of the Group for the year ended 31 December 2019, the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2020 and the effectiveness of the internal control practices of the Group. The Audit Committee has also reviewed the audit plan and approach of the external auditor and monitored the progress and results of the audit regularly.

The Audit Committee also carried out corporate governance functions during the Year Under Review, including developing and reviewing the Company's policies and practices on corporate governance and other duties prescribed under code provision D.3.1 of the CG Code.

The Audit Committee has, together with the management of the Company and external independent auditor, reviewed the consolidated financial statements for the year ended 31 December 2020, this results announcement, the annual report, the accounting principles and practices adopted by the Group, as well as the risk management and internal control systems of the Group for the Year Under Review, and agreed with the accounting treatments adopted by the Group, and was of the opinion that the preparation of the financial statements in this annual report complies with the applicable accounting standards and the requirements under the Listing Rules and adequate disclosures have been made.

EVENTS AFTER THE REPORTING PERIOD

The outbreak of the Pandemic continued to bring about additional uncertainties in the Group's operating environment and may impact the Group's operations and financial position. The Group has been closely monitoring the impact from the Pandemic on the Group's businesses and will take all necessary and appropriate measures to reduce the impact of the Pandemic to the Group. 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 after the reporting period and up to the date of this announcement.

Save as disclosed above, there is no material event after the reporting period and up till the date of this announcement.

DISCLOSURE OF INFORMATION

This results announcement is published on the website of the Stock Exchange (http://www.hkexnews.hk) under "Listed Company Information" and the website of the Company (http://www.kingworld.com.cn) under "Investor Relations". The annual report for the year ended 31 December 2020 containing all necessary information as required by the Listing Rules will be sent to the Shareholders 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, 31 March 2021

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Zhao Li Sheng, Ms. 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.