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Corporate Information

DIRECTORS

Executive Directors

Mr. Zhao Li Sheng (*Chairman*)

Ms. Chan Lok San

Mr. Zhou Xuhua

Independent Non-executive Directors

Mr. Duan Jidong

Mr. Wong Cheuk Lam

Mr. Zhang Jianbin

COMPANY SECRETARY

Mr. Chan Hon Wan

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AUDITOR

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AUTHORISED REPRESENTATIVES

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Mr. Chan Hon Wan

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Cayman Islands

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Ocorian Trust (Cayman) Limited

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Corporate Information

PRINCIPAL BANKS

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AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

STOCK CODE

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Financial Highlights

	Six months ended 30 June		
	2021	2020	% Changes
	(unaudited) RMB'000	(unaudited) RMB'000	Increase/ (Decrease)
Financial Highlights			
Revenue	415,300	292,948	41.8%
Cost of sales	(281,729)	(183,024)	53.9%
Gross profit	133,571	109,924	21.5%
Gross profit margin	32.2%	37.5%	(5.3)%
Profit for the period	34,285	31,773	7.9%
Profit attributable to owners of the Company	19,482	9,850	97.8%
Basic earnings per share (RMB cents)	3.21	1.60	100.6%
Liquidity and Gearing			
	As at	As at	% Changes
	30 June	31 December	Increase/ (Decrease)
	2021	2020	
	(unaudited)	(audited)	
Current ratio ⁽¹⁾	1.37	1.29	6.2%
Quick ratio ⁽²⁾	1.10	1.05	4.8%
Asset-liability ratio ⁽³⁾	20.8%	23.6%	(2.8)%
Gearing ratio ⁽⁴⁾	0.7%	6.7%	(6.0)%

Notes:

- (1) Current ratio is calculated as current assets divided by current liabilities.
- (2) Quick ratio is calculated as current assets less inventories divided by current liabilities.
- (3) Asset-liability ratio is calculated as total interest-bearing bank borrowings divided by total assets multiplied by 100%.
- (4) Gearing ratio is calculated as total interest-bearing bank borrowings, less cash and cash equivalents, divided by total equity multiplied by 100%.

Management Discussion and Analysis

MARKET AND INDUSTRY REVIEW

1. *The domestic economy was performing well, stabilizing and improving*

Looking back for the six months ended 30 June 2021 (the “Reporting Period”), China’s economic development showed a trend of strengthening and improving while stabilizing. Among them, China’s gross domestic product (“GDP”) in the first half of 2021 amounted to RMB53,216.7 billion, and the GDP recorded a year-on-year growth of 12.7%, and an average two-year growth rate of 5.3%. Benefiting from factors such as accelerated vaccination, continued policy support, and increased ability of economic growth as a result of the market recovery from the outbreak of the COVID-19 pandemic (the “Pandemic”), major countries such as China and the United States saw a strong recovery momentum, speeding up the global economic reconstruction process and showing strong resilience and vigorous vitality.

From the perspective of the pharmaceutical industry, starting from the second half of 2020, the pharmaceutical industry has kept recovery from the Pandemic up to now. Although the performance has fluctuated due to the repeated outbreak of the Pandemic, it is gradually improving and moving forward steadily on the road to recovery.

2. *The 14th Five-Year Plan promoted the rapid development of traditional Chinese medicine*

During the Reporting Period, China issued the “14th Five-Year Plan” and the outline of long-term goals for 2035. In particular, in the task of comprehensive promotion of the construction of a healthy China, it was proposed to promote the inheritance and innovation of traditional Chinese medicine, including equal emphasis on traditional Chinese medicine and Western medicine and complementary advantages, as well as the improvement of the quality of traditional Chinese medicine. Deployments have been made to promote Chinese medicine to go global. During the “14th Five-Year Plan” period, China’s traditional Chinese medicine industry will enter into a rapid development period. China has also issued “Several Policies and Measures on Accelerating the Featured Development of traditional Chinese Medicine”, which proposes full absorption of the experience of applying traditional Chinese medicine in the prevention and control of the Pandemic, optimization of the review mechanism for traditional Chinese medicine, and further strengthening of the development momentum of the traditional Chinese medicine industry. With the support of the national strategy of traditional Chinese medicine, the Group’s core product group, mainly consisting of Chinese Patent Medicines, has the opportunity to usher in long-term sustainable market growth.

3. *New opportunities and challenges for retail terminal outlets*

The results of products to be selected in the fourth and fifth batches of centralized bulk procurement were announced in February and June 2021, respectively. Among them, the prices of products to be selected in the fourth batch of centralized bulk procurement fell by an average of 52%, and up to 96%; the prices of the products to be selected in the fifth batch of centralized bulk procurement fell by an average of 56%, amounting to RMB55 billion, which was the largest price reduction in the history. This effectively reflects the government’s desire to reduce the price of medicines and restructure China’s pharmaceutical market. It is an unstoppable development trend for China’s pharmaceutical market to adopt centralized procurement as a practice. This will accelerate the outflow of prescription medicines to the OTC market and further reduce the market share of the original OTC medicines, which will bring about opportunities and challenges to our retail terminal outlets.

Management Discussion and Analysis

On 10 May 2021, the National Health Security Administration and National Health Commission jointly issued the “Guiding Opinions on Establishing and Improving the “Dual Channel” Management Mechanism for Medicines in National Health Security Negotiations”. This policy includes designated retail pharmacies for the first time at the national level into the scope of Health Security Medicines supply guarantee, further expanded the Medicines supply channels, and allowed pharmacies and medical organisations to complement each other. In addition to obtaining operating profits from medicines, retail pharmacies will develop greater capabilities to provide patients with pharmaceutical services and management. The business direction and structure of retail pharmacies will be reshaped, putting greater requirements on the professional services in relation to medicines, and at the same time bringing opportunities to companies with professional marketing teams.

4. Due to aging and approval of each couple to have three children, demands for health-related products continued to rise

According to the seventh census, the national population reached 1.412 billion in 2020, representing an increase of 5.4% as compared to the sixth census (2010). In terms of population structure, 253 million people were aged between 0 and 14, accounting for 18.0% of the total population; 894 million people were aged between 15 and 59, accounting for 63.4% of the total population; 264 million people were aged over 60, accounting for 18.6% of the total population (including 190 million people aging over 65, accounting for 13.5% of the total population). There is a growing proportion of aged population.

On 31 May 2021, the state considered and approved the Decision on Optimizing the Fertility Policy and Promoting the Long-term and Balanced Development of the Population, pointing out that, in order to further optimize the Fertility Policy, the policy allowing one couple to have three children and supporting measures will be implemented. On 20 July 2021, the Decision of the Central Committee of the Communist Party of China and the State Council on Optimizing Fertility Policies to Promote Long-term and Balanced Population Development was promulgated. On 21 July 2021, the Notice of the Office of the National Healthy Security Administration on Providing Maternity Insurance to support the Three-Child Policy and other economic and social policies and maternity policies were also formulated and released in full swing.

All of the above initiatives will bring about certain changes to the demographic structure. For the pharmaceutical market, on one hand, the aging and chronic disease market is attractive, and on the other hand, the demand for reproductive health has also increased, which will promote different sub-directions of the pharmaceutical sector. The Group not only has medicines for chronic diseases commonly used by households, such as respiratory, gastrointestinal, high blood pressure, traumatic injuries and home medical equipment and other related products, but also has exclusive patented products for the prevention and treatment of infertility in Hong Kong, as well as nutrition and healthcare products for newborns, etc.

Management Discussion and Analysis

5. *Medicine and cross-border e-commerce usher in the boom period of development*

Given the travel restrictions due to the Pandemic, people's consumption and shopping began to shift online, and online shopping has gradually become the norm, stimulating the rapid development of the global e-commerce retail industry. The threat of disease drives everyone closer to death, and also anti-Pandemic and healthcare products have also become "new popular choices" in consumers' shopping baskets. According to data, the consumption demand for healthcare products has been unprecedentedly enlarged in 2020, and the proportion of medical health and nourishing and healthcare products continues to increase in the shopping baskets of consumers; residents' demand for Internet medical services is increasing exponentially. As one of the most important consumption scenarios in Internet medical services, medical e-commerce has gradually been widely used. As people understand medical e-commerce more, they recognise it more and contribute to the rapid development of the Internet medical industry. With the continuous development of the pharmaceutical e-commerce industry, the rigid demand for medicines by patients with chronic diseases will be alleviated. In the "medicine + medical" model, Internet hospitals and remote diagnosis and treatment are also gradually being recognised.

During the Reporting Period, due to repeated outbreak of the Pandemic, market demand is still growing rapidly, Internet medical services are also expanding rapidly, and medical e-commerce is ushering in a positive development. Internet giants have entered the game aggressively, giving a boost to the development of the pharmaceutical e-commerce market, and the field are seeing increasing investment and financing events. The overall sales volume is showing a stair-shaped growth trend, and it is estimated that the total sales volume of China's pharmaceutical e-commerce will reach RMB138.6 billion by the end of 2021.

In May 2021, China approved retail and import of 13 OTC products by Henan's cross-border e-commerce and piloted with zero tariffs, and further piloted the liberalization of cross-border e-commerce retail and imports of OTC medicines. As early as last year, the Group began to deploy OTC medicine cross-border e-commerce, and officially opened the Kingworld Health Family cross-border OTC corporate flagship store on Tmall International in March this year, which can operate all OTC medicines and health products approved in Hong Kong. With the reduction of national policy restrictions and the suspension of cross-border transactions due to the Pandemic, the market potential of cross-border medicines will be further freed up. The Group has the opportunity to seize market share, enrich product groups, and provide services to more consumers, effectively improving business performance.



Management Discussion and Analysis

BUSINESS REVIEW

The three major business segments of the Group in the pharmaceutical and healthcare industry are:

- 1/ Pharmaceutical products segment: acting as an agent and distributor of high-quality and well-known pharmaceutical products from overseas, including the acclaimed Nin Jiom (京都念慈菴) product series and the Taiko Seirogan (喇叭牌正露丸);
- 2/ Healthcare products segment: distributing high-quality and well-known healthcare products from overseas, including the flagship Culturelle (康萃樂) probiotics product series, the Lifeline Care maternal and infant fish oil nutrient product series, the “CARMEX” lipstick series and product series of medicated oils for external use; and
- 3/ Medical devices segment: undertaking research and development (R&D), manufacturing and production of medical devices such as infrared thermometers and distributing medical supplies such as medical masks.

During the Reporting Period, revenue from the pharmaceutical products segment amounted to approximately RMB215,976,000, representing a period-on-period increase of 107.5% and accounting for 52.0% of the Group’s total revenue; revenue from the healthcare products segment was approximately RMB57,001,000, representing a period-on-period increase of 34.1% and accounting for 13.7% of the Group’s total revenue; and revenue from the medical devices segment amounted to approximately RMB142,323,000, representing a period-on-period decrease of 2.8% and accounting for 34.3% of the Group’s total revenue.

During the Reporting Period, the number of customers and city footprints of the Group were as follows: 184 conglomerates as our tier 1 customers (including 127 pharmaceutical customers and 57 non-pharmaceutical customers); 236 tier 2 customers; 2,979 chained customers; 165,474 shops of retail pharmacies and our businesses cover 385 cities.

Highlights of Pharmaceutical Products Segment

Nin Jiom Product Series

Nin Jiom Chuan Bei Pei Pa Koa (“Nin Jiom Pei Pa Koa”) is the best-selling flagship product of the Group. As a result of the Pandemic, the Chinese government has restricted the sale of flu and cough-reducing products and restricted the sale of flu and cough-reducing products in pharmacies or required real-name registration in view of the change in the situation of pandemic prevention and control during the previous year. At the same time, as a result of the Pandemic, consumers have developed the habit of wearing masks and washing their hands regularly, which has reduced the incidence of flu, resulting in a drop in consumer demand and dealing a heavy blow to the Group’s sales revenue of such products in the previous year. In the current year, the Group anticipated that the impact of the Pandemic would likely continue. During January 2021, the Group took full advantage of the time window when the Pandemic subsided and the policy restrictions were relaxed to step up promotional policies and brand promotion to terminal pharmacies, which greatly boosted sales in the month and restored the pre-pandemic level. However, due to the recurrence of the Pandemic in some regions and the commencement of the restriction policy, subsequent sales were affected to a certain extent. During the Reporting Period, the revenue of Nin Jiom Pei Pa Koa increased substantially compared to the same period of the previous year.

Management Discussion and Analysis



Due to the outstanding efficacy of Nin Jiom Candies and non-pharmaceutical products are not greatly affected by the restrictive governance, the number of secondary distributor consumers that the Group has expanded vigorously during the Reporting Period has grown rapidly, increased by more than 300, and the market development has grown significantly. During the Reporting Period, the total sales of Nin Jiom Candies increased substantially compared to the same period of the previous year.

During the Reporting Period, the Group implemented various measures to avoid and minimize the impact of the Pandemic on Nin Jiom series of products as far as possible, specifically: continued to focus on the brand and reputation of the products, relying on manufacturers to place brand advertisements online and offline, such as title sponsorship of “The Masked Singer” and “Pop Music Chart”, placement of patch advertisements in the popular drama “My Heroic Husband” on iQIYI and the popular drama “Word of Honor” on Youku, as well as the advertisements on the public transports in eight cities, etc., while the experiential branding activities targeting consumers in key pharmacy terminal shops nationwide, which received enthusiastic and unanimous acclaim from terminal shops and consumers who participated. For example, the Group has been implementing public welfare activities such as “the youth accompanying the setting of the sun” for more than 10 years, as well as festive-themed activities such as “Take Your Mother on a Trip” and “Rice Dumplings on Dragon Boat Festival, Love on Father’s Day” for shop staff and end consumers. Through multi-channel online and offline display and promotion, the brand image of Nin Jiom is maintained and enhanced, and the emotional connection between the brand and consumers is fostered. Nin Jiom was ranked 38th among Chinese Medicine Enterprises on the Top 100 Chinese Medicine Industry in July 2021, continuing to consolidate its position as the No. 1 brand of cough-reducing Chinese medicine.

In the second half of 2021, the Group will continue to improve the layout of Nin Jiom’s commercial channels, increase terminal coverage, continue to explore county markets and enhance consumer education.

Taiko Seirogan

Benefiting from the Group’s solid terminal foundation work in the early stage and the development of the county-level market, using new media and channels to trigger sales, the revenue of Taiko Seirogan increased substantially compared to the same period of the previous year. During the Reporting Period, the Group continued to implement the strategy of strengthening the distribution of Taiko Seirogan and sinking into the channels, strengthening the training of shop staff, holding quarterly sales contests such as the Star of Distribution, and promoting the distribution, display and sales of non-key markets, especially for the key chains, which achieved better result. Distribution has grown significantly over the same period last year, with 27 areas having year-on-year growth in distribution, including 15 areas with growth of over 100%, the result was encouraging.

Management Discussion and Analysis

In response to the Pandemic, the Group launched consumer buying campaigns during the Reporting Period, such as free masks with the purchase of Taiko Seirogan, which were well received by consumers. In view of the recurring situation of the Pandemic, the Group also strengthened its promotional activities with consumers through the internet and actively carried out online pharmaceutical marketing efforts to promote the integration of online and offline. Capitalising on the trend of growth in delivery-to-home services under the Pandemic, cooperation with O2O e-commerce channels such as Meituan and ELEME effectively increased the exposure of products in e-commerce channels, providing consumers with convenient services and promoting sales and brand promotion. With the change in consumer demographics and consumption habits, the way of brand promotion has also changed. During the Reporting Period, the Group strengthened the brand's online seeding and specialised knowledge dissemination and application scenario promotion in accordance with the changing touch points of consumer groups in generation Z. Taiko Seirogan carried out Xiaohongshu KOL soft copy advertisements, Baidu Q&A, Zhihu Q&A, Zhihu soft copy, Weibo, Quickly Ask the Doctor and news soft copy communication during the Reporting Period, and placed advertisements on the offline outdoor large screens in shopping malls and department stores, TV screens of lifts and the community light boxes, as well as the high speed railways.

In the second half of 2021, the Group will continue to strictly control and sort out the value chain system of the Taiko Seirogan channel, safeguard the interests of various partners in the channel and enhance the enthusiasm of cooperation; strengthen commercial viscosity, leverage on the power to increase distribution, enhance terminal displays, shop stocking, strengthen shop staff training and consumer buying; enhance the sales of core shops, increase distribution in key areas, and perform in terminal work such as display and training.



Management Discussion and Analysis

Kingworld Products Series

Kingworld Imada Red Flower Oil

Kingworld Imada Red Flower Oil has now become the Group's third largest pharmaceutical pillar product. During the Reporting Period, the Group formulated a detailed chain cooperation plan and signed a total of 161 chain agreements to capture key areas and key chain shops to develop county-level markets, achieving good results with a 42% year-on-year increase in sales to net sales consumers. During the Reporting Period, the revenue of Kingworld Imada Red Flower Oil increased substantially compared to the same period of the previous year, representing a year-on-year increase of 17%, which is an upward trend, and the Group is confident that it will continue to expand sales by seizing the peak sales season.

In terms of branding activities, the Group continued to implement the concept of "Quality Goods Welcome Your Trial" and actively participated in various activities to allow consumers to experience the quality and effectiveness of our products first-hand. For example, the Group participated in the Spring Run in Luohu District, Shenzhen, providing professional services to runners during and after the race, which won the praise of professional runners. In terms of consumers' activities, the Group conducted promotions for the festivals such as Father's Day to strengthen the scenarios and people using the products, further bringing consumers closer. For online promotion, Red Flower Oil was disseminated through KOL soft copy advertisements on Xiaohongshu, Baidu Q&A, Zhihu Q&A, Zhihu soft copy articles, Weibo and news soft copy during the Reporting Period. During the Reporting Period, Kingworld Imada Red Flower Oil also tried the question and answer session of Quickly Ask the Doctor for the first time, in which a professional doctor answered questions about the product, expanding the professional endorsement of the product by a professional doctor and assisting the consumers to acquire more in-depth and trustful knowledge of the product. The Group also placed advertisements on CCTV 13 for marine environmental weather forecasts, outdoor large screens in shopping malls and department stores, and TV screens of lifts, effectively expanding products' popularity.

With the arrival of the peak season for Kingworld Imada Red Flower Oil, the Group will launch a "Summer Health" terminal trial campaign in the second half of the year based on the theory of "winter sickness and summer treatment" and sponsor a number of sports events to interact with consumers and strengthen the product usage scenario and brand reputation. At the same time, the Group will further enhance the popularity of its brand through increased advertising efforts. It will explain the efficacy of its products from the perspective of pharmacological specialisation, enhance



the professional background of its products and meet the growing demand of consumers for high quality products and services, and strengthen the promotion on platforms such as Jingdong, Ali, Meituan Buy Medicine and ELEME in line with the development trend of pharmaceutical e-commerce and consumers' purchasing patterns, and enhance online activities to increase exposure and sales.

Management Discussion and Analysis

In addition, in July 2021, the Luhe base (Chinese medicine pre-treatment and extraction workshop) of the Group's associated companies, Lifeshine Pharmaceutical and Guangdong Golden Morning Biotechnology Company Limited, was successfully put into operation, realising the extraction of lemongrass and the self-extraction of fixed preparations, completing the entire industrial chain of the Kingworld Group, from raw material cultivation, extraction, to preparation production. The production cost of Kingworld Imada Red Flower Oil will be controlled in the future and the product quality is expected to be further improved.



Kingworld Anti-fever Patch

Due to the impact of the Pandemic, policies were frequently issued for flu and fever medicines in many places, which greatly affected the terminal sales of the Group's Kingworld anti-fever patch products. Nevertheless, the Group actively faced the situation, analysed the price and promotion policies of competing products, promptly adjusted the marketing measures and formed a combination of marketing. The Group expanded its commercial consumers to more than 100, and made use of its other products' order incentives and gifts of the end consumers buying activities to jointly promote its products, and also joined hands with other products to go into the community, increased the training of shop staff and enhanced the promotion efforts, so that more consumers could fully experience the products and thus increased the purchase rate.

In the second half of 2021, the Group will conduct an in-depth research and category planning on the market situation of anti-fever products. According to the habits of the target consumer group, the brand attributes and product selling points will be accurately conveyed in the promotion and publicity, and the brand recognition will be enhanced through the extension of detailed differentiation.

Management Discussion and Analysis

Disposable Medical Masks

During the Reporting Period, we made use of the Group's other products order incentives and gifts of the end consumers buying activities to enhance product coverage and consumer experience and awareness of the medical masks distributed by the Group. In addition, the Group collaborated with its other products to carry out activities such as going to the community and campuses and carrying out shop staff training to promote the disposable medical masks, so that the terminal shop staff and consumers have full understanding of the disposable medical masks distributed by the Group. During the Reporting Period, there was reoccurrence of the Pandemic in the PRC, in order to effectively protect the health of healthcare workers



who were on the frontline of the Pandemic, the Group donated disposable medical masks to frontline workers to enhance the public welfare image of the product. During the Reporting Period, Kingworld expanded its disposable medical masks to more than 20 net sales consumers, with an increase of almost 5 times in sales and a 615% year-on-year sales growth.

Kingworld Jianfu Capsules and Pu Ji Kang Gan Granules

Kingworld Jianfu Capsules and Pu Ji Kang Gan Granules are exclusive products manufactured by the Group's related parties, of which Kingworld Jianfu Capsules was granted a patent for "Chinese medicinal preparation for the prevention and treatment of infertility" by the Patent Registry of the Hong Kong Intellectual Property Department in the first half of 2021. China has now eased its fertility policy to support the birth of three children, and the market demand is expanding with promising future prospects. Pu Ji Kang Gan Granules are also developed by a team of experts in Chinese herbal medicine to help prevent viral infections and is in demand during recurrent Pandemic.

During the Reporting Period, Kingworld Jianfu Capsules and Pu Ji Kang Gan Granules have been distributed to over 50 pharmacies and drugstores in Hong Kong, and Pu Ji Kang Gan Granules have also been distributed to a number of pharmacies such as Yuehua Chinese Products and Chinese Goods Centre Limited. During the Reporting Period, the Group donated 1,400 boxes of Pu Ji Kang Gan Granules to the Hong Kong Charish Angel Charity for distribution to elderly people in the Hong Kong community before Chinese New Year to fight against the Pandemic.



Management Discussion and Analysis

Enalapril Maleate and Folic Acid Tablets

In the fourth quarter of 2020, the Group successfully introduced the distribution of Enalapril maleate and folic acid tablets (馬來酸依那普利葉酸片) (“Enalapril”), which has excellent curative effect on H-type hypertension and can effectively prevent stroke and had obtained a Class I new drug certificate issued by the National Medical Products Administration (NMPA), and it was also included in the Chinese Guidelines for Prevention and Treatment of Hypertension and Guidelines for Reasonable Use of Hypertension Drugs. With this cooperation, a new chapter was opened for the pilot cooperation of OTC channels of prescription drugs of the Group.

During the Reporting Period, the Group explored key markets such as Guangzhou, Chengdu, Nanning, Shenzhen, Bengbu and Yinchuan, and integrated resources with partners to tap into potential customer groups. Through the training for distributors and the education of clerks of chain pharmacies and patients, the Group joined hands with the manufacturers and community servicing teams to carry out public health lectures about H-type hypertension, and through the public welfare activities of free screening for H-type hypertension, the public’s awareness of H-type hypertension and the popularity of product brands in OTC channels have gradually increased. During the 84th PHARMCHINA in Shanghai, the Group exhibited all its products including Enalapril. Enalapril was selected into the new-special-drug route for the “Discovery Journey”-themed event created by the PHARMCHINA. We launched the health lecture at the booth to explain the hazards of H-type hypertension and how to prevent hypertension and stroke in daily life, and the HCY-value tests for the audience gained huge popularity. Due to the professionalism and medical compliance of anti-hypertensive drugs, the development of Enalapril in the OTC market still needs continuous efforts in groping and exploring.

In the second half of 2021, the Enalapril will continue to develop the blank terminal market to increase the coverage in the terminal market, strengthen cooperation with third-party terminal medical service organizations, and increase the training for clerks and doctors with professional knowledge background. We will continue to increase public awareness and brand awareness, so that more people will understand the standardized medications and hazards of H-type hypertension and the knowledge of the hazards of stroke will be popularized by more target consumers. We will also call on more people to participate in the popularization activity of “Focus on H-type Hyperemia and Prevention of Stroke” to reduce the harm of stroke caused by hypertension and contribute to “Healthy China 2030”.



Management Discussion and Analysis

Foci Products

On 18 March 2021, the Group 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 acquisition (the "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, the Group agreed to acquire not more than 49% of the total issued share capital of Fat Chi from Lanzhou Foci. Upon completion of the Acquisition in April 2021, Lanzhou Foci became the majority shareholder of Fat Chi, while the Group became a minority shareholder of Fat Chi. Fat Chi is principally engaged in the import, export, distribution, manufacture and sale of pharmaceutical products. During the Reporting Period, the sales of Foci products in Hong Kong and Macau markets saw a 20% year-on-year rise, and the Foci products currently go on sale in major pharmacies and domestic pharmacies (especially further in-depth cooperation with CR Care) with an increase in both of product specifications and quantity. In the second half of the year, we will further optimize the product coverage, strengthen the customer management, and promote the long history, authentic medicinal materials and efficacy of Foci products, in a bid to enhance brand awareness and promote sales.



Highlights of the Healthcare Products Segment

Culturelle Probiotics Products

The Culturelle (康萃樂) probiotics product series from the United States is the flagship healthcare product of the Group. Since the outbreak of the Pandemic last year, its sales have been severely affected by the Pandemic and the international environment. In order to mitigate such impact, during the Reporting Period, the Group set up approximately 30 new stores in TASTE Supermarket while maintaining 1,500 stores in the current channels (mainly Mannings, Watsons and CR Care) given consumers went to the supermarket more frequently and there was a stronger demand for immunity-enhancing products during the pandemic. In addition, the Group introduced and launched



Management Discussion and Analysis

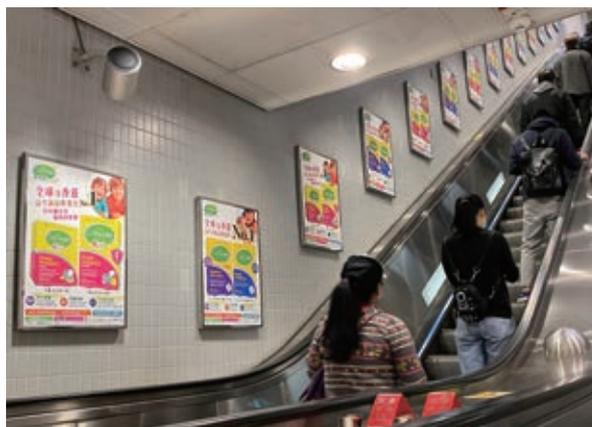
the new 3-in-1 capsules for adults of Culturelle. In terms of brand promotion, the Group participated in the Eugene Baby Expo, one of Hong Kong's largest maternity and infant exhibitions, with Culturelle, and placed advertisements on escalators of the MTR and advertisements in Headline Daily. Advertising in the adversity had demonstrated the strength of our brands and further enhanced the brand awareness. In June 2021, the Culturelle Probiotics was awarded Hong Kong Pharmacy's Top 20 Most Popular Brand Award 2019-2021.

Lifeline Care Fish Oil Product Series

The Lifeline Care ("LLC") maternal and infant fish oil nutrient product series from Norway is the second largest healthcare product brand that the Group has focused on expanding. During the Reporting Period, the domestic fertility rate continued to decline with the number of newborns gradually decreasing, the competition in the maternal and child consumer market had become increasingly fierce, and household consumption had tightened due to the impact of the pandemic. Moreover, the entry of manufacturers into the PRC market disrupted the regular market orders and pricing, which had a certain impact on the Group's product sales during the Reporting Period.

The Group focused on building the benchmark store for the flagship stores on Tmall, using LLC fish oil as the popular and hot product, and vigorously supporting novel categories of jelly fish oil and milk calcium to become the second largest hot product. In terms of communication, the Group seized the opportunities brought about by short videos and live broadcasts and vigorously developed live broadcast channels to bring huge exposure and opportunities to our brands, such as launching the live broadcasts of Fushi Daren (輔食達人) and maternal and child KOLs with a total of nearly 10,000 boxes sold in five live broadcasts. At the same time, we held more than two hundred live broadcasts in our own stores, especially the ones inviting the leading host Xiao Kexin and the celebrity Liu Tao with satisfactory sales in the single broadcast.

The Group made a lot of efforts in key platforms such as Koala (考拉) and Nico Mama (年糕媽媽), and vigorously supported and developed high-potential platforms such as Fushi Daren (輔食達人), aiming to further increase our brands' online coverage. In addition, LLC employed new and popular short videos, mainstream evaluation and other forms to increase its popularity on the recommendation platforms such as Xiaohongshu, WeChat and Weibo, and quickly gained the popularity among the consumers with 1.2 million views. With the implementation of the domestic three-child policy and the subsequent promulgation of a series of supporting policies such as maternity allowances, it is believed that the maternal and infant industry, especially the pregnant and newborn children market, will usher in development opportunities in the future.



Management Discussion and Analysis

CARMEX Lipstick Series

Carmex products are well-known all over the world. However, due to the strong seasonality of sales, lipstick products usually enter the off-season in the first half of the year. Coupled with the impact of changes in passenger flows and logistics during the Spring Festival and the gradual removal of seasonal products from physical stores starting in March, the sales will show a natural decline. Affected by the false reports about phenol at the beginning of the year, the major live broadcasts originally planned to be carried out could not be carried out as scheduled, resulting in a significant drop in the traffic and GMV of the flagship stores in the first half of the year. Moreover, as affected by the global pandemic, shipping and customs declaration had been delayed, new products including limited editions could not be delivered in the first half of the year, and the launch plans of new products had been also delayed accordingly, which had a certain impact on the sales of this product.

During the Reporting Period, the performance of the Group's Carmex online wholesale business had improved significantly compared to the previous year, and it had established the cooperation with the key beauty distribution platform Taomeizhuang (淘美妝). In terms of communication, the Group opened a WeChat official account and a Weibo brand account for Carmex, and has been publishing daily recommendation articles on social media on a continuous basis. It also conducted product placements at the IPTV Hunan Satellite TV New Year's Eve Party together with LLC, yielding good dissemination effects.

As the second half of 2021 will be the peak season for products, the Group will launch limited-edition new products and value-added package series to mobilize retail and channel sales interest and drive sales of current products. We will increase the social media promotions for young consumer groups, continue to develop multi-platform live broadcast cooperation opportunities, open up major live broadcasts to increase the visibility of new products and participate in major promotions on relevant platforms. In addition, we will take part in the exhibitions held by Taomeizhuang (淘美妝).



Management Discussion and Analysis

Highlights of the Medical Devices Segment

Shenzhen Dong Di Xin Technology Co., Ltd. (“Dong Di Xin”), a medical equipment manufacturer under the Group, has been focusing on the research and development, manufacturing and production of medical equipment. The medical equipment it manufactures and exports has obtained various certifications and authorizations including the FDA certification issued by the U.S. Food and Drug Administration, EU CE0197 certification and ISO13485 certification for its infrared thermometers, becoming the fourth domestic manufacturer of infrared thermometers admitted into the export whitelist of the Ministry of Commerce.

In 2021, the Pandemic continues to spread all over the world. Encouraged by the surge in export orders for thermometers last year, all the employees of Dong Di Xin kept on working overtime for the manufacturing activities with the fullest enthusiasm. The factory continued to maintain 12 production lines while further controlling the product quality to ensure that all the finished products were up to the standard. With excellent product quality, good after-sales services and perfect product quality certification systems, Dong Di Xin exported its products to many countries and regions around the world, and had been highly recognized by many customers. Dong Di Xin was commended by the local associations for medical devices industry and China Chamber of Commerce for Import and Export of Medicines and Health Products for this purpose. So far, purchase orders are still growing, and sales are expected to continue to catch up with the years before the Pandemic.

The PRC market is an important market for the global rehabilitation medicine, which Dong Di Xin has been making strategic planning for and trying to expand. At present, the company has obtained 8 registration certificates for medical devices of the PRC, and its products cover non-contact infrared thermometers, home physical therapy devices, professional medical physical rehabilitation therapy devices, postpartum rehabilitation therapy devices and other products. It also obtained two domestic second-class equipment trademarks. The physical rehabilitation therapy instrument series is the product line that Dong Di Xin focuses on developing. In response to the State’s policy of increasing internal circulation and transferring exports to domestic sales, the company actively participated in domestic industrial exhibitions and developed various distributors in 2021. So far, it has successfully established cooperation with 35 domestic medical institutions. With the continuous development of aging trend in the PRC and the PRC’s emphasis on and investments in the rehabilitation medical industry, it is believed that Dong Di Xin’s products will be accessed by more medical institutions or families, contributing to the health of Chinese people while bringing more benefits to itself.

With the intensification of aging, which means the increasing population that is subject to age-related diseases including physical therapy rehabilitation, Dong Di Xin, as one of the innovators and drivers of electrophysical therapy and rehabilitation equipment in the world, will also usher in new opportunities for development.



Management Discussion and Analysis

MANAGEMENT REVIEW

Contribute to battle against the Pandemic and remain committed to charity and public welfare

By adhering to the responsibility and mission of “Serving community and benefitting the world (效力世人·潤澤蒼生)”, we will promote the development of China’s public welfare undertakings on a best effort basis. As the domestic outbreak experiences several rounds of rebound, the situation of Pandemic prevention and control remains severe. The Group pays close attention to the situation of national Pandemic prevention and control, contributing to build a strong defense against the Pandemic. In March 2021, the Group and the Kingworld Healthcare Foundation donated disposable masks to the Cambodia-Chinese Buddhist Association to assist the Cambodian Buddhist community and China-friendly organizations. In order to effectively protect the health of numerous medical staff who are at the frontline of fighting against the Pandemic, during April to June 2021, the Group actively responded to the call and donated a batch of anti-Pandemic supplies, including Kingworld disposable medical masks and Kingworld Imada Red Flower Oil to multiple anti-Pandemic frontlines through several units, such as the United Front Work Department of the Shenzhen Municipal Committee, Youth Chaiwanese Sodality of Shenzhen and Shahe Street Office, contributing to strengthen the anti-Pandemic defense line in Shenzhen.

As this year marks the centenary of the founding of the party, the Group and Kingworld Healthcare Foundation, together with relevant departments, donated a batch of Kingworld Imada Red Flower Oil to the veterans for caring for the veterans and their families. Mr. Zhao Li Sheng, the Chairman of the Board of the Group, as a council member, donated RMB200,000 in cash to the Taohuayuan Ecological Protection Foundation (桃花源生態保護基金會) to provide support to the second protected area of Taohuayuan in East China – Jiangshan Xueling in Xunzhou, Zhejiang.

In view of the above, during the Reporting Period, the Group continued to provide support in the fields of Pandemic prevention and disaster resistance, environmental protection, and care for health, with an accumulated value of donated funds and materials exceeding RMB4 million.



Management Discussion and Analysis

Grasp the development of e-commerce and conduct cross-border pharmaceutical e-commerce pilot

The Group undertakes to firmly grasp the trend of pharmaceutical e-commerce development and use its own global supply chain system to actively deepen online cooperation channels. It also continues to promote in-depth operational cooperation with various renowned e-commerce platforms and develops innovative sales channels and marketing models. Thereby, its products have successfully entered into a number of mainstream integrated e-commerce platforms, professional e-commerce platforms and new mobile e-commerce platforms.

During the Reporting Period, in March 2021, the overseas flagship store of Kingworld Health Home of the Group was officially launched on Tmall International, becoming one of the first batch of store-type pharmaceutical flagship stores authorized by Tmall International, which is the first cross-border pharmaceutical e-commerce pilot platform in the PRC. The first batch of cross-border pharmaceutical products that have been included in the store includes more than ten famous Hong Kong drugs such as Nin Jiom, Huang Daoyi Wood Lock Oil, Bull Head Brand, Chan Lo Yi, etc. The number of such product brands is gradually increasing. This move will further enhance the brand awareness of the Group, increase market penetration and satisfy consumers' demand for high-quality pharmaceutical and healthcare products. Meanwhile, the Group also opened a cross-border pharmaceutical e-commerce flagship store of Kingworld Health Home on JD.com.



Management Discussion and Analysis

Invested in the launch of SMART market management module and promote precise marketing with big data

As a diversified service solution provider for the pharmaceutical greater health industry, the Group actively integrates the upstream and downstream advantage resources of the pharmaceutical greater health industry chain. In view of this, it conducted independent research and development of a comprehensive internal management support system, consisting of an ERP system covering the industry chain, a CRM-based data collection and analysis system, and a precise marketing system based on big data analysis. Through different service models in the supply chain, the Group was able to provide partners in different industry chains with a whole-process Internet marketing and supply chain solutions from all links, from demand data acquisition and analysis, supply chain planning, product sourcing, order inventory management, distribution terminals to marketing decision analysis.

In recent years, marketing channels have been increasingly diversified, including online and offline channels, domestic and overseas channels, official accounts, mini programs, etc.; and the media environment has also developed from traditional media, such as traditional TV, outdoor advertisement, newspapers, magazines, etc., to traditional media + new media, which is more diverse. Amid limited resources, exploring a way to utilize data to conduct accurate marketing that boosts sales, has become a key task for enterprises under the new normal. During the Reporting Period, the Group developed a market management system based on the existing SMART sales management system, which was officially launched in July 2021. Based on the comprehensive analysis of true and real-time sales data by combining with big data technology, the system pinpoints market gaps through in-depth analysis of the portraits of users and situation of distributors, and help the formulation of appropriate promotion strategies for each product, to make the input and output of the promotion costs more reasonable and accurate, reduce blindness, and also help sales staff in various places to better manage the channel. Besides, it helps the Group conduct full-channel data integration, open up full-channel user data, make sales, purchases, inventory and event management planning, and formulate more accurate full-channel marketing strategies.

Bring in and go out

The Group keeps introducing more excellent greater health products to meet the health needs of the Chinese people. It has introduced new Culturelle (康萃樂) probiotics products and new Carmex lipstick products, while continuously conducting survey of new products according to changes in consumption needs. In order to better meet the demands of Chinese people for overseas products, the Group signed an equity purchase agreement with its French partners during the Reporting Period. In the future, the Group will build it into one of the product introduction platforms with its base in France and extending to the Europe, assisting the Group to introduce European greater health products with high quality.

During the Reporting Period, the Group initiated the Hong Kong Foci Project, which represented an important link of the Group's response to promoting the treasure of Chinese medicine "going out" and the deployment of greater health industry chain. The Hong Kong Foci Project will focus on the Hong Kong and Macau markets, and enrich the product portfolio by introducing more characteristic Longyao products in Gansu. Based on businesses in Hong Kong and Macau markets, it will develop its Southeast Asia and overseas presences and cover domestic cooperation-based businesses. In the development plan of the joint venture company, the Group will fully explore the brand connotation of Lanzhou Foci, and promote domestic high-quality Chinese medicine products "going out", such as Longyao represented by Foci, so as to fully advance the "Belt and Road" development of the Chinese medicine and spread Chinese medicine culture, thus contributing to the active practice of the concept of a community with a shared future for mankind. In addition, the Group is also actively promoting and deploying Kingworld Imada Red Flower Oil to go out.

Management Discussion and Analysis

Build Longde Industrial Park, a healthcare landmark in the east

During the Reporting Period, the Longde Health Industrial Park under construction, invested by the Group in Longgang, Shenzhen, has completed the foundation part and the ground part is being built. According to the planning, the land parcel (approximately 29,000 sq.m.) will be developed into a logistic centre with ancillary facilities in order to support the business of the Group, and 31.0% of the land parcel (approximately 13,000 sq.m.) will be developed into ancillary commercial property, dormitories, small businesses and canteen, which may be leased out. In addition, two floors in the basement, each with approximately 6,900 sq.m., or a total of 13,800 sq.m., will be developed into a car park. The park is planned to be built into four core sections, including (1) a Chinese medicine research and development centre to be used by the Group to establish multi-faceted laboratory with higher education institutions and science and technology institutions in Guangdong and Hong Kong; (2) the “Shenzhen Health Industry Technology Innovation Centre”, to be jointly built in the park targeting to establish a health project incubation platform; (3) a domestic development centre will be built for the Shenzhen-Hong Kong Loop Chinese Medicine Technology Innovation Park within the park; and (4) a national logistics and distribution centre of the Group and a key logistics enterprise in Shenzhen. The Group will utilize the platform of the industrial park to gradually improve the health industry chain, so as to better promote the industrialization and internationalization of the Group’s Chinese medicine.



Steady development of multiple investment projects

During the Reporting Period, a number of investment projects of the Group have maintained steady development. The Hong Kong Foci Project is advancing steadily. Kingworld Medicine Healthcare Limited, a wholly-owned subsidiary of the Group, invested in the Hong Kong Foci Project in the first half of the year, expecting favourable investment returns in the future.

The Group has invested in the project of BYD Semiconductor Co., Ltd. (“BYD Semiconductor”) which is expected to list on the ChiNext Board of Shenzhen Stock Exchange. The business of BYD Semiconductor covers research and development, production and sales of power semiconductors, smart control ICs, smart sensors and optoelectronic semiconductors. It has a complete industry chain of integrated operations including chip design, wafer manufacturing, packaging and testing, and downstream applications, along with over a thousand patents in the area of smart sensors where it develops rapidly. The most important insulated gate bipolar transistor (“IGBT”) business of BYD Semiconductor contains a relatively complete automotive-grade IGBT industry chain link including design, manufacturing, packaging, and vehicle applications.

During the Reporting Period, the Group signed an equity acquisition agreement with a French partner. The French company is mainly positioned as the Group’s platform for product introduction, based on France and radiating in Europe. In the future, it will assist the Group in introducing high-quality European greater health products and provide Chinese consumers with more choices. The project is expected to complete the equity change by the end of 2021.

Management Discussion and Analysis

During the Reporting Period, the Group acquired the property located at Workshop 13, 6th Floor, Goodluck Industrial Centre, No. 808 Lai Chi Kok Road, Kowloon, Hong Kong at a purchase price of HK\$8,550,000. The property will be used as the Group's own permanent office in Hong Kong and serve to further save rental expenses of the Group.

Continuing to cultivate talents and improving the competitiveness of talent reserves

The Group has been cooperating with Guangdong Food and Drug Vocational College for ten years to train the Company's back-up talents at basic level, including two and a half years of oriented on-campus training and six months of in-house training. During the Reporting Period, the fresh graduates trained by the Group have completed internships in various positions in the Group, with the options of staying in the Company or seeking employment in the society. The Group organized an e-commerce live broadcast competition among the new students, covering 89 contestants and serving as a good social exercise for them. It also achieved sales promotion for the Group's products.

During the Reporting Period, by organizing multiple product knowledge trainings, knowledge contests, application learning of informatization tools, new employee training, the release of eminent monks and other methods, the Group kept pace with the times to improve the ability and competitiveness of its employees. During the Reporting Period, the Group organized excellent TV drama viewing activities and celebration viewing activities in celebration of the 100th anniversary of the Communist Party of China. During the Reporting Period, the Mind Comforting Hall under the Group convened the second GUYU Art Show and received enthusiastic response.



Management Discussion and Analysis

HONOURS

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

- In February 2021, the Group received RMB2.81 million reward of Shenzhen Key Logistics Enterprises Discount Subsidy;
- In March 2021, the Kingworld trademark used by the Group was incorporated in the “2020 Guangdong Province Key Trademark Protection List” and became a key protection trademark;
- In March 2021, Shenzhen Kingworld Medicine Company Limited, a subsidiary of the Group, was awarded the “Outstanding Contribution Award for Industry-Academy-Research Cooperation” by China Industry-Academy-Research Investment and Financing Alliance and Shenzhen Industry-Academy-Research Cooperation Promotion Association;
- In June 2021, Shenzhen Kingworld Medicine Company Limited, a subsidiary of the Group, was awarded the “2014-2020 Guangdong Province Contract-abiding and Credit-worthy Enterprise for Seven Consecutive Years” by Shenzhen Market Supervision and Management Bureau;
- In June 2021, Culturelle probiotics, which the Group acts as an agent, was awarded the Hong Kong Pharmacy’s Top 20 Most Popular Brand Award 2019-2021 (Kingworld Healthy Development Limited) by Hong Kong General Chamber of Pharmacy;
- In June 2021, Shenzhen Kingworld Medicines Enterprise was awarded the Green Channel Enterprise of Nanshan District; and
- In July 2021, Nin Jiom, which the Group acts as an agent, won a place in the Top 100 Pharmaceutical Companies in China and shortlisted for the 38th place in the TOP100 list of traditional Chinese medicine companies.



Management Discussion and Analysis

FINANCIAL REVIEW

1. *Revenue*

Revenue of the Group for the six months ended 30 June 2021 amounted to approximately RMB415,300,000, representing an increase of approximately RMB122,352,000 or 41.8% compared to approximately RMB292,948,000 for the six months ended 30 June 2020. The increase was mainly due to the increase in the revenue from distribution of imported branded pharmaceutical and healthcare products in China for the Reporting Period as compared to the six months ended 30 June 2020 as a result of the market recovery from the outbreak of the Pandemic. Such increase was partially offset by the decrease in sales of medical devices, including infrared thermometer, manufactured by Dong Di Xin. The decrease was mainly due to the drop in sales of anti-Pandemic devices.

2. *Cost of sales and gross profit margin*

For the six months ended 30 June 2021, cost of sales of the Group amounted to approximately RMB281,729,000, representing an increase of approximately RMB98,705,000 or 53.9% compared to approximately RMB183,024,000 for the six months ended 30 June 2020. The increase in cost of sales was mainly due to the increase in revenue and the change of product mix. Gross profit margin decreased from 37.5% for the six months ended 30 June 2020 to 32.2% for the six months ended 30 June 2021 as a result of the decrease in proportion of revenue from products with relatively higher margin, in particular the medical device products from Dong Di Xin, during the Reporting Period. Besides, the gross profit margin of Dong Di Xin also decreased from 51.2% for the six months ended 30 June 2020 to 42.8% for the Reporting Period. The decrease was mainly due to the drop in unit selling price of the anti-Pandemic medical device as the demand declined due to the control of the Pandemic during the Reporting Period.

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

Other revenue, income and other net gains mainly included rental income, interest income, promotion service income, commission income, change in fair value of financial assets at fair value through profit or loss, investment gain and exchange loss. For the six months ended 30 June 2021, other revenue, income and other net gains amounted to approximately RMB11,042,000, representing a decrease of approximately RMB26,843,000 or 70.9% compared to approximately RMB37,885,000 for the six months ended 30 June 2020. This decrease was mainly due to the decrease in promotion service income during the Reporting Period.

4. *Selling and distribution costs*

For the six months ended 30 June 2021, selling and distribution costs amounted to approximately RMB47,734,000, representing an increase of approximately RMB5,034,000 or 11.8% compared to approximately RMB42,700,000 for the six months ended 30 June 2020. This increase was mainly due to the increase in delivery expenses as a result of the increase in sales volume for the Reporting Period.

5. *Administrative expenses*

For the six months ended 30 June 2021, administrative expenses amounted to approximately RMB43,544,000, representing a decrease of approximately RMB3,375,000 or 7.2% compared to approximately RMB46,919,000 for the six months ended 30 June 2020. This decrease was mainly due to the decrease in provision for obsolete inventories during the Reporting Period.

Management Discussion and Analysis

6. Profit from operations

For the six months ended 30 June 2021, profit from operations for the Group amounted to approximately RMB46,550,000, representing a decrease of approximately RMB2,778,000 or 5.6% compared to approximately RMB49,328,000 for the six months ended 30 June 2020. The decrease in profit from operations was mainly due to the decrease in other revenue, income and other net gains, and the increase in selling and distribution costs which was partially offset by the increase in gross profit for the Reporting Period.

7. Finance costs

For the six months ended 30 June 2021, finance costs amounted to approximately RMB7,689,000, representing an increase of approximately RMB506,000 or 7.0% compared to approximately RMB7,183,000 for the six months ended 30 June 2020. The increase in finance costs was mainly due to the increase in interest charged on bank loans as a result of an increase in interest rate of lendings.

8. Profit before taxation

For the six months ended 30 June 2021, profit before taxation for the Group amounted to approximately RMB40,543,000, representing a decrease of approximately RMB4,775,000 or 10.5% compared to approximately RMB45,318,000 for the six months ended 30 June 2020. The decrease in profit before taxation was mainly due to the decrease in profit from operations and share of profit of a joint venture.

9. Income tax

For the six months ended 30 June 2021, income tax for the Group amounted to approximately RMB6,258,000, representing a decrease of approximately RMB7,287,000 or 53.8% compared to approximately RMB13,545,000 for the six months ended 30 June 2020. The effective tax rate during the Reporting Period was 15.4%, compared to 29.9% for the six months ended 30 June 2020. Details of income tax are set forth in Note (9) to the condensed consolidated financial statements.

10. Profit for the period

As a result of the foregoing, for the six months ended 30 June 2021, profit for the period of the Group amounted to approximately RMB34,285,000, representing an increase of approximately RMB2,512,000 or 7.9% compared to approximately RMB31,773,000 for the six months ended 30 June 2020.

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

For the six months ended 30 June 2021, profit for the period attributable to owners of the Company amounted to approximately RMB19,482,000, representing an increase of approximately RMB9,632,000 or 97.8% compared to approximately RMB9,850,000 for the six months ended 30 June 2020. The increase was mainly due to the fact that profit for the period of approximately RMB34,285,000 was mainly derived from operation belongs to owners of the Company.

Management Discussion and Analysis

12. *Liquidity and capital resources*

The Group has met its working capital needs mainly through cash generated from operations and various short-to-long term bank borrowings. During the Reporting Period, the effective interest rate for fixed rate loans ranged from 2.75% to 6.23%. Taking into account the cash flow generated from operations and the bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least twelve months from the date of publication of this report.

As at 30 June 2021, the Group had cash and cash equivalents of RMB259,877,000 mainly generated from operations of the Group.

13. *Cash flows*

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

During the Reporting Period, the Group's cash and cash equivalents increased by approximately RMB9,059,000, which mainly comprised the net cash generated from operating activities with the amount of approximately RMB48,894,000, net cash used in investing activities with the amount of approximately RMB3,774,000, net cash used in financing activities with the amount of approximately RMB42,030,000, and the net positive effect of foreign exchange of approximately RMB5,969,000. The cash flow details of the Group are set out in page 44 under "Condensed Consolidated Statement of Cash Flows" in this report.

14. *Capital structure*

Indebtedness

The total amount of the borrowings of the Group which will be due within one year as at 30 June 2021 was approximately RMB264,881,000. During the Reporting Period, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

Asset-liability ratio

As at 30 June 2021, the Group's asset-liability ratio, calculated as the total interest-bearing bank borrowings divided by total assets multiplied by 100%, was 20.8% (as at 31 December 2020: 23.6%). The decrease in asset-liability ratio was mainly due to the decrease in interest-bearing bank borrowings and the increase in total assets.

Gearing ratio

As at 30 June 2021, the Group's gearing ratio, calculated as the total interest-bearing bank borrowings, less cash and cash equivalents, divided by total equity multiplied by 100%, was 0.7% (31 December 2020: 6.7%). The decrease in gearing ratio was mainly due to the decrease in interest-bearing bank borrowings and the increase in total equity.

Management Discussion and Analysis

Pledge of assets

As at 30 June 2021, 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, RMB56,069,000, RMB19,595,000 and RMB122,021,000, respectively (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).

Capital expenditure

The capital expenditures of the Group primarily included purchase of plant and equipment and leasehold improvements. The Group's capital expenditures amounted to approximately RMB5,337,000 and RMB3,175,000 for the Reporting Period and the six months ended 30 June 2020, respectively.

Foreign exchange risk

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

15. Contingent liabilities, legal and potential proceedings

As at 30 June 2021, 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 report, 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

Management Discussion and Analysis

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

16. Major acquisitions and disposals

For the six months ended 30 June 2021, the Group did not make any material acquisition or disposal.

17. Going concern

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

FUTURE OUTLOOK

With continued improvement in the external macroeconomic environment, in the second half of 2021, the Group will make every effort to accomplish various business goals, effectively respond to the complex market environment, further optimize the product portfolio, and make full use of the SMART system to provide scientific decision-making support for the market. The Group will optimize the process new product introduction, research and development, broaden the introduction channels, introduce excellent domestic and overseas healthcare products, and make full use of the advantages of the Group’s online and offline, domestic and overseas network platforms and supply chain channel.

1. Conclusion of Fourth Five-Year, commencement of Fifth Five-Year, formulating the road to sustainable development in the future

The year 2021 is the closing year of the Group’s “Fourth Five-Year Strategic Development Plan”. Meanwhile, the Group initiated the preparation of the “Fifth Five-Year Strategic Development Plan” as planned. Based on the implementation and conclusion of the “Fourth Five-Year Strategic Development Plan”, the “Fifth Five-Year Strategic Development Plan” was prepared to analyze the future development trends and directions of the PRC and the industry, and formulate a series of strategic planning content such as the long-term development goals, core plans, implementation paths, and execution plans of the Group, in an effort of achieving an all-round upgrade of the Group’s operations, revenue and status in the future.

Management Discussion and Analysis

2. *Technology empowerment and product development enrichment*

In the future, the Group will hasten the listing of the “Chinese medicine + probiotic” series cosmeceutical product developed in cooperation with the Hong Kong University of Science and Technology, enrich the Group’s product portfolio, cover more young consumers, and form a product portfolio for the target group. Meanwhile, the Group will actively promote the strategic cooperation with Lanzhou Foci, discover healthcare products with authentic traditional Chinese medicine characteristic, actively promote Chinese medicine “go out” and cooperate to develop overseas Chinese medicine market.

3. *Improvement of operational efficiency with digital marketing*

In the future, the Group will continue to upgrade the supply chain of the greater health industry digitally with big data and new technologies, organically combine distributors, products, brands, channels, etc. as a whole, and continuously explore new market demand and industry, achieve dual enhancement of supply chain efficiency and experience through online and offline integration, insist on being consumer-oriented, collaborate with partners to gradually build a complete upstream and downstream supply chain system for the pharmaceutical and greater health industry, and develop itself as a well-known domestic and global leading global greater health product service full-chain and omni-channel supply chain enterprise.

4. *External expansion with capital support*

In the second half of 2021, the Group’s Longde Health Industrial Park will continue construction as scheduled. Upon completion of the park, it will become one of the health industry centres of the greater health industry in the Greater Bay Area, thereby bringing considerable profit to the Group.

In 2021, the Group’s capital operation team will continue to develop the Group’ business in the area of greater health services, actively look for high-quality products and high-quality manufacturers with market potential, prioritize production enterprises with the concept of greater health, overseas upstream manufacturers, and domestic GMP enterprises that have business synergy with the Group, and strengthen the development of the Group’s upstream and downstream supply chain system in the pharmaceutical and greater health industry.

HUMAN RESOURCES AND TRAINING

As at 30 June 2021, the Group had a total of 1,002 employees, of which 125 worked at the Group’s headquarters in Shenzhen, and 385 were stationed in 34 other regions mainly responsible for sales and marketing, and 482 worked at Dong Di Xin. The Group releases an annual sales guideline on a yearly basis, setting out the annual sales targets and formulating quarterly sales strategies, so as to provide sales and marketing guidelines for all representative offices and their staff to observe. The Group has a management team with extensive industry experience (including sales directors and product managers). They are responsible for coordinating front-line sales and marketing teams to meet the annual sales targets.

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

DISCLOSURE OF INTERESTS

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

As at 30 June 2021, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required (i) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

(i) Interests in the shares in the Company

Name of Directors	Capacity/Nature of Interest	Number of shares in the Company held	Approximate percentage of the Company's total issued share capital
Zhao Li Sheng ^(Note 1)	Beneficial owner	19,072,000	3.06%
	Interest of spouse	90,744,000	14.58%
	Interest of a controlled corporation	297,812,250	47.84%
Chan Lok San ^(Note 2)	Beneficial owner	744,000	0.12%
	Interest of spouse	316,884,250	50.91%
	Interest of a controlled corporation	90,000,000	14.46%
Zhou Xuhua ^(Note 3)	Beneficial owner	744,000	0.12%
	Interest of spouse	2,380,000	0.38%
Duan Jidong ^(Note 4)	Beneficial owner	660,000	0.11%
Wong Cheuk Lam ^(Note 4)	Beneficial owner	660,000	0.11%
Zhang Jianbin ^(Note 4)	Beneficial owner	660,000	0.11%

Notes:

1. In addition to 19,072,000 shares which are beneficially owned by Mr. Zhao Li Sheng ("Mr. Zhao"), Mr. Zhao is deemed (by virtue of the SFO) to be interested in 388,556,250 shares in the Company. These shares are held in the following capacities:
 - (a) 297,812,250 shares are held by Golden Land International Limited ("Golden Land"). Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Mr. Zhao is deemed to be interested in the 297,812,250 shares held by Golden Land. Mr. Zhao is also the sole director of Golden Land.
 - (b) 744,000 shares are held by Ms. Chan Lok San ("Ms. Chan"), the spouse of Mr. Zhao, in her own name and 90,000,000 shares are held by Golden Morning International Limited ("Golden Morning"). Ms. Chan is the beneficial owner of the entire issued share capital of Golden Morning, therefore, Mr. Zhao is also deemed to be interested in the 744,000 shares held by Ms. Chan and 90,000,000 shares held by Golden Morning.

Other Information

2. Ms. Chan is deemed (by virtue of the SFO) to be interested in 407,628,250 shares in the Company. These shares are held in the following capacities:
 - (a) 744,000 shares are held by Ms. Chan in her own name and 90,000,000 shares are held by Golden Morning. Ms. Chan is the beneficial owner of the entire issued share capital of Golden Morning, therefore, Ms. Chan is deemed to be interested in the 90,000,000 shares held by Golden Morning. Ms.Chan is also the sole director of Golden Morning.
 - (b) 19,072,000 shares are held by Mr. Zhao Li Sheng, the spouse of Ms. Chan, in his own name and 297,812,250 shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Ms. Chan is also deemed to be interested in the 19,072,000 shares held by Mr. Zhao and the 297,812,250 shares held by Golden Land.
3. 744,000 shares are held by Mr. Zhou Xuhua (“Mr. Zhou”) in his own name and Mr. Zhou is also deemed (by virtue of the SFO) to be interested in 2,380,000 shares in the Company held by his spouse, Ms. Huang Xiaoli.
4. Interests in options granted pursuant to the share option scheme of the Company (the “Share Option Scheme”).

(II) Long positions in the underlying shares – share options under the Share Option Scheme

Name of Directors	Date of grant	Option Period (Note 3)	Exercise Price per Share (HK\$) (Note 4)	Number of Share Options			Outstanding as at 30 June 2021	Approximate percentage of the Company's total issued share capital
				Outstanding as at 1 January 2021	Granted during the Reporting Period	Cancelled during the Reporting Period		
Zhao Li Sheng (Note 1)	23 April 2018	23 April 2018 to 22 April 2024	1.26	468,000	—	—	468,000	0.0751%
Chan Lok San (Note 2)	23 April 2018	23 April 2018 to 22 April 2024	1.26	416,000	—	—	416,000	0.0668%
Zhou Xuhua	23 April 2018	23 April 2018 to 22 April 2024	1.26	416,000	—	—	416,000	0.0668%

Other Information

Name of Directors	Date of grant	Option Period (Note 3)	Exercise Price per Share (HK\$) (Note 4)	Number of Share Options				Outstanding as at 30 June 2021	Approximate percentage of the Company's total issued share capital
				Outstanding as at 1 January 2021	Granted during the Reporting Period	Cancelled during the Reporting Period	Lapsed during the Reporting Period		
Duan Jidong	23 April 2018	23 April 2018 to 22 April 2024	1.26	372,000	—	—	—	372,000	0.0597%
Zhang Jianbin	23 April 2018	23 April 2018 to 22 April 2024	1.26	372,000	—	—	—	372,000	0.0597%
Wong Cheuk Lam	23 April 2018	23 April 2018 to 22 April 2024	1.26	372,000	—	—	—	372,000	0.0597%
Total				2,416,000	—	—	—	2,416,000	0.3881%

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

Note 2: Ms. Chan (being the spouse of Mr. Zhao) 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.

(III) Interests in the shares of the associated corporations of the Company

Name of Directors	Name of associated corporations	Capacity/Nature of interest	Percentage of shareholding
Zhao Li Sheng	Golden Land	Beneficial owner	100%
Chan Lok San	Golden Morning	Beneficial owner	100%

As at 30 June 2021, save as disclosed above, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

Save as disclosed above, as at 30 June 2021, none of the Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Other Information

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

As at 30 June 2021, so far as was known to the Directors, the interests or short positions held by the following persons (other than the Directors) in the shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or the interests or short positions recorded in the register kept by the Company under section 336 of the SFO were as follows:

Interests in the Shares

Name of Shareholders	Capacity/Nature of Interest	Number of shares in the Company held	Approximate percentage of the Company's total issued share capital
Golden Land	Beneficial owner	297,812,250	47.84%
Golden Morning	Beneficial owner	90,000,000	14.46%
Zhao Li Sheng ^(Note 1)	Beneficial owner	19,072,000	3.06%
	Interest of spouse	90,744,000	14.58%
	Interest of a controlled corporation	297,812,250	47.84%
Chan Lok San ^(Note 2)	Beneficial owner	744,000	0.12%
	Interest of spouse	316,884,250	50.91%
	Interest of a controlled corporation	90,000,000	14.46%
Sinopharm Healthcare Fund L.P. ^(Note 3)	Beneficial owner	62,187,750	9.99%
Sinopharm Capital Limited ^(Note 4)	Interest of a controlled corporation	62,187,750	9.99%
Sun Hill Capital Investments Limited ^(Note 5)	Interest of a controlled corporation	62,187,750	9.99%
Wu Aimin ^(Note 6)	Interest of a controlled corporation	62,187,750	9.99%

Notes:

1. In addition to 19,072,000 shares which are beneficially owned by Mr. Zhao, Mr. Zhao is deemed (by virtue of the SFO) to be interested in 388,556,250 shares in the Company. These shares are held in the following capacities:
 - (a) 297,812,250 shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Mr. Zhao is deemed to be interested in the 297,812,250 shares held by Golden Land. Mr. Zhao is also the sole director of Golden Land.
 - (b) 744,000 shares are held by Ms. Chan, the spouse of Mr. Zhao, in her own name and 90,000,000 shares are held by Golden Morning. Ms. Chan is the beneficial owner of the entire issued share capital of Golden Morning, therefore, Mr. Zhao is also deemed to be interested in the 744,000 shares held by Ms. Chan and 90,000,000 shares held by Golden Morning.

Other Information

2. Ms. Chan is deemed (by virtue of the SFO) to be interested in 407,628,250 shares in the Company. These shares are held in the following capacities:
 - (a) 744,000 shares are held by Ms. Chan in her own name and 90,000,000 shares are held by Golden Morning. Ms. Chan is the beneficial owner of the entire issued share capital of Golden Morning, therefore, Ms. Chan is deemed to be interested in the 90,000,000 shares held by Golden Morning. Ms. Chan is also the sole director of Golden Morning.
 - (b) 19,072,000 shares are held by Mr. Zhao, the spouse of Ms. Chan, in his own name and 297,812,250 shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Ms. Chan is also deemed to be interested in the 19,072,000 shares held by Mr. Zhao and the 297,812,250 shares held by Golden Land.
3. Pursuant to the share purchase agreement entered into between Golden Land and Sinopharm Capital Limited dated 16 September 2014 (as supplemented by the supplemental agreements dated 7 November 2014 and 15 December 2014), Sinopharm Capital Limited designated Sinopharm Healthcare Fund L.P. as its nominee to acquire 62,187,750 shares of the Company from Golden Land for a consideration of HK\$133,703,662.50.
4. The corporate substantial shareholder notice filed by Sinopharm Capital Limited indicated that it controlled 1.64% interest in Sinopharm Healthcare Fund L.P..
5. The corporate substantial shareholder notice filed by Sun Hill Capital Investments Limited indicated that it controlled 100% interest in Sinopharm Capital Limited and indirectly controlled 1.64% interest in Sinopharm Healthcare Fund L.P..
6. The individual substantial shareholder notice filed by Wu Aimin indicated that he controlled 70% interest in Sun Hill Capital Investments Limited, indirectly controlled 100% interest in Sinopharm Capital Limited and 1.64% interest in Sinopharm Healthcare Fund L.P..

Save as disclosed above, to the best knowledge of the Directors of the Company, as at 30 June 2021, no person (other than the Directors) had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or any interest or short positions recorded in the register kept by the Company under section 336 of the SFO.

SHARE OPTION SCHEME

The Company operates the Share Option Scheme for the purpose of providing incentives and rewards to eligible participants, including Directors, eligible employees, consultants, suppliers, customers, any shareholder of each member of the Group or associated company or any of their respective associates, who contribute to the success of the Group. The Share Option Scheme was conditionally approved by a written resolution of the shareholders of the Company dated 5 November 2010. Details of the Share Option Scheme are set out in the prospectus of the Company dated 12 November 2010. Upon the expiration of the Share Option Scheme on 4 November 2020, on 20 August 2021, the Company has adopted the new share option scheme (the "New Share Option Scheme") to provide incentives or rewards to eligible participants for their contribution to the Group and/or to enable the Group to recruit and retain high calibre employees and attract human resources that are available to the Group. For details of the New Share Option Scheme, please refer to the circular of the Company dated 27 July 2021.

As at 30 June 2021, the Company had granted to certain eligible participants (the "Grantees"), a total of 18,368,000 share options to subscribe for a total of 18,368,000 ordinary shares of HK\$0.10 each in the capital of the Company under the Share Option Scheme which were accepted by such Grantees.

Other Information

A summary of share options granted under the Share Option Scheme of the Company as at 30 June 2021 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)	Outstanding as at 1 January 2021	Number of Share Options			Outstanding as at 30 June 2021	Approximate percentage of the Company's total issued share capital
						Granted during the Reporting Period	Cancelled during the Reporting Period	Lapsed during the Reporting Period		
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: Mr. Zhao is also a substantial shareholder of the Company through his beneficial interest, interests of spouse and controlled corporation.

Note 2: Ms. Chan (being the spouse of Mr. Zhao) 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.

Other Information

CAPITAL COMMITMENT

As at 30 June 2021, the Group had capital commitment of approximately RMB370,531,000 (as at 31 December 2020: approximately RMB357,947,000).

PUBLIC FLOAT

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

DIVIDENDS

Pursuant to a resolution passed by the shareholders of the Company on 27 May 2021, the Company declared a final dividend for the year ended 31 December 2020 amounting to approximately HK\$4,046,000 (equivalent to approximately RMB3,424,000) to the shareholders of the Company. The dividend was fully paid on 29 June 2021 by the internal cash resources of the Company.

The Board resolved not to recommend the payment of any interim dividend for the six months ended 30 June 2021 (2020: nil).

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

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

CORPORATE GOVERNANCE PRACTICES

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

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

Other Information

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the “Model Code”) as its own code governing securities transactions of the Directors. After having made specific enquiries with all Directors, all Directors have confirmed that they have complied with the required standards set out in the Model Code during the Reporting Period.

Other Information

AUDIT COMMITTEE

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

The financial information in this interim report has not been audited by the auditor of the Company. The Audit Committee has reviewed the unaudited condensed consolidated financial statements, the results announcement and this interim report of the Company for the six months ended 30 June 2021 with the management of the Group and agreed with the accounting treatments adopted by the Company, and was of the opinion that the preparation of the financial statements in this interim report complies with the applicable accounting standards and the requirements under the Listing Rules and adequate disclosures have been made.

EVENTS AFTER THE REPORTING PERIOD

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

DISCLOSURE OF INFORMATION

The interim report for the six months ended 30 June 2021 will be duly dispatched to shareholders of the Company and published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.kingworld.com.cn>).

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

Hong Kong, 27 August 2021

Consolidated Statement of Profit or Loss

FOR THE SIX MONTHS ENDED 30 JUNE 2021 - UNAUDITED
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2021 (unaudited) RMB'000	2020 (unaudited) RMB'000
Revenue	4	415,300	292,948
Cost of sales		(281,729)	(183,024)
Gross profit		133,571	109,924
Other revenue, income and other net gains	7	11,042	37,885
Selling and distribution costs		(47,734)	(42,700)
Administrative expenses		(43,544)	(46,919)
Amortisation of intangible assets		(6,785)	(9,415)
Reversal of impairment loss on trade receivables		—	319
Reversal of impairment loss on other receivables		—	234
Profit from operations		46,550	49,328
Finance costs	8(a)	(7,689)	(7,183)
Share of profit of a joint venture		1,662	3,174
Share of profit/(loss) of an associate		20	(1)
Profit before taxation	8	40,543	45,318
Income tax	9	(6,258)	(13,545)
Profit for the period		34,285	31,773
Attributable to:			
Owners of the Company		19,482	9,850
Non-controlling interests		14,803	21,923
Profit for the period		34,285	31,773
Earnings per share	11		
Basic (RMB cents)		3.21	1.60
Diluted (RMB cents)		3.21	1.60

The accompanying notes form part of these condensed consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE SIX MONTHS ENDED 30 JUNE 2021 - UNAUDITED
(Expressed in Renminbi)

	Six months ended 30 June	
	2021 (unaudited) RMB'000	2020 (unaudited) RMB'000
Profit for the period	34,285	31,773
Other comprehensive income for the period		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside the PRC	5,814	1,306
	5,814	1,306
Total comprehensive income for the period (net of tax)	40,099	33,079
Attributable to:		
Owners of the Company	25,296	11,157
Non-controlling interests	14,803	21,922
Total comprehensive income for the period	40,099	33,079

The accompanying notes form part of these condensed consolidated financial statements.

Consolidated Statement of Financial Position

AS AT 30 JUNE 2021 - UNAUDITED
(Expressed in Renminbi)

	Note	30 June 2021 (unaudited) RMB'000	31 December 2020 (audited) RMB'000
Non-current assets			
Right-of-use assets	12(a)	110,548	109,518
Property, plant and equipment	12(b)	60,041	58,368
Investment properties	13	121,000	121,000
Interest in a joint venture		86,631	84,969
Interest in an associate		2,608	2,588
Goodwill		90,693	90,693
Intangible assets		20,488	27,272
Financial assets at fair value through profit or loss		6,248	6,257
Financial assets at fair value through other comprehensive income		43,071	39,962
		541,328	540,627
Current assets			
Inventories		144,242	130,221
Trade and other receivables	14	315,497	323,060
Financial assets at fair value through profit or loss		10,438	10,552
Financial assets at fair value through other comprehensive income		94	94
Cash and cash equivalents		259,877	250,818
		730,148	714,745
Current liabilities			
Contract liabilities		54,562	56,496
Trade and other payables	15	195,313	187,991
Bank loans		264,881	296,538
Lease liabilities		8,182	8,003
Tax payable		11,708	6,623
		534,646	555,651
Net current assets		195,502	159,094
Total assets less current liabilities		736,830	699,721
Non-current liabilities			
Lease liabilities		2,078	1,236
Deferred tax liabilities		19,516	19,975
		21,594	21,211
NET ASSETS		715,236	678,510
CAPITAL AND RESERVES			
Share capital	16	53,468	53,468
Reserves		560,258	538,335
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		613,726	591,803
NON-CONTROLLING INTERESTS		101,510	86,707
TOTAL EQUITY		715,236	678,510

The accompanying notes form part of these condensed consolidated financial statements.

Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2021 - UNAUDITED
(Expressed in Renminbi)

Attributable to equity shareholders of the Company										
	Share capital	Share premium	Statutory and discretionary reserves	Fair value reserve	Exchange reserve	Capital reserve	Retained profits	Total	Non-Controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2021	53,468	152,700	48,641	4,531	(22,894)	(12,555)	367,912	591,803	86,707	678,510
Changes in equity for the six months ended 30 June 2021										
Profit for the period	—	—	—	—	—	—	19,482	19,482	14,803	34,285
Other comprehensive income for the period	—	—	—	—	5,814	—	—	5,814	—	5,814
Total comprehensive income for the period	—	—	—	—	5,814	—	19,482	25,296	14,803	40,099
Dividends (note 10(b))	—	—	—	—	—	—	(3,373)	(3,373)	—	(3,373)
At 30 June 2021 (unaudited)	53,468	152,700	48,641	4,531	(17,080)	(12,555)	384,021	613,726	101,510	715,236
At 1 January 2020	53,468	152,700	44,626	6,380	(20,786)	(5,530)	372,485	603,343	69,847	673,190
Changes in equity for the six months ended 30 June 2020										
Profit for the period	—	—	—	—	—	—	9,850	9,850	21,923	31,773
Other comprehensive income/(loss) for the period	—	—	—	—	1,307	—	—	1,307	(1)	1,306
Total comprehensive income for the period	—	—	—	—	1,307	—	9,850	11,157	21,922	33,079
Dividends (note 10(b))	—	—	—	—	—	—	(13,287)	(13,287)	—	(13,287)
Distribution to non-controlling interests	—	—	—	—	—	—	—	—	(23,970)	(23,970)
At 30 June 2020 (unaudited)	53,468	152,700	44,626	6,380	(19,479)	(5,530)	369,048	601,213	67,799	669,012

The accompanying notes form part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Cash Flows

FOR THE SIX MONTHS ENDED 30 JUNE 2021 - UNAUDITED
(Expressed in Renminbi)

	Six months ended 30 June	
	2021 (unaudited) RMB'000	2020 (unaudited) RMB'000
Net cash generated from operating activities	48,894	31,336
Net cash used in investing activities	(3,774)	(11,981)
Net cash (used in)/generated from financing activities	(42,030)	126,429
Net increase in cash and cash equivalents	3,090	145,784
Cash and cash equivalents at 1 January	250,818	113,495
Effect of foreign exchange rate changes	5,969	4,045
Cash and cash equivalents at 30 June	259,877	263,324

The accompanying notes form part of these condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2021 - UNAUDITED
(Expressed in Renminbi unless otherwise indicated)

1. GENERAL INFORMATION

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

2. BASIS OF PREPARATION

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

The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s consolidated financial statements for the year ended 31 December 2020.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period’s financial information.

Amendments to HKFRS 9, HKAS 39,
HKFRS 7, HKFRS 4 and HKFRS 16

Interest Rate Benchmark Reform — Phase 2

Amendment to HKFRS 16

*Covid-19-Related Rent Concessions beyond
30 June 2021 (early adopted)*

The adoption of above revised HKFRSs do not have significant impact to the preparation of the Group’s condensed consolidated financial information.

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2021 - UNAUDITED
(Expressed in Renminbi unless otherwise indicated)

4. REVENUE

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

	Six months ended 30 June	
	2021 (unaudited) RMB'000	2020 (unaudited) RMB'000
Sales of		
– pharmaceutical products	215,976	104,090
– healthcare products	57,001	42,492
– medical devices	142,323	146,366
	415,300	292,948
Timing of revenue recognition		
A point in time	415,300	292,948

5. SEGMENT INFORMATION

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

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

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2021 - UNAUDITED
(Expressed in Renminbi unless otherwise indicated)

5. SEGMENT INFORMATION (Continued)

(a) Segment results, assets and liabilities

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

For the six months ended 30 June	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			
	2021 (unaudited) RMB'000	2020 (unaudited) RMB'000	2021 (unaudited) RMB'000	2020 (unaudited) RMB'000	2021 (unaudited) RMB'000	2020 (unaudited) RMB'000	2021 (unaudited) RMB'000	2020 (unaudited) RMB'000
Revenue from external customers	20,883	24,780	252,094	121,801	142,323	146,367	415,300	292,948
Inter-segment revenue	2,332	2,767	3,280	1,981	—	—	5,612	4,748
Reportable segment revenue	23,215	27,547	255,374	123,782	142,323	146,367	420,912	297,696
Reportable segment profit/(loss) (adjusted EBITDA)	(3,514)	26,240	35,695	(8,731)	42,211	60,562	74,392	78,071
	30 June 2021 (unaudited) RMB'000	31 December 2020 (audited) RMB'000	30 June 2021 (unaudited) RMB'000	31 December 2020 (audited) RMB'000	30 June 2021 (unaudited) RMB'000	31 December 2020 (audited) RMB'000	30 June 2021 (unaudited) RMB'000	31 December 2020 (audited) RMB'000
Reportable segment assets	38,934	44,509	629,904	608,510	289,904	273,159	958,742	926,178
Reportable segment liabilities	7,723	6,715	306,226	301,765	94,960	113,297	408,909	421,777

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

(b) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2021 (unaudited) RMB'000	2020 (unaudited) RMB'000
Reportable segment profit derived from the Group's external customers and joint venture	74,392	78,071
Depreciation and amortisation	(21,193)	(20,676)
Finance costs	(7,689)	(7,183)
Unallocated head office and corporate expenses	(4,967)	(4,894)
Consolidated profit before taxation	40,543	45,318

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2021 - UNAUDITED
(Expressed in Renminbi unless otherwise indicated)

6. SEASONALITY OF OPERATIONS

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

7. OTHER REVENUE, INCOME AND OTHER NET GAINS

	Six months ended 30 June	
	2021 (unaudited) RMB'000	2020 (unaudited) RMB'000
Other revenue:		
Total interest income on financial assets not at fair value through profit or loss:		
Bank interest income	220	37
Interest income from financial assets at fair value through other comprehensive income	291	201
Gross rental income from investment properties	1,449	962
Dividend income from financial assets at fair value through other comprehensive income	—	942
Promotional service income	3,009	29,107
	4,969	31,249
Government grants (note below)	4,018	9,436
Gain on disposal of property, plant and equipment	—	8
Change in fair value of financial assets at fair value through profit or loss	3,497	(3,025)
Exchange loss, net	(1,660)	(3,749)
Others	218	3,966
	11,042	37,885

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

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2021 - UNAUDITED
(Expressed in Renminbi unless otherwise indicated)

8. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2021 (unaudited) RMB'000	2020 (unaudited) RMB'000
a) Finance costs		
Total interest expense on financial liabilities not at fair value through profit or loss:		
Interest on bank loans	7,207	6,717
Interest on lease liabilities	482	466
Total finance costs	7,689	7,183
b) Other items		
Amortisation of intangible assets	6,785	9,415
Cost of inventories (note i)	281,729	183,024
Depreciation of property, plant and equipment	5,582	5,393
Amortisation of right-of-use assets	6,073	5,868
Write-down of inventory	—	3,947
Reversal of impairment loss on other receivables	—	(234)
Reversal of impairment loss on trade receivables	—	(319)
Gain on disposal of property, plant and equipment	—	(8)
Rental income from investment properties less direct outgoings of RMB172,000 (six months ended 30 June 2020: RMB165,000)	(1,277)	(797)
Research and development cost (note ii)	6,208	5,346

Notes:

- i) Cost of inventories includes approximately RMB22,506,000 (2020: RMB20,743,000) relating to depreciation of property, plant and equipment and amortisation of right-of-use assets, which are included in the respective total amounts disclosed separately above.
- ii) Research and development cost includes approximately RMB804,000 (2020: RMB777,000) relating to depreciation of property, plant and equipment and amortisation of right-of-use assets, which are included in the respective total amounts disclosed separately above.

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2021 - UNAUDITED
(Expressed in Renminbi unless otherwise indicated)

9. INCOME TAX

	Six months ended 30 June	
	2021 (unaudited) RMB'000	2020 (unaudited) RMB'000
Hong Kong Profits Tax		
Current period	(965)	3,165
PRC Enterprise Income Tax		
Current period	7,223	11,792
Under-provision in prior years	—	—
	6,258	14,957
Deferred tax		
Origination and reversal of temporary differences	—	(1,412)
	6,258	13,545

Notes:

- i) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.
- ii) On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of assessable profits of qualifying corporations will be taxed at 8.25%, and assessable profits above HK\$2 million will be taxed at 16.5%. The assessable profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. The two-tiered profits tax rates regime is applicable to the Group for the six months ended 30 June 2021 and 2020.
- iii) The PRC Enterprise Income Tax charge of the Group during the six months ended 30 June 2021 and 2020 represented mainly the PRC Enterprise Income Tax charge on the Group's PRC subsidiaries, Shenzhen Kingworld Medicine Company Limited, and Shenzhen Dong Di Xin Technology Company Limited ("Dong Di Xin") are based on a statutory rate of 25% (six months ended 30 June 2020: 25%), except for Dong Di Xin, which is based on a preferential income tax rate of 15% (six months ended 30 June 2020: 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.

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2021 - UNAUDITED
(Expressed in Renminbi unless otherwise indicated)

10. DIVIDENDS

- a) The Company's directors do not recommend the payment of an interim dividend for the six months ended 30 June 2021 and 2020.
- b) Dividends payable to owners of the Company attributable to the previous financial year, approved and paid during the Reporting Period:

	Six months ended 30 June	
	2021 (unaudited) RMB'000	2020 (unaudited) RMB'000
Final dividend in respect of the previous financial year ended, approved and paid during the Reporting Period, of HK0.65 cents (equivalent to approximately RMB0.54 cents) (2020: HK2.34 cents (equivalent to approximately RMB2.13 cents))	3,373	13,287

11. EARNINGS PER SHARE

(a) Basic earnings per share

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

i) Profit attributable to owners of the Company

	Six months ended 30 June	
	2021 (unaudited) RMB'000	2020 (unaudited) RMB'000
Profit for the period attributable to owners of the Company	19,482	9,850
Earnings for the purpose of basic earnings per share	19,482	9,850

ii) Weighted average number of ordinary shares

	Six months ended 30 June	
	2021 (unaudited)	2020 (unaudited)
Weighted average number of ordinary shares in issue	622,500,000	622,500,000
Effect of shares repurchased and held under share award scheme	(16,000,000)	(6,000,000)
Weighted average number of ordinary shares for the purpose of basic earnings per share	606,500,000	616,500,000

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2021 - UNAUDITED
(Expressed in Renminbi unless otherwise indicated)

11. EARNINGS PER SHARE *(Continued)*

(b) Diluted earnings per share

Diluted earnings per share for the six months ended 30 June 2021 and 2020 was the same as the basic earnings per share because that the exercise price of the share options granted was higher than the weighted average market price of the Company's shares during the six months ended 30 June 2021 and 2020. As the conversion or exercise of the share options would have an anti-dilutive effect on earnings per share, the calculation of diluted earnings per share does not assume conversion or exercise of potential ordinary shares of the share options.

12. RIGHT-OF-USE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

(a) Acquisitions and disposals of Right-of-use assets

During the six months ended 30 June 2021, the Group entered into a number of lease agreements for use of warehouses, plant and offices, and therefore recognised the additions to right-of-use assets of RMB1,507,000 (six months ended 30 June 2020: RMB1,825,000).

(b) Acquisitions of property, plant and equipment

During the six months ended 30 June 2021, the Group acquired items of plant and machinery with a cost of RMB5,337,000 (six months ended 30 June 2020: RMB3,175,000).

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2021 - UNAUDITED
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13. INVESTMENT PROPERTIES

	RMB'000
Fair value	
At 1 January 2020	122,600
Fair value adjustment	—
At 31 December 2020 (audited), 1 January 2021 and 30 June 2021 (unaudited)	122,600

- a) The Group's investment properties were revalued as at 31 December 2020 on an open market value basis calculated by reference to (i) comparable market transactions in the relevant markets or (ii) net rental income allowing for reversionary income potential. The valuations were carried out by independent firms of qualified valuers, Cushman & Wakefield Limited, who amongst their staff have members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The Group's property manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results when the valuations are performed at annual reporting date.

The Group's investment properties were not revalued as at 30 June 2021 by independent valuers. The directors were aware of the changes in the conditions of the property market. However, they considered that the carrying amount of the Group's investment properties did not differ significantly from the fair values as at 31 December 2020 carried out by independent qualified professional valuers. Consequently, no change in fair value of investment properties has been recognised in the current period.

- b) The Group's investment properties are held under medium-term leases in the PRC.
- c) The Group's investment property with a carrying amount of RMB107,000,000 (as at 31 December 2020: RMB107,000,000) have been pledged to secure general banking facilities granted to the Group (Note 17).

Notes to the Condensed Consolidated Financial Statements

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14. TRADE AND OTHER RECEIVABLES

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

	At 30 June 2021 (unaudited) RMB'000	At 31 December 2020 (audited) RMB'000
0-90 days	222,871	232,354
91-120 days	3,979	4,061
121-180 days	1,839	1,735
181-365 days	8,483	8,041
Total trade and bills receivables, net of allowance for doubtful debts	237,172	246,191
Other receivables	48,313	46,154
Amounts due from related parties	2,420	295
Amounts due from an associate	2,331	4,244
Amounts due from a joint venture	2	2
Loans and receivables	290,238	296,886
Prepayments	21,070	18,224
Trade and other deposits	4,189	5,395
Trade deposits to related parties	—	2,555
	315,497	323,060

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

Notes to the Condensed Consolidated Financial Statements

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15. TRADE AND OTHER PAYABLES

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

	At 30 June 2021 (unaudited) RMB'000	At 31 December 2020 (audited) RMB'000
0-90 days	116,118	98,158
91-180 days	4,136	3,379
181-365 days	1,081	—
Total trade payables	121,335	101,537
Accruals	5,439	6,763
Amounts due to related parties	20,736	22,243
Other payables	41,309	48,276
Financial liabilities measured at amortised cost	188,819	178,819
Value-added tax payable	6,494	9,172
	195,313	187,991

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2021 - UNAUDITED
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16. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000	Amount equivalent to RMB'000
Authorised:			
Ordinary shares of HK\$0.1 each			
At 1 January 2020, 31 December 2020 (audited), 1 January 2021 and 30 June 2021 (unaudited)	10,000,000	1,000,000	877,900
Issued and fully paid:			
Ordinary shares of HK\$0.1 each			
At 1 January 2020, 31 December 2020 (audited), 1 January 2021 and 30 June 2021 (unaudited)	622,500	62,250	53,468

17. PLEDGE OF ASSETS

The Group's asset with the following carrying amount has been pledged to secure bank loan and banking facilities:

	Note	At 30 June 2021 (unaudited) RMB'000	At 31 December 2020 (audited) RMB'000
Investment property	13	107,000	107,000
Right-of-use assets		56,069	56,923
Property, plant and equipment		19,595	19,893
Trade receivables		122,021	123,629

The Group's bank loans amounted to RMB96,550,000 as at 30 June 2021 (as at 31 December 2020: RMB96,550,000) were secured by Group's investment property. The Group's bank loans amounted to RMB146,238,000 as at 30 June 2021 (as at 31 December 2020: RMB149,988,000) were secured by the Group's right-of-use assets, property, plant and equipment and bank deposits and/or guaranteed by Mr. Zhao Li Sheng, the ultimate controlling party and a director of the Company, and Ms. Chan Lok San, a director of the Company.

Notes to the Condensed Consolidated Financial Statements

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18. FINANCIAL INSTRUMENTS

Fair value

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

Fair value hierarchy

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

- Level 1 valuations: Fair value measured using only Level 1 inputs, that is, unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs, that is, observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

	Fair value measurements as at 30 June 2021 categorised into				Fair value measurements as at 31 December 2020 categorised into			
	Fair value at 30 June 2021 RMB'000 (unaudited)	Level 1 RMB'000 (unaudited)	Level 2 RMB'000 (unaudited)	Level 3 RMB'000 (unaudited)	Fair value at 31 December 2020 RMB'000 (audited)	Level 1 RMB'000 (audited)	Level 2 RMB'000 (audited)	Level 3 RMB'000 (audited)
Recurring fair value measurements								
Assets:								
Financial assets at fair value through other comprehensive income (non-recycling)								
– Unlisted equity investments	43,021	—	31,563	11,458	40,056	—	28,598	11,458
Financial assets at fair value through profit or loss								
– Unlisted equity investments	6,248	—	—	6,248	6,257	—	—	6,257
– Listed securities	10,438	10,438	—	—	10,552	10,552	—	—

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18. FINANCIAL INSTRUMENTS (Continued)

Fair value (Continued)

Fair value hierarchy (Continued)

During the six months ended 30 June 2021 and the year ended 31 December 2020, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of the fair value hierarchy as at the end of the Reporting Period in which they occur.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

The fair value of available-for-sale financial assets, at fair value in Level 2 is calculated based on the quoted prices of equity instruments on which the Fund invested in.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The following table presents the changes in level 3 instruments for the six months ended 30 June 2021 and 2020.

	Financial assets at fair value through other comprehensive income		Financial assets at fair value through profit or loss	Total
	Unlisted equity investments RMB'000	Bank wealth management products RMB'000	Unlisted equity investments RMB'000	RMB'000
At 1 January 2020	1,629	—	5,739	7,368
Proceeds from sales	—	(152,000)	—	(152,000)
Additions	10,000	152,000	—	162,000
Exchange adjustment	31	—	—	31
At 30 June 2020 (unaudited)	11,660	—	5,739	17,399
At 1 January 2021	11,458	—	6,257	17,715
Addition	—	—	—	—
Proceeds from sales	—	—	—	—
Exchange adjustment	—	—	(9)	(9)
At 30 June 2021 (unaudited)	11,458	—	6,248	17,706

Notes to the Condensed Consolidated Financial Statements

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18. FINANCIAL INSTRUMENTS (Continued)

Fair value (Continued)

Fair value hierarchy (Continued)

The fair value of the unlisted equity investment was valued as at 31 December 2020 with reference to valuation performed by an independent valuer, Hong Kong Appraisal Advisory Limited based on the median of the market multiples of market comparable companies after adjusting for lack of marketability and control discount.

The directors considered that the carrying amount of the aforesaid financial instruments as at 30 June 2021 did not differ significantly from the fair value as at 31 December 2020 carried out by independent qualified professional valuers. Consequently, no change in fair value has been recognised in current period.

The fair value of the bank wealth management products was valued based on their costs plus expected return.

19. CAPITAL COMMITMENTS

Capital commitments of the Group at the six months ended 30 June 2021 are as follows:

	At 30 June 2021 (unaudited) RMB'000	At 31 December 2020 (audited) RMB'000
Contracted but not provided for in respect of – Property, plant and equipment	627	593
Authorised but not contracted for	369,904	357,354
	370,531	357,947

Apart from the above, the Group did not have other significant capital commitments as at 30 June 2021 and 31 December 2020.

Notes to the Condensed Consolidated Financial Statements

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20. EQUITY SETTLED SHARE-BASED TRANSACTIONS

Share option schemes

The Company set up a share option scheme on 5 November 2010 whereby the directors of the Company are authorised, at their discretion, to grant options to subscribe for the Company's shares to eligible participants ("Eligible Participants"), including directors, eligible employees, consultants, suppliers, customers, and shareholders of any member of the Group or associated company or any of their respective associates, who contributed to the success of the Group. The share option scheme shall be valid and effective for a period of ten years ended on 4 November 2020, after which no further options will be granted. Upon the expiration of the Share Option Scheme on 4 November 2020, on 20 August 2021, the Company has adopted the New Share Option Scheme to provide incentives or rewards to eligible participants for their contribution to the Group and/or to enable the Group to recruit and retain high calibre employees and attract human resources that are available to the Group.

Options granted on 1 June 2015 to the directors, employees and consultants vest after one to three years from the date of grant and are then exercisable within a period of one year. Of the share option granted on 9 October 2015 to a consultant vest and exercisable from the date of grant after the market conditions are met.

Options granted on 23 April 2018 to the directors and employees vest after one to three years from the date of grant and are then exercisable within a period of one year.

Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

As at 30 June 2021, the outstanding share options granted and accepted was 18,368,000 (as at 31 December 2020: 18,368,000).

No option was lapsed during the six months ended 30 June 2021 (2020: nil).

Share award scheme

The Company's share award scheme was adopted on 27 August 2019 for the purchase of rewarding directors and employees of the Company and its subsidiaries (the "eligible employees") with the shares of the Company. Pursuant to the share award scheme, existing shares of the Company will be purchased by the trustee from the market out of cash contributed by the Group and be held in trust for the eligible employees until such shares are vested with the eligible employees in accordance with the provisions of the share award scheme. The shares of the Company granted under the scheme and held by the trustee until vesting are referred to as the reward share units and each reward share unit shall represent one ordinary share of the Company.

During the year ended 31 December 2020, the trustee purchased 10,000,000 shares (2019: 6,000,000 shares) of the Company at a total cost (including related transaction costs) of approximately RMB7,025,000 (2019: RMB5,530,000) which had been deducted from equity. None of these purchased shares of the Company was awarded to any of the eligible employees during the period ended 30 June 2021. At 30 June 2021, the trustee held 16,000,000 shares (31 December 2020: 16,000,000 shares) of the Company purchased but not yet awarded under the share award scheme.

21. COMPARATIVE FIGURES

Certain comparative figures of the corresponding period have been reclassified to conform with the current period's presentation.