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KINGWORLD MEDICINES GROUP LIMITED

金活醫藥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 01110)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

RESULTS HIGHLIGHTS

- Revenue increased by 13.7% to approximately RMB847,386,000 (2020: RMB745,383,000).
- Gross profit decreased by 5.9% to approximately RMB263,598,000 (2020: RMB280,154,000).
- Gross profit margin decreased by 6.5% points to 31.1% (2020: 37.6%).
- Profit before taxation decreased by 2.1% to approximately RMB69,434,000 (2020: RMB70,891,000).
- Profit for the year ended 31 December 2021 increased by 0.6% to approximately RMB51,211,000 (2020: RMB50,889,000).
- Profit attributable to owners of the Company increased by 158.8% to approximately RMB30,319,000 (2020: RMB11,716,000).
- Basic earnings per share increased by 161.8% to approximately RMB5.00 cents (2020: RMB1.91 cents).
- The Board recommended the distribution of a final dividend of HK2.39 cents per share for the year ended 31 December 2021 (2020: HK0.65 cents), subject to the approval of the shareholders of the Company (the "**Shareholders**") at the forthcoming annual general meeting to be held on Friday, 27 May 2022.

The board (the "**Board**") of directors (the "**Directors**") of Kingworld Medicines Group Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2021 (the "**Year Under Review**") and selected explanatory notes, together with the comparative figures of the corresponding year in 2020 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2021

	Note	**2021**	2020
		RMB'000	RMB'000
Revenue	4	**847,386**	745,383
Cost of sales		**(583,788)**	(465,229)
Gross profit		**263,598**	280,154
Valuation gain/(loss) on investment properties		**800**	(1,600)
Other revenue, income and other net loss	5	**17,604**	55,504
Selling and distribution costs		**(99,514)**	(132,950)
Administrative expenses		**(96,644)**	(112,559)
Amortisation of intangible assets		**(13,569)**	(13,569)
Impairment losses on financial assets, net		**(50)**	(1,331)
Profit from operations		**72,225**	73,649
Finance costs	6 (a)	**(11,782)**	(15,161)
Share of profit of a joint venture		**8,728**	12,381
Share of profit of associates		**263**	22
Profit before taxation	6	**69,434**	70,891
Income tax	7	**(18,223)**	(20,002)
Profit for the year		**51,211**	50,889
Attributable to:			
Owners of the Company		**30,319**	11,716
Non-controlling interests		**20,892**	39,173
Profit for the year		**51,211**	50,889
Earnings per share	8		
Basic (RMB cents)		**5.00**	1.91
Diluted (RMB cents)		**5.00**	1.91

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	2021	2020
	RMB'000	RMB'000
Profit for the year	**51,211**	50,889
Other comprehensive loss for the year (net of tax)		
Items that will not be reclassified to profit or loss:		
Fair value loss on financial assets	**(1,562)**	(1,849)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside the PRC	**(2,760)**	(2,797)
	(4,322)	(4,646)
Total comprehensive income for the year (net of tax)	**46,889**	46,243
Attributable to:		
Owners of the Company	**25,939**	7,759
Non-controlling interests	**20,950**	38,484
Total comprehensive income for the year	**46,889**	46,243

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	Note	2021 RMB'000	2020 RMB'000
Non-current assets			
Right-of-use assets		**107,896**	109,518
Property, plant and equipment		**102,039**	58,368
Investment properties		**121,800**	121,000
Interest in a joint venture		**85,697**	84,969
Interest in associates		**8,395**	2,588
Goodwill		**90,693**	90,693
Other intangible assets		**13,703**	27,272
Financial assets at fair value through profit or loss		**6,461**	6,257
Financial assets at fair value through other comprehensive income		**37,490**	39,962
		574,174	540,627
Current assets			
Inventories		**106,744**	130,221
Trade and other receivables	9	**334,506**	323,060
Financial assets at fair value through profit or loss		**10,480**	10,552
Financial assets at fair value through other comprehensive income		**–**	94
Cash and cash equivalents		**187,925**	250,818
		639,655	714,745
Current liabilities			
Contract liabilities		**71,730**	56,496
Trade and other payables	10	**152,490**	187,991
Bank loans		**229,922**	296,538
Lease liabilities		**7,584**	8,003
Tax payable		**11,897**	6,623
		473,623	555,651
Net current assets		**166,032**	159,094
Total assets less current liabilities		**740,206**	699,721

	2021	2020
	RMB'000	RMB'000
Non-current liabilities		
Lease liabilities	**1,450**	1,236
Deferred tax liabilities	**18,122**	19,975
	19,572	21,211
NET ASSETS	**720,634**	678,510
CAPITAL AND RESERVES		
Share capital	**53,468**	53,468
Reserves	**563,429**	538,335
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	**616,897**	591,803
NON-CONTROLLING INTERESTS	**103,737**	86,707
TOTAL EQUITY	**720,634**	678,510

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021
(Expressed in Renminbi)

1. GENERAL INFORMATION

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

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

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

b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2021 comprise the Company and its subsidiaries and the Group's interests in a joint venture and associates.

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

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

- investment properties;
- derivative financial instruments;
- financial instruments classified as financial assets at fair value through other comprehensive income; and
- financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

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

Amendments to HKFRS 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

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

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, Interest rate benchmark reform — phase 2

The amendments provide targeted reliefs from (i) accounting for changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities as modifications, and (ii) discontinuing hedge accounting when an interest rate benchmark is replaced by an alternative benchmark rate as a result of the reform of interbank offered rates ("**IBOR reform**"). The amendments do not have an impact on these financial statements as the Group does not have contracts that are indexed to benchmark interest rates which are subject to the IBOR reform.

Amendment to HKFRS 16, Covid-19-related rent concessions beyond 30 June 2021 (2021 amendment)

The Group previously applied the practical expedient in HKFRS 16 such that as lessee it was not required to assess whether rent concessions occurring as a direct consequence of the COVID-19 pandemic were lease modifications, if the eligibility conditions are met (see note 1(j)). One of these conditions requires the reduction in lease payments affect only payments originally due on or before a specified time limit. The 2021 amendment extends this time limit from 30 June 2021 to 30 June 2022.

The Group has early adopted the 2021 amendment in this financial year. With the extended time limit, certain rent concessions that were previously ineligible for the practical expedient because of the original time limit, become eligible. Accordingly, these rent concessions, which were previously accounted for as lease modifications, are now accounted for as negative variable lease payments, and are recognised in profit or loss in the period in which the event or condition that triggers those payments occurred. There is no impact on the opening balance of equity at 1 January 2021.

4. REVENUE

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

	2021	2020
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products		
– pharmaceutical products	**438,864**	284,297
– healthcare products	**88,560**	90,822
– medical devices	**319,962**	370,264
	847,386	745,383
Timing of revenue recognition		
A point in time	**847,386**	745,383

5. OTHER REVENUE, INCOME AND OTHER NET LOSS

	2021 RMB'000	2020 RMB'000
Other revenue:		
Total interest income on financial assets not at fair value through profit or loss:		
Bank interest income	**458**	1,154
Interest income from a shareholder loan	**108**	128
Interest income from financial assets at fair value through other comprehensive income	**620**	290
Gross rental income from investment properties	**2,648**	2,205
Dividend income from financial assets at fair value through other comprehensive income and through profit or loss	**1,615**	15,594
Promotional service income	**7,546**	29,746
Other income and other net loss:	**12,995**	49,117
Government grants		
– HK (note (i))	**–**	946
– PRC (note (ii))	**5,059**	11,808
Change in fair value of financial assets at fair value through profit or loss	**471**	(3,361)
Exchange loss, net	**(3,088)**	(5,006)
Others	**2,167**	2,000
	17,604	55,504

Note:

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

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

6. PROFIT BEFORE TAXATION

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

	2021 RMB'000	2020 RMB'000
a) Finance costs		
Total interest expense on financial liabilities not at fair value through profit or loss:		
– Interest on bank loans	**10,983**	14,368
– Interest on lease liabilities	**799**	793
	11,782	15,161
b) Other items		
Amortisation of other intangible assets	**13,569**	13,569
Auditor's remuneration		
– audit service	**1,375**	1,424
– non-audit services	**191**	387
Costs of inventories recognised as expense:		
– Cost of inventories sold	**584,795**	465,229
– Write-down of inventories	**6,967**	33,562
Impairment losses on:		
– Trade receivables	**50**	962
– Other receivables	**–**	369
Research and development costs	**13,406**	13,257

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

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

	2021 RMB'000	2020 RMB'000
Hong Kong Profits Tax (note (ii))		
– Current year	**166**	390
– Over-provision in prior year	**–**	(90)
PRC Enterprise Income Tax ("**EIT**") (note (iii))		
– Current year	**21,216**	22,235
– Over-provision in prior years	**(1,306)**	(75)
Deferred tax		
– Origination and reversal of temporary differences	**(1,853)**	(2,458)
	18,223	20,002

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

ii) The provision for Hong Kong Profits Tax for 2021 is calculated at 16.5% (2020: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first HK$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2020.

The provision for Hong Kong Profits Tax for 2021 takes into account a reduction granted by the Hong Kong SAR Government of 100% of the tax payable for the year of assessment 2021/22 subject to a maximum reduction of HK$10,000 for each business (2020: a maximum reduction of HK$20,000 was granted for the year of assessment 2020/21).

iii) The PRC Enterprise Income Tax charge of the Group during the years ended 31 December 2021 and 2020 represented mainly the PRC Enterprise Income Tax charge from the Group's PRC subsidiaries, Shenzhen Kingworld Medicine Company Limited ("**SZ Kingworld**"), Shenzhen Dong Di Xin Technology Company Limited ("**Dong Di Xin**") and are based on a statutory rate of 25% (2020: 25%), except for Dong Di Xin, which is chargeable at a preferential income tax rate of 15% (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.

8. 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:

	2021 RMB'000	2020 RMB'000
Earnings		
Profit for the year attributable to owners of the Company	**30,319**	11,716
Earnings for the purpose of basic earnings per share	**30,319**	11,716

	2021 '000	2020 '000
Number of shares		
Weighted average number of ordinary shares in issue	**622,500**	622,500
Effect of shares repurchased and held under share award scheme	**(16,000)**	(8,091)
Weighted average number of ordinary shares for the purpose of basic earnings per share	**606,500**	614,409

b) Diluted earnings per share

Diluted earnings per share for the years ended 31 December 2021 and 2020 was the same as the basic earnings per share because of the exercise price of the share options granted was higher than the weighted average market price of the Company's shares during the years ended 31 December 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.

9. TRADE AND OTHER RECEIVABLES

	2021 RMB'000	2020 RMB'000
Trade receivables	**142,655**	179,215
Less: Allowance for lifetime expected credit losses (note (c))	**(6,185)**	(6,367)
	136,470	172,848
Bills receivables	**101,361**	73,343
Other receivables	**36,780**	46,154
Amounts due from related parties (note (e))	**286**	295
Amounts due from associates (note (e))	**5,197**	4,244
Amount due from a joint venture (note (e))	**2**	2
Loans and receivables	**280,096**	296,886
Prepayments	**18,276**	18,224
Trade and other deposits	**5,805**	5,395
Trade deposits to a related party	**30,329**	2,555
	334,506	323,060

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

b) **Ageing analysis**

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

	2021 RMB'000	2020 RMB'000
0-90 days	**134,256**	159,011
91-120 days	**1,691**	4,061
121-180 days	**245**	1,735
181-365 days	**278**	8,041
More than 1 year	**–**	–
	136,470	172,848

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

The Group does not hold any collateral over these balances.

c) **Impairment of trade receivables**

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

Movements in the allowance for lifetime expected credit losses during the year are as follows:

	2021	2020
	RMB'000	RMB'000
At 1 January	**6,367**	5,405
Impairment losses recognised during the year (note 6(b))	**50**	962
Bad debt written off during the year	**(232)**	–
At 31 December	**6,185**	6,367

As at 31 December 2021, allowance for lifetime expected credit losses on trade receivables amounting to RMB6,185,000 (2020: RMB6,367,000) were determined according to the expected credit loss rates.

d) As at 31 December 2021, the trade receivables amounted to RMB85,130,000 (2020: RMB123,629,000) were pledged for a short-term bank loan of the Group amounted to RMB45,000,000 (2020: RMB50,000,000).

e) The balances with related parties, an associate and a joint venture were unsecured, interest-free and repayable on demand. The directors of the Company considered that there has been no significant change in the credit risk of these related parties and default risk for the amounts due from them was considered to be low.

10. TRADE AND OTHER PAYABLES

	2021 RMB'000	2020 RMB'000
Trade and bills payables (note (b))	**106,098**	101,537
Accruals	**6,522**	6,763
Other payables	**32,252**	48,276
Amounts due to related parties (note (c))	**3,267**	22,243
Financial liabilities measured at amortised cost	**148,139**	178,819
Value-added tax payable	**4,351**	9,172
	152,490	187,991

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

b) Ageing analysis

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

	2021 RMB'000	2020 RMB'000
0-90 days	**105,924**	98,158
91-180 days	**174**	3,379
	106,098	101,537

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

c) The balances with a joint venture and related parties were unsecured, interest-free and repayable on demand.

11. DIVIDEND

The Board recommended the distribution of a final dividend of HK2.39 cents per share for the year ended 31 December 2021 (2020: HK0.65 cents), subject to the approval of the Shareholders at the forthcoming annual general meeting to be held on Friday, 27 May 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET AND INDUSTRY REVIEW

1. Favourable Chinese medicine policies may create a new dynamic in the future

Since the Pandemic, Chinese medicine, has become the global focus again. It is always a treasure of the Chinese nation, and the revival of Chinese medicine is also an important part of the revival of Chinese culture. The "14th Five-Year Plan" covers a lot about the Chinese medicine, in which especially an emphasis is placed on promoting the inheritance and innovation of Chinese medicine. Recently, favourable policies for Chinese medicine have been further imposed. On 30 December 2021, the National Healthcare Security Administration of China and the National Administration of Traditional Chinese Medicine have jointly issued the Guideline Opinions on Healthcare Promoting the Preservation, Innovation and Development of Traditional Chinese Medicine (《關於醫保支持中醫藥傳承創新發展的指導意見》) (the "**Guideline Opinions**"), which will enable Chinese medicine products to land in a broader market. With the gradual increase in China's disposable income per capita and medical and healthcare needs, the demand for "treatment" is gradually transformed into the demand for "prevention", and the Chinese medicine industry may embrace the period of profitability. According to statistics, the Chinese medicine healthcare market size has increased from approximately RMB1,029 billion in 2014 to approximately RMB3,024 billion in 2020, with a CAGR of 19.7%, and it is expected to increase to approximately RMB3,800 billion in 2021. On the basis of average annual growth rate of 15% to 20%, it is expected that the Chinese medicine healthcare market size will reach to over RMB7,500 billion in 2025.

The 2022 China's government working report (《政府工作報告》) clearly stated to support the development of Chinese medicine with transformation which gives the development of Chinese medicine a defined direction. Domestic experts believe that Chinese medicine may become a new dynamic in China in future. Chinese medicine is a unique health resource in China and an economic resource with huge potential. As long as we speed up our adaptation and seize opportunities, conscientiously implement new concepts and accelerate the cultivation of new drivers, promote the continuous strengthening and expansion of Chinese medicine healthcare industry, Chinese medicine will definitely become a new choice for people's health in the world.

The Group is an agent of various high-quality and well-established Chinese medicine brands, including the Nin Jiom (京都念慈菴川貝枇杷膏), the Taiko Seriogan (喇叭牌正露丸) and Fat Chi (佛慈), which are Chinese medicine pioneers for more than a century. Following the increase in market demand of Chinese medicine, the Chinese medicine market will be further strengthened and be favourable; or become a new growth for pharmacy's performance. Hence, the Group will be further benefited. In addition, in the worldwide battle against the Pandemic, the traditional Chinese medicine has demonstrated its unique strengths and roles, which have led to an increasing awareness of traditional Chinese medicine around the world. Since the outbreak of the Pandemic in Shenzhen at the beginning of 2022, Shenzhen has applied traditional Chinese medicine in the medical treatment of confirmed patients throughout the whole process to prevent serious illness, which has become a highlight of the prevention and control of the Pandemic in Shenzhen. Meanwhile, the Group's Pu Ji Kang Gan Granules (普濟抗感顆粒), which is an anti-cold remedy developed by renowned traditional Chinese medicine practitioners in Shenzhen based on an ancient formula and using modern pharmaceutical technology, has been donated and sold in large quantities during the fifth wave of the Pandemic in Hong Kong in 2022 to help Hong Kong people prevent and fight against the Pandemic.

2. Aging population and decrease in birth rate form a double-edged sword

In May 2021, the National Bureau of Statistics released the key data for the seventh national census. The latest information on China's population aging is set out as: the population aged 60 and above in 2021 was 264.02 million, accounting for 18.7% of the total population, representing an increase of 5.4% as compared to that of 2020. The population aged 15-59 was 894.38 million, accounting for 63.4% of the total population. The total population of adolescents and adults decreased by 6.8%. Such decrease intensified the structure of aging population.

The aging population will intensify the demand for medicinal and medical products in the chronic disease market. The residents' awareness and willingness to pay for healthcare will also increase. In terms of prevention, healthcare and health preservation, Chinese medicine has significant advantages in the treatment of chronic multifactorial diseases. With this feature, the demand for Chinese medicine has expanded from "treatment" to "prevention and healthcare", which further drives the increasing demand in Chinese medicine market. Many of the Group's traditional Chinese medicine products are essential medicines for families, and it has entered the chronic disease market and approached the aging population market in advance, covering respiratory diseases, gastrointestinal diseases, hypertension, traumatic injuries, household medical devices and other related fields.

On the other hand, China and various provinces have introduced the three-child policy. On 31 May 2021, the Politburo of the Chinese Communist Party (中共中央政治局) held a meeting and approved the Decision on Optimizing the Fertility Policy and Promoting the Long-term and Balanced Development of the Population (《關於優化生育政策促進人口長期均衡發展的決定》), 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)《中共中央、國務院關於優化生育政策促進人口長期均衡發展的決定》) 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 (《國家醫療保障局辦公室關於做好支持三孩政策生育保險工作的通知》) was also promulgated. On 20 August 2021, the Standing Committee of the National People's Congress voted and passed the decision on revising the Population and Family Planning Law. The revised Population and Family Planning Law requires that the State advocates age-appropriate marriage and childbirth, prenatal and postnatal care and three-child policy, so that one couple may have up to three children.

Nevertheless, according to data released by the National Bureau of Statistics in January 2022, the annual fertility of China in 2021 was 10.62 million, representing a fertility rate of 7.5‰, which became the lowest fertility rate since the founding of the People's Republic of China. In 2021, the total number of deaths was 10.14 million, and the net increase in 2021 was only 480,000 while the natural population growth rate was only 0.3%.

The Group has followed the national policy of promoting fertility. We have exclusive patented product for preventing and treating infertility in Hong Kong. In terms of newborns, we have obtained the authorization of Life DHA, the market pioneer of algae oil, and will introduce high-quality OEM fish oil products into the market.

3. **Improvement of rural economy and common prosperity**

The goal of poverty alleviation in the new era of China in 2021 has been accomplished as scheduled. Under the current standard, all the rural people have been lifted out of poverty and all impoverished counties removed the label of poverty with no absolute poverty and overall regional poverty. Since the establishment of a well-off society, the Communist Party of China has made major strategic deployment for facilitating common prosperity with the State to promote common prosperity as our significant achievements and historical experience of Communist Party of China over past century. In order to achieve common prosperity and fully enforce village revitalization, promoting common prosperity for farmers and rural areas has become an indispensable part. It is necessary to revitalize rural areas for the sake of common prosperity for our people.

According to statistics from International Monetary Fund, China's GDP per capita in 2020 has reached USD10,500. Based on the segmentation criteria of World Bank, China has become an upper middle-income country with GDP per capita in some cities reaching the level of high-income country. The disposable income per capita and consumption expenditure per capita of Chinese residents have rapidly boosted. The result of the seventh National Population Census showed that, the rural population was 509,790,000 representing 36.1% of the total population. During the Year Under Review, the Group has adhered strictly the policies of revitalizing rural areas, deeply cultivated county-level markets and healthcare consumption potential of the rural areas, which achieved favourable results.

4. **Economy rebound in the pharmaceutical industry after the Pandemic relief**

A data analysis reviewed that China's pharmaceutical economy in 2021 has shown a large rebound after the Pandemic relief in 2020. The statistics from the National Bureau of Statistics of China indicated that the operating income of pharmaceutical industry in China was approximately RMB2,353 billion, representing a year-on-year increase of 22.8%. The year-on-year increase in total profit of pharmaceutical manufacturing industry reached 76.7%. However, the major drivers of the substantial increase was caused by the slump in hospital sales affected by the pandemic in 2020. After the normalization of pandemic control, chemical reagents, Chinese medicines and biopharmaceutical products all showed a significant rebound. Generally, the pharmaceutical economy in 2021 continued its recovery with a stable and steady growth.

The year of 2021 was a starting year of the "14th Five-Year Plan" in China. Along with the post-Pandemic era, China's pharmaceutical industry has been accelerating its transformation. Since the implementation of a new round of the medical and healthcare reform, China's basic medical and healthcare system has been improved in a quicker manner, and the fairness and accessibilities of basic medical and healthcare services improved continuously. Major missions of medical reform include bulk procurement, payment reform of medical insurance, hierarchical treatment, basic medicine list, etc. Since the advanced developments of the Internet + Medical industry, online drug sales have been getting more common, implementation of regulatory policies for online sales of prescription drugs, restrictions on online prescription drugs gradually moderated, these can provide convenience for the public to purchase medicine.

According to the statistics, as of 2020, the global industry size of consumer healthcare products has reached USD273.2 billion. From 2015 to 2020, the market size of healthcare products in China had been gradually growing, which reached RMB250.3 billion in 2020. The industry growth level continued a positive movement. In general, although China has become the second largest healthcare product market in the world, while maintaining and still an increasing trend, the penetration rate of China's healthcare product market still needed further enhancement for wider market growth.

The foregoing provided a good environment in policies for the development of the Group. It is believed that the Group can take those advantages for our development.

BUSINESS REVIEW

During the Year Under Review, under the influence of many uncertain factors, including repeated Pandemics, escalating Sino-US trade frictions, restricted volume procurement, weak consumption, the Group has made concerted efforts to cope with the once-in-a-century situation. The Group continuously explored for innovation, optimized channels, developed connections with consumers in both new online and offline retail models, actively embraced and participated in new ways of social media marketing, grasped the opportunities and challenges brought by change of consumption habits and development trends, and achieved significant recovery and growth.

1. Highlights of pharmaceutical products segment

Pharmaceutical products distribution has been one of the key businesses of the Group for many years, including various well-known brands, such as Nin Jiom product series, the Taiko Seriogan, Kingworld Imada Red Flower Oil, and Enalapril Maleate and Folic Acid Tablets ("**Enalapril**"), which have achieved a greater growth for the Year Under Review. Despite the fluctuations during the course of the Pandemic, and restrictions imposed on cough and fever drugs in certain areas during the fight against the Pandemic, the Group's Nin Jiom Pei Pa Koa still achieved a year-on-year increase of 85% while Nim Jiom Pei Pa Candies achieved a year-on-year increase of 14%. The Taiko Seirogan recorded a year-on-year decrease of 4%. Kingworld Imada Red Flower Oil achieved a year-on-year increase of 29%. During the Year Under Review, the Group has adopted the following principal marketing strategies for the pharmaceutical product distribution:

(i) Optimizing channel network setting and structure adjustment

Under the guideline of Market Sales Traceability Management System (SMART) statistics, the Group implemented the policy of "one-product, one-city and one-strategy". The Group firmly cultivated the existing sectors and developed potential markets in counties, expanded our end-point cooperative customer base, enhanced product penetration rate, focused on strengthening the cooperation and adherence with the chain pharmacies and developed partnerships with primary medical institutions in a timely manner. Up to the date of this announcement, the Group has reached partnerships with more than 2,900 chain store headquarters, covering 88,886 chain pharmacies, representing a year-on-year increase of 10.0% compared to last year; 92,826 individual pharmacies, representing a year-on-year increase of 13.0%; and reached partnership with 29,090 primary medical institutions, representing a year-on-year increase of 31.0% compared to last year.

(ii) The Group focused on product brand marketing, enhanced product awareness and reputation

During the Year Under Review, Nin Jiom, with the Group as the distributor, has sponsored Zhejiang TV's "Masked Dancer" (《蒙面舞王》) and placed advertisements on iQIYI for popular drama series or variety shows, such as "Vacation of Love" (《假日暖洋洋》) and "Luoyang" (《風起洛陽》), both are annual dramas, and "The Hero" (《最後的贏家》), a variety show, and "See You Again" (《再次見到你》) by Hunan Mango TV; Kingworld Imada Red Flower Oil broadcasts in 13 series of marine environmental weather forecasts on CCTV all year, and placed advertisements in Lines 3 and 5 of Shenzhen Metro, and on traffic channels and outdoor; the Taiko Seriogan puts billboard advertisements in places with large sales and traffics all year.

In order to keep up the engagement habits of the new consumers from post-85s, post-90s and post-00s age groups in online media, we cultivated new consumers' awareness of our products. The Group has also paid attention to the brand marketing of various products on we-media, social media and the Internet in recent years. We opened brand-specific accounts in social media and the Internet, such as the Taiko Seriogan, Kingworld Imada Red Flower Oil, Enalapril in Xiaohongshu, Zhihu Q&A, Baidu Q&A and 120ask etc., which promoted our products' features and application scenarios. They became popular amongst consumers and earned repost and sharing, which expanded consumers' recognition of our products and enhanced sales.

(iii) Strengthen experiential marketing and public welfare seminars

The Group has strengthened experiential marketing and public welfare seminars on health awareness, as well as the emotional communication with consumers. We have continuously created opportunities for consumers to participate in product experiences, personally perceive product efficacy, and spread our enthusiasm of the Group and our product brands. During the Year Under Review, the Group has joint organized various consumer-related events with pharmacies under the themes of traditional festivals, which were warmly welcomed by the communities, pharmacies and consumers. For example, "Dragon Boat Festival Dumplings", "Fathers' Day" and "Love in the Mid-Autumn Festival" held by the Group in pharmacies have attracted consumers' active participation. The Group has organized hundreds of "It's Time for Summer" events and dozens of "Lung Health" carnivals in plenty of cities in China with our agent products, to advocate health awareness in summer to consumers and relieve their pain in summer, which earned a lot of praises from consumers and gained a good reputation with favorable product sales. With the product efficacy, Kingworld Imada Red Flower Oil of the Group has sponsored the Luohu Spring Run and the Citizen's Long-distance Running Day. The product relieved the fatigue of athletes and strengthened the resonance of consumers. It was popular among runners. It has formed a good reputation in runner groups. The Group has organized dozens of public welfare test and seminars on H-type hypertension throughout the country with Enalapril to provide free tests, to popularize the knowledge of hypertension health and medication for consumers, which gradually increased the public awareness of hypertension and the recognition of our product brand in OTC channels, and we strived to allow more H-type hypertension patients to reduce the incidence rate of stroke.

(iv) Online and offline integration, mutual facilitation and common development

During the Year Under Review, the Group has jointly launched online and offline promotional activities with pharmacies, such as exhibition campaigns, training activities etc., and utilized new media, such as WeChat Moments, Tik Tok and other new media to conduct promotion and evaluation, so as to guide pharmacies and brands and consolidate our partnership with pharmacies. In addition, the Group continued to consolidate the expansion of pharmaceutical e-commerce channels, focusing on self-operated platforms with high traffics in JD.com and Alibaba, supplemented by vertical pharmaceutical platforms such as Jianke, Yuanxin Miaoshou and Yiyao.com, to provide product sales and also health knowledge service that satisfy consumers' different needs with convenient services. This could enhance our penetration of the whole channel. During the Year Under Review, the pharmaceutical e-commerce obtained a year-on-year double digit growth.

(v) Honours received by pharmaceutical products segment

During the Year Under Review, the pharmaceutical products segment of the Group received the following honours:

- Nin Jiom shortlisted for the 38th place in the Top 100 Pharmaceutical Companies in China; shortlisted for the top 22 of 2020-2021 Healthcare Industry and Brand Development Index TOP Brands and Pharmaceutical Brand Value of China Health Ecology Organization; and

- Kingworld Imada Red Flower Oil was awarded "Shenzhen Souvenir" in the "Shenzhen Souvenirs" Activity Award Ceremony and Selected List Conference, which was guided by the Shenzhen Administration For Market Regulation and initiated by the Shenzhen Consumer Council. The activity has attracted 1.24 million consumers joining the online voting. The shortlisted products represent the local quality and brand of Shenzhen.

2. Highlights of healthcare products and beauty segment

As people pay more attention to the concept of health preservation and the prevention and treatment of diseases, healthcare products have become an important part of health products. In addition to medicines, the Group also distributes well-known healthcare products sourced from all over the world, including: Culturelle (康萃樂) probiotic product series, which is a leading brand in the probiotics product market in the United States; CARMEX lipstick series, which sells 170 sticks per minute on average in the United States; and Lifeline Care maternal and infant fish oil nutrient product series from Norway. During the Year Under Review, the sales of Culturelle was seriously affected by the Pandemic in Hong Kong and sales recorded a negative growth year-on-year, but Culturelle was still the leading product among similar products in the market and the Group introduced new products into the market in Hong Kong, such as Culturelle probiotic products for women.

The domestic fertility rate in China continued to decline and the number of newborns was gradually decreasing, and the market competition in the maternal and infant consumer segment became even more fierce. In addition, due to reasons such as market order and price disturbance of market price of Lifeline Care products, the sales of Lifeline Care maternal and infant fish oil nutrient product series was adversely affected and recorded a sales decrease. On the other hand, CARMEX lipstick series recorded a positive growth year-on-year. The key strategies for healthcare products and beauty segment are as follows:

(i) Deepening the existing pipelines and developing new pipelines

During the Pandemic, the Group overcame difficulties and deeply cultivated offline pipelines such as Watsons, Mannings, CRcare and CS, and consolidated online key platforms, such as Tmall, JD.com, Kaola and Nicomama. We have covered targeted consumer groups in whole channels and attempted various consumer welfare activities to significantly enhance the conversion rate with improved brand reputation and sales through spread of words amongst consumers, which achieved favourable results.

(ii) Developing new products and increasing product specifications

In view of the lively brand image of CARMEX lipsticks, we have added several limited editions of new image products that are popular among young people, such as mermaids and unicorns, on the basis of our original product specifications, and different strategies have been adopted for different channels. For example, six-layered giftbox was exclusively launched in Sam's Club. The sales volume increased by 50% as compared to that of 2020 after launching. In addition, CARMEX continued to conduct live broadcasts, and has added a direct supply and cooperation channel, CARMEX Tik Tok flagship store. The Group approached Life's DNA, the pioneer of algal oil, and obtained the right to operate its flagship store. DHA, commonly known as 'brain gold', is a major component of the growth and maintenance of cells in the nervous system. It is an important component of the brain and retina, accounting for 97% and 93% of all Omega-3 fatty acids contained in the brain and retina, respectively. The activity of the synaptic nerve makes the thinking more agile while beneficial to optimal function. Currently, algae oil has gradually replaced fish oil as the new favorite in the market. Life's DHA is known as the algal oil of early algae and has a huge brand influence. This product is expected to become another healthcare product giant of the Group.

(iii) Rapid development of short videos and live broadcasts for subdivided groups

In order to satisfy the needs of subdivided groups, the Group has taken advantage of the rapid development of short videos and live broadcasts to strengthen pipeline layout and cooperation. During the Year Under Review, the Group established a live broadcast team to carry out live broadcast activities in major online stores of the Company. In addition, the Group also strengthened co-operations with leading Internet celebrities, for example that CARMEX lipsticks has cooperated with Wei Ya, the live broadcast queen, and Tik Tok team from Luo Yonghao, which achieved a remarkable result. Lifeline Care Milk Calcium has launched a co-operation with Xinxuan team, and the live broadcast has reached a record high in streaming, which drove the upward growth trend of the milk calcium category.

(iv) Establishing a cross-border flagship store that meets multiple needs of consumers

The new Internet model is innovative and further integrated with medical and pharmaceutical industry, especially under the influence of the Pandemic for the recent year. Consumption habits have been changing, and new models such as online consultation, online prescription and door-to-door drug delivery have been accepted by more patients. The national policies regarding pharmaceutical e-commerce and their cross-border pharmaceutical e-commerce pilot have been further expanded. The Group is consumer-oriented and cooperates with partners to gradually build a complete upstream and downstream supply chain system for pharmaceutical and healthcare industry. With the Group’s outstanding capability in introduction, the Group combined overseas high-quality pharmaceutical brands and products and satisfied consumers’ needs for overseas high-quality OTC household drugs and healthcare products through online cross-border sales. During the Year Under Review, the Group has built B2C e-commerce retail stores and formed thirteen stores in six platforms: 3 stores on Tmall, JD.com and Pinduoduo, 2 stores on Youzan, 1 store on Kaola and Kuaishou. Home of Kingworld Health, our overseas flagship store, is one of the first batch of pharmaceutical flagship stores authorized by Tmall International, the first national cross-border pharmaceutical e-commerce pilot platform. The Tmall flagship store opened for trial operation in March 2021. The first batch of cross-border pharmaceutical products included dozens of well-known Hong Kong medicines, such as Nim Jiom, Wong To Yick, KAWAI, Weisen-U, Eu Yan Sang, etc. The cross-border pharmaceutical OTC store of JD.com was also launched on 1 September 2021. Currently, there are 36 brands and 89 SKUs on Home of Kingworld Health.

(v) Honours received by healthcare products segment

During the Year Under Review, the healthcare products segment of the Group received the following honours:

- Culturelle probiotics was awarded the Hong Kong Pharmacy’s Most Popular Brand Award 2019-2021 by Hong Kong General Chamber of Pharmacy.

3. Highlight of the medical devices segment

With the everlasting goal of "relieving human pain" and the co-operation concept of "integrity, collaboration, service and health", Dong Di Xin, a non wholly-owned subsidiary of the Company, is determined to become the world's leading supplier of physical rehabilitation equipment. With excellent product quality, good after-sale service and premiere product quality certification system, Dong Di Xin's products were exported to many countries and regions around the world and were highly recognized by many customers. During the Year Under Review, the Group's medical devices segment performed well and received lots of recognitions from the market and authorities.

(i) Improve the corporate's market competitiveness

In 2021, the Pandemic continued to spread around the world. All production lines of Dong Di Xin were fully utilized to produce infrared thermometers. In order to improve the corporate's market competitiveness and meet the needs of sustainable development of Dong Di Xin, we established a precision processing centre and introduced CNC to improve the processing capability. Dong Di Xin continued to facilitate the semi-automation of our production lines, stably enhance our productivity, while establishing our self-branded sales foundation and mechanism to optimize our brand strategic planning, so as to lay a solid foundation for the rapid development of professional desktop pain relieving devices in future.

(ii) Product upgrade and new development

During the Year Under Review, the Dong Di Xin's research and development ("R&D") team of the medical device segment of the Group continued their innovation and made great progress in product upgrades and new product development. Meanwhile, high-caliber graduates from well-known engineering institutes were recruited to enrich our R&D team, to co-develop new products for physical therapy.

(iii) Balanced development in product and market enhancement

During the Year Under Review, various types of products in the medical devices segment of the Group have gradually developed in a balanced manner. Handheld therapeutic devices and professional therapeutic devices focusing on promotion of profitable products, have experienced a significant year-on-year growth. The Group worked hard to overcome various difficulties arising from the Pandemic and actively participated in German Equipment Exhibition, which led to a further increase in our market share in Europe that was planned to focus on expansion, and achieved balanced development of several key markets in America, Europe and Asia Pacific Region. During the Year Under Review, Dong Di Xin also achieved the strategic partnership with an US international well-known sport rehabilitation producer, to provide original design manufacturer (ODM) service of professional therapeutic devices. The partnership will definitely further enhance the recognition and reputation of Dong Di Xin.

(iv) Intensified the promotion of our own brand "NU-TEK"

In 2021, the Group seized the opportunity of favorable policies in the domestic rehabilitation industry, intensified the promotion of our own brand "NU-TEK", actively participated in various industry academic conferences and expanded pipeline customers of medical institutions. As of 31 December 2021, the medical device products of the Group cover 20 provinces and cities across the country, and successfully entered over 80 Class A hospitals and numerous outpatient and rehabilitation physiotherapy institutions in China through bidding process.

MANAGEMENT REVIEW

1. Introduce the 5th Five-Year Plan and determine business integration strategy

During the Year Under Review, the Group has co-operated with Guoxin Southern Intellectual Property Research Institute to initiate the preparation of strategic development plans for the next five years. For more than half of a year, through combining our efforts of all the management of the Group and external firms, the 5th Five-Year Development Strategy Plan (the "**5th Five-Year Plan**") has been determined finally as scheduled and it clarified the future orientation and objectives for development. It will be a development stage for connection for the next five years to summarize the achievements and experience of the first four five-year plans and plan for a solid foundation for realizing the goals for next 50 years.

In this strategic 5th Five-Year Plan, based on the thought of the development orientation and goals for the next 50 years, the Group has further improved our strategic thinking capability of the Group's leaders and senior management team, mastered the dynamic strategic analysis and formulation approaches and established a strategy that can guide our long-term development with missions and visions while establishing a dynamic strategic management mechanism. Under the guidance of our relatively stable missions and visions, by dynamic strategic analysis, formulation, decision-making and feedback and control mechanism to cope with internal and external changes, it can guide the Group to achieve stability and long-term success amidst the complex and volatile conditions.

2. Fight against the Pandemic and build a community of life

Under the corporate mission of "Serving community and benefiting the world (效力世人，潤澤蒼生)", the Group continued to be enthusiastic about public welfare undertakings with Kingworld Healthcare Foundation and fulfill its social responsibilities. During the Year Under Review, the donation was mainly for fighting against the Pandemic, caring and helping, environmental protection, poverty alleviation and disaster relief. For example:

(i) The Group donated the Kingworld disposable medical masks for supporting overseas organizations, domestic frontline physicians and Dunhuang Desert Concert. We have received the honorable certificate from Cambodia-Chinese Buddhist Association and the gratitude letters from organizations like Reception Office of Shenzhen Municipality.

(ii) The Group cared for special groups such as the elderly in Hong Kong, veterans in Shenzhen, families in needs of military forces, flood sufferers in Henan, students from vocational education institutes and people in need in Tibet, donating supplies of anti-epidemic medicines and necessities for families. During the Year Under Review, the Group's moves for poverty alleviation have been included in the stories of book about Combating Poverty of the New Era published by Times Merchant.

(iii) During the Year Under Review, as a director of the Greater China Council of the Nature Conservancy and a member of the First Council of the Peach Blossom Spring Ecological Protection Foundation, the Group continued to participate in environmental protection campaigns together with many well-known enterprises to build our beautiful nature and protect our landscapes, such as the projects of Taohuayuan – Jiangshan Xueling in Xunzhou, Zhejiang and "TNC 99 Charity Days – Protect Beautiful Prairie In Your Heart".

(iv) Besides, Shenzhen Kingworld Medicine Company Limited, a subsidiary of the Company, was listed in the 2020 Shenzhen Charity Donation List, ranking the 29th place, and Shenzhen Kingworld Care and Health Foundation of the Group was also on the Rank List of Donation from Social Organizations, ranking the 85th place.

3. Share award incentive for cohesion and improve team morale

During the Year Under Review, the Pandemic continued, which had certain adverse impacts on business operation and casualties. The Group worked together to overcome the negative factors arising from the Pandemic and made sales recovery and development throughout the year while achieving the objectives and distribution conditions required by the share award scheme of the Group. On 21 January 2022, the Board resolved to grant shares awards under the share award scheme. The Group granted a total of 1,556,000 awarded shares to 73 selected participants at nil consideration.

The share award under the share award scheme was an equity incentive granted by the Group to team leaders and excellent employees who have made outstanding contribution to achieving the Group's assessment objectives in 2021, including 73 participants ranged from executive directors to product assistants, including different functional departments of the Group, sales department and the marketing department. The share award scheme has indicated the Group's market confidence in the new high-quality development of the Group in 2022. Meanwhile, the cohesion of talents will enhance our core competitiveness of the Group, encourage key employees to continue their growth with the Group, establish a good atmosphere of employees' hard work and positive progress, and attract outstanding talents for fostering the development of the Group and building up a solid foundation for the 5th Five-Year Plan.

4. Empowering investments with double drivers of internal extension and external expansion

During the Year Under Review, the Group's main business resumed sales and achieved a substantial improvement compared to that of same period last year. In terms of external expansion, it has given full play to the comprehensive capabilities of listed company and reached a favorable result. The Group has completed the transfer of equity of Fat Chi Medicine Company Limited, a joint venture with Lanzhou Foci. In March 2021, the Group has established a Hong Kong joint venture to officially operate Foci series products in markets of Hong Kong and Macau, consolidating the marketing networks, which will continue to contribute sales and profits to the Group. During the Year Under Review, Foci series products achieved good sales growth as compared to that of the same period last year.

During the Year Under Review, the Group has invested in IGBT BYD Semiconductor Co., Ltd. through China Innovation South No.3 Fund. As of the date of this announcement, BYD Semiconductor Co., Ltd. has successfully completed its initial offering according to the 5th meeting notice in 2022 of the listing committee of the ChiNext of the Shenzhen Stock Exchange. According to the forecast, it is expected the project will be listed in 2022 and contribute significant investment return for the Group.

During the Year Under Review, Kingworld Medicines Group Limited and Kingworld Medicine Healthcare Limited of the Group have relocated to the self-owned property located at Unit 13, 6th Floor, Goodluck Industrial Centre, 808 Lai Chi Kok Road, Kowloon, Hong Kong.

5. **Longde Health Industrial Park has significant advantages in terms of location and has received positive feedback from investment institutions**

In the regional development strategy of "one root, two cores and multiple branches" in Longgang District, Shenzhen, Baolong Science and Technology Town, Eastern High-speed Railway New City and International Low-carbon City jointly formed Longgang "East Core". Baolong Science and Technology Town is a national independent innovation demonstration area in Shenzhen. It is an important part of Shenzhen's national high-tech zone, an important point of the Guangzhou-Shenzhen-Hong Kong-Macao Science and Technology Innovation Corridor, and the biopharmaceutical innovation and development pilot area in Baolong Science and Technology Town. It is an important gateway to the East and Northeast Guangdong Radiation, and the Eastern High-speed Rail New City is a city-level strategic point. The important industrial area and a superior geographical location make Baolong Street the top spot in Longgang. Since its establishment in 2016, Baolong Street has been in the forefront of the whole district in terms of GDP, and the economic growth has always maintained in a high pace. It ranked the first in terms of GDP growth in 2020. Longde Health Industrial Park, which the Group is constructing in Longgang, Shenzhen, is located on Baolong Street, only one kilometre away from Pingshan High-speed Railway Station and within the two planned areas of Baolong Science and Technology Town and Eastern High-speed Railway New City. In future, it will form a mutual replenishment within the industry with them to share public resources, which has a significant location advantage.

During the Year Under Review, the foundation construction of Longde Health Industrial Park has been completed, and the on-ground construction is progressing as scheduled. According to the plan, the park covers a total project land area of 10,000 square meters and a total planned construction area of 58,336 square meters. The Park is planned to construct with four core sectors, including the research and development centre of the Group, Shenzhen Health Industry Technology Innovation Centre, a domestic development centre will be built for the Shenzhen-Hong Kong Loop Chinese Medicine Technology Innovation Park within the Park and a national logistics and distribution centre of the Group. 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. During the Year Under Review, several biopharmaceutical producers and research units carried out discussions with the Group regarding the admission intention of the Park, which showed interests in the future development of the Longde Health Industrial Park.

6. **Improve digital construction and increase digital economic outputs**

During the Year Under Review, in line with the development trend of the digital economy, the Group continued to deepen its informatization construction. The Smart system has been used for sales management and newly-added marketing management, which can collect data from procurement, sales, storage, local consumption and sourcing for management, which reaches hundreds of thousands downstream partners. On this basis, the Group continued to strengthen the construction of the basic data system, focused on user connection and linkage issues and connected data of people, goods and sales points. The Group carried out effective marketing, achieved precise sales, improve user experience and partner satisfaction, etc. Meanwhile, it has achieved precision in the launch of marketing activities, improved return on investment and continued to help business boost.

7. Strengthen internal management and improve operational quality

During the Year Under Review, in line with the principle of "reducing costs and improving efficiency", the Group conducted a comprehensive review of all internal systems and processes, further clarified the responsibilities of various departments and positions, simplified procedures, and optimized management, especially for cross-process procedures. We have established a work manual, which describes the work specifications, requirements and time slots that reduce the prevarication of cross-process work and improve work efficiency.

The Group truly understands that all employees must keep learning in order to improve their comprehensive capabilities and cope with uncertain changes. Therefore, during the Year Under Review, the Group has fully utilized modern information tools to organize online and offline multi-sector trainings. Meanwhile, the Group focused on the replenishment and cultivation of reserve talents, and has continued to innovate and operate schools with Guangdong Food and Drug Vocational Institute for ten years. The graduates play an effective reserve role for the grass-rooted employees of the Group. Currently, some of the outstanding talents have been working along with the growth of the Group and have become mid-level managers.

8. Continue to strengthen product introduction and enrich product range

Excellent products are the drivers for the Group's sustainable development. Therefore, the Group has always attached great importance to developing new products and enriching our product portfolio. During the Year Under Review, the Group introduced Sodium Hyaluronate Eye Drops of Rohto, Mentholatum, which is a new product of Rohto brand in 2021. It does not contain preservatives, and its composition is close to that of natural tears with four core advantages. Currently, it has been launched in 6 chain pharmacies group. During the Year Under Review, the subsidiary of the Group in Hong Kong has added new products, such as Culturelle probiotic product for women.

During the Year Under Review, the Group is in the process of acquiring Innopharma S.A. of France ("**Innopharma**"), which was founded in 1983 by Dr. Norrie, a French medical doctor, and is dedicated to the research and development of new drugs and clinical efficacy studies and clinical trials, with its core business being research and development and clinical trials in the fields of pharmaceuticals and healthcare. Building on leading biotechnology and pharmaceutical strengths in Europe, Innopharma will use the best quality ingredients from around the world, together with the latest scientific research, to develop innovative healthcare products to help consumers around the world improve their health. During the Year Under Review, trademarks recognised by the Group and Innopharma were registered in three European countries.

HONOURS

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

- In February 2021, the "Kingworld" trademark was incorporated in the "2020 Guangdong Province Key Trademark Protection List";

- In March 2021, 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, 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, the Group was awarded the Green Channel Enterprise of Nanshan District;

- In September 2021, in "2020 Shenzhen Charitable Donation Ranking" issued by the Shenzhen Municipality Bureau, Shenzhen Kingworld Medicine Company Limited ranked 29th in the donation enterprise ranking with RMB4.407 million. Meanwhile, Kingworld Health Care Foundation ranked 85th in the social organization donation ranking with RMB6.735 million;

- In September 2021, Mr. Zhao Li Sheng, the Chairman, was invited to participate in the 72nd anniversary event of the establishment of the People's Republic of China organized by the State Council and multi-ministerial organizations of the State;

- In October 2021, Mr. Zhao Kin Wai, Assistant of the Chairman, was selected as the member of the CPPCC Nanshan District, Shenzhen;

- In October 2021, Mr. Zhao Li Sheng was successfully selected into the fourth "Shenzhen Top 100 Industry Leaders" list for his outstanding contributions in the field of imported Chinese patent medicines;

- In December 2021, Mr. Zhao Li Sheng was again awarded the "Outstanding Contribution Award" by Shenzhen Association of Industry, Education and Research Cooperation; and

- In December 2021, Mr. Zhao Kin Wai, Assistant of the Chairman, and Ms. Zhao Wai Yan were both shortlisted for the Top 10 Outstanding Young People of Shenzhen. The event was jointly organised by the Shenzhen Municipal Committee of the Communist Youth League, in collaboration with the Shenzhen Talent Work Bureau, Shenzhen Internet Information Office, Shenzhen Industry and Information Technology Bureau, Shenzhen Local Financial Supervision Bureau, Guangdong Channel of Xinhua Net, Southern Newspaper Media Group, Shenzhen Newspaper Group, Shenzhen Radio, Film and Television Group and Shenzhen Youth Federation. Only a few hundred candidates were shortlisted in the whole of Shenzhen after a process of multiple rounds of selection and qualification.

FINANCIAL REVIEW

1. Revenue

Revenue of the Group for the Year Under Review was approximately RMB847,386,000, representing an increase of approximately RMB102,003,000 or 13.7% from approximately RMB745,383,000 for the year ended 31 December 2020. The increase was mainly a result of the increase in revenue from the sales of Nin Jiom Chuan Bei Pei Pa Koa. The increase was mainly due to the gradual recovery of market demand due to the infection control and better understanding of the Pandemic during the Year Under Review as compared to the year ended 31 December 2020. Such increase was partially off-set by the decrease in sales of medical devices, including infrared thermometer, manufactured by Dong Di Xin. These Pandemic preventive products were in great demand during the year ended 31 December 2020.

2. Cost of sales and gross profit

For the Year Under Review, cost of sales for the Group amounted to approximately RMB583,788,000, representing an increase of approximately RMB118,559,000 or 25.5% from approximately RMB465,229,000 for the year ended 31 December 2020. The increase in cost of sales was in line with the increase in sales volume. Gross profit for the Year Under Review was approximately RMB263,598,000 representing a decrease of approximately RMB16,556,000 or 5.9% from approximately RMB280,154,000 for the year ended 31 December 2020. Gross profit margin decreased from 37.6% for the year ended 31 December 2020 to 31.1% for the year ended 31 December 2021. Such decrease is a result of the decrease in proportion of revenue from products with relatively higher gross profit margin to total revenue, in particular the medical device products from Dong Di Xin, during the Year Under Review.

3. Other revenue, income and other net loss

Other revenue, income and other net loss mainly included exchange difference, promotional service income, rental income, government grant, interest income and dividend income. For the Year Under Review, other revenue, income and other net loss amounted to approximately RMB17,604,000, representing a decrease of approximately RMB37,900,000 or 68.3% from approximately RMB55,504,000 for the year ended 31 December 2020. The decrease was mainly due to the decrease in promotional service income and the dividend income from financial assets at fair value through other comprehensive income and through profit or loss.

4. Selling and distribution costs

For the Year Under Review, selling and distribution costs amounted to approximately RMB99,514,000, representing a decrease of approximately RMB33,436,000 or 25.1% from approximately RMB132,950,000 for the year ended 31 December 2020. This decrease was primarily attributable to the decrease in provision for obsolete inventories, advertising and promotional expenses and bonus, while partially offset by the increase in storage fee and travelling expense.

5. **Administrative expenses**

For the Year Under Review, administrative expenses amounted to approximately RMB96,644,000, representing a decrease of approximately RMB15,915,000 or 14.1% from approximately RMB112,559,000 for the year ended 31 December 2020. This decrease was mainly due to the decrease in bonus.

6. **Profit from operations**

For the Year Under Review, profit from operations for the Group amounted to approximately RMB72,225,000, representing a decrease of approximately RMB1,424,000 or 1.9% from approximately RMB73,649,000 for the year ended 31 December 2020. The decrease in profit from operations was mainly due to the decrease in gross profit and other revenue, income and other net loss for the Year Under Review.

7. **Finance costs**

For the Year Under Review, finance costs amounted to approximately RMB11,782,000, representing a decrease of approximately RMB3,379,000 or 22.3% from approximately RMB15,161,000 for the year ended 31 December 2020. The decrease was mainly due to the decrease in interest charged on bank loans as a result of a decrease in average bank loans and interest rate of lending.

8. **Profit before taxation**

For the Year Under Review, profit before taxation for the Group amounted to approximately RMB69,434,000, representing a decrease of approximately RMB1,457,000 or 2.1% from approximately RMB70,891,000 for the year ended 31 December 2020. The decrease in profit before taxation was mainly due to the decrease in profit from operations of approximately RMB3,769,000.

9. **Income tax**

For the Year Under Review, income tax expenses for the Group amounted to approximately RMB18,223,000, representing a decrease of approximately RMB1,779,000 or 8.9% from approximately RMB20,002,000 for the year ended 31 December 2020. The effective tax rate for the Year Under Review was 26.2%, compared to 28.2% for the year ended 31 December 2020. The details are set out in Note 7 to the consolidated financial statements in this announcement.

10. **Profit for the year**

As a result of the foregoing, we recorded a net profit for the Year Under Review of approximately RMB51,211,000, representing an increase of approximately RMB322,000 or 0.6% when compared to approximately RMB50,889,000 for the year ended 31 December 2020.

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

For the Year Under Review, profit for the year attributable to owners of the Company amounted to approximately RMB30,319,000, representing an increase of approximately RMB18,603,000 or 158.8% from approximately RMB11,716,000 for the year ended 31 December 2020. The increase in profit for the year attributable to owners of the Company was mainly due to an increase in the revenue and gross profit from distribution of imported branded pharmaceutical and healthcare products in China for the Year Under Review as compared to last year as a result of the market recovery from the outbreak of the Pandemic.

ANALYSIS OF MAJOR BALANCE SHEET ITEMS

1. Trade and other receivables

Trade receivables of the Group include credit sales to the Group's distributors. Other receivables of the Group include prepayments, deposits and other receivables. Trade and other receivables of the Group as at 31 December 2021 amounted to approximately RMB334,506,000, representing an increase of approximately RMB11,446,000 or 3.5% from approximately RMB323,060,000 as at 31 December 2020. The increase was mainly due to the increase in bills receivables and trade deposits to a related party.

2. Inventories

As at 31 December 2021, inventories owned by the Group amounted to approximately RMB106,744,000, representing a decrease of approximately RMB23,477,000 or 18.0% when compared to that of RMB130,221,000 as at 31 December 2020. The main reason for the decrease in inventories was the decrease in finished goods.

3. Right-of-use assets

As at 31 December 2021, right-of-use assets amounted to approximately RMB107,896,000. As at 31 December 2020, right-of-use assets of the Group amounted to approximately RMB109,518,000. The decrease was mainly due to the transfer of certain right-of-use assets to property, plant and equipment during the Year Under Review.

4. Property, plant and equipment

Property, plant and equipment owned by the Group include building, leasehold improvements, furniture, fixtures and office equipment, machinery, motor vehicles and construction-in-progress. As at 31 December 2021, the net book value of property, plant and equipment owned by the Group amounted to approximately RMB102,039,000, representing an increase of approximately RMB43,671,000 or 74.8% from approximately RMB58,368,000 as at 31 December 2020. The increase in property, plant and equipment was mainly due to the addition of construction-in-progress and machinery and the transfer in of certain right-of-use assets during the Year Under Review.

5. **Trade and other payables**

Trade and other payables of the Group mainly include trade and bill payables, prepayments from customers, other payables and accrued expenses. As at 31 December 2021, trade and other payables of the Group amounted to approximately RMB152,490,000, representing a decrease of approximately RMB35,501,000 or 18.9% from approximately RMB187,991,000 as at 31 December 2020. The decrease was mainly due to the decrease in trade and bills payables.

CAPITAL STRUCTURE

1. **Indebtedness**

The total indebtedness of the Group, which will be due within one year as at 31 December 2021, was approximately RMB229,922,000 (31 December 2020: approximately RMB296,538,000). During the Year Under Review, the Group did not experience any difficulties in renewing its banking facilities with the lenders.

2. **Gearing ratio**

As at 31 December 2021, the Group's gearing ratio, calculated as total interest-bearing bank borrowings, less cash and cash equivalents, divided by total equity as at the end of relevant year, was appropriately 5.8% (31 December 2020: approximately 6.7%). The decrease was mainly due to the decrease in bank borrowings.

3. **Pledge of assets**

As at 31 December 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, RMB56,923,000, RMB19,893,000 and RMB85,130,000, respectively. As at 31 December 2020, the Group 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.

4. **Capital expenditures**

The capital expenditures of the Group primarily included purchases of plant, equipment, leasehold improvements and other costs for acquisition of right-of-use assets and land. The Group's capital expenditures amounted to approximately RMB52,680,000 and RMB11,425,0000 for the years ended 31 December 2021 and 31 December 2020, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long-term and short-term bank borrowings. For the Year Under Review, the effective interest rate for fixed rate loans ranged from 2.05% to 6.32%. Taking into account the cash flow generated from operations and the long-term and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this announcement.

As at 31 December 2021, the Group had cash and cash equivalents of approximately RMB187,925,000 (31 December 2020: approximately RMB250,818,000) which was mainly generated from operations of the Group.

CAPITAL COMMITMENT

As at 31 December 2021, the Group had capital commitment of approximately RMB320,691,000 (31 December 2020: approximately RMB357,947,000).

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

During the year ended 31 December 2021, the Group did not make any material acquisition or disposal.

LITIGATION

As at 31 December 2021, the Group did not have any material legal proceedings or potential proceedings.

References are made to the paragraph headed "Litigation" in the 2015 Annual Report, the 2016 Annual Report, the 2017 Annual Report, the 2018 Annual Report, the 2019 Annual Report and the 2020 Annual Report of the Company, the paragraph headed "Contingent liabilities, legal and potential proceedings" in the 2016 Interim Report, the 2017 Interim Report, the 2018 Interim Report, the 2019 Interim Report, the 2020 Interim Report and the 2021 Interim Report of the Company, the announcement of the Company dated 24 October 2016 (the "**Announcement**"), the announcement of the Company dated 31 October 2016 (the "**Second Announcement**"), the announcement of the Company dated 10 August 2018 (the "**Third Announcement**"), the announcement of the Company dated 2 August 2019 (the "**Fourth Announcement**") and the announcement of the Company dated 17 January 2022 (the "**Fifth Announcement**") in relation to update on litigation. Unless otherwise defined, capitalised terms used in this paragraph shall have the same meanings as those defined in the Announcement, the Second Announcement, the Third Announcement, the Fourth Announcement and the Fifth Announcement.

Based on the judgment (the "**2021 Judgment**") handed down by the Intermediate Court on 31 December 2021, the Intermediate Court ruled to dismiss all claims of the plaintiff of the first instance that the Substantial Shareholder shall not be required to transfer his 15% equity interest in Dong Di Xin to the plaintiff of the first instance, and Dong Di Xin shall not be required to undertake relevant assistance obligations. The Company confirms that the 2021 Judgment did not and will not have any material adverse impact on the ordinary operations and financial positions of the Company and its subsidiaries. Please refer to the announcement of the Company dated 17 January 2022 for further details.

FUTURE OUTLOOK

The year of 2022 marks the beginning year of the Group's Fifth Five-year Plan. At this critical turning point, the Group will continue to keep pace with the development of China's economy, firmly grasping the market opportunity brought by the increase of aging population. In terms of business growth, we shall continue deepening our development opportunities brought by the huge healthcare needs, consolidate the original business position, cultivate our independent research and development capability, and set Longde Health Industrial Park as a key opportunity for building up the strategy of integration between production, business, and financing. In terms of attracting and retaining talents in the Group, through establishing short-term, middle-term, and long-term combined incentive mechanisms, a workforce comprising of talented employees is key to fostering the long-term and stable development of the Company. Specially, the following aspects include:

1. **Outlining the Fifth Five-year Plan, implement and subdivide detailed strategies in each business segment and functional segment**

   The Group will put emphasis on the medicine and healthcare industry in accordance with the core strategy of the Fifth Five-year Plan, while continuing to introduce healthcare products of domestic and overseas quality brands to cultivate intensively in the existing market, mainly exploit potential county areas and rural markets, and build up a leading product in diverse markets. At the same time with the support of Longde Health Industrial Park, the Group will cooperate for constructing the technology innovation platform, co-develop with the domestic strategical partnership alliance, introduce pharmaceutical and healthcare products and put emphasis on investments of pharmaceutical and healthcare sectors, which can gradually build up the Group's capability in product innovation.

2. **Taking digitalization as our growth engine, increasing our market share by precision marketing**

   Under the background of the China's economy entering into a new norm, digitization has become the best solution to growing issues in various industry, which also needs for accelerating development that was clearly pointed out in "14th Five-Year Plan". Since the Group has been continuing to construct the digital infrastructure and connect more partners and consumers, we can catch up with the consuming trend and demand changes more accurately, while locating target groups precisely. On this basis, the Group will invest resources intensively in related consumption segments, conduct event marketing and precision marketing concerning the products' characteristics, to improve the long tail effect of well-known and quality products, deepen our service contents and strengthen our consumer adherence, improving the market shares of our products.

3. **Setting product development as our starting point, conduct continuous innovation and optimize our product portfolio**

Technology advance has accelerated the pace in product innovation, enriched our product categories to satisfy different needs for a healthy and good lifestyle. The Group will utilize the advantages of global supply chain, continue to explore for products that fulfill consumers' needs while strengthening in-depth cooperation with current partners by expanding fields and approaches of brand cooperation and put a close attention to the opportunities brought by demands for health-related products arising from aging population. The Group plans to launch three own-branded products to be manufactured overseas in 2022. It is planned that Gen-seng Capsule (洋參膠囊) and Kingworld Zhuang Yao Jian Shen Wan (金活壯腰健腎片) will be added in our self-produced products.

4. **Take investments as our driver to achieve value preservation and appreciation of our assets**

With the support of online marketing resources, the Group has selected small and medium enterprises with development potential from the industry, such as medical devices, innovative Chinese medicines, healthcare products or cosmeceuticals, etc. for expanding investments or merger and acquisition, to achieve synergy while achieving sales growth and cooperative product varieties. The Group will make full efforts on the post-investment management of the invested projects, actively launch the establishment for investor relationship, work hard on market value management and achieve assets preservation and appreciation. The Group plans to use internal funding to finance such investment.

The Group plans to complete the acquisition of Innopharma S. A. of France in 2022, and it is expected that the acquisition of Innopharma will help the Group to understand and analyse the European market more quickly, help the Group to speed up the introduction of quality health food and daily care products in Europe and look for more investment opportunities. It will also help the Group to start OEM label production and export business in the future, and it will also have the opportunity to be responsible for the export business such as registration agent and sales consultation of the Group's proprietary traditional Chinese medicine and health care products in Europe. The Group plans to use internal funding to finance such acquisition.

5. **Utilise Longde Health Industrial Park as the platform, achieve the diverse deployment of healthcare industry by the Group**

Longde Health Industrial Park will be established as a platform for production, sales, innovation and financing, to conduct marketing and promotion relating to medical and healthcare projects, and investment incubation. The Group plans to provide a whole supply chain from raw materials, innovation, production and manufacturing, sales networking, modern logistics, investment to financing to customers in the Park, to form a unique healthcare industry industrial park, which is complementary to the Baolong Science and Technology Town, in order to achieve the diversified setting of the Group in the healthcare industry.

6. **Boost sales of Dong Di Xin's medical devices in overseas markets and explore opportunities for the sale of Dong Di Xin custom-branded products in domestic market**

   With close awareness to the international happenings, currency rate fluctuation and freight market changes, the Group has been well position to market planning and anticipation to situations in a precise manner, increased the exploration intensity in hand-held physical therapy device products and medical professional desktop computer products in new overseas markets to further enhance the global market share of our products. The Group will fully utilize recourses in different sectors and continue increasing our promotion efforts to products in domestic markets, actively participate in conferences of medical devices and rehabilitation industries to carry out marketing and promotion, hospitalization, trainings for clinical use and after-sale job jointly with agents. We strive to build our own-branded "Nu-Tek" as a well-known medical and rehabilitation brand in our country.

HUMAN RESOURCES AND TRAINING

As at 31 December 2021, the Group had a total of 1,002 employees, of whom 125 worked at the Group's headquarters in Shenzhen, and 395 were stationed in 34 regions mainly responsible for sales and marketing, and 482 worked at Dong Di Xin. The Group releases an annual sales guideline on a yearly basis, setting out the annual sales targets and formulating quarterly sales strategies to provide sales and marketing guidelines for all representative offices and their staff. The Group has a management team with extensive industry experience (including the sales directors and product managers), which is responsible for coordinating front-line sales and marketing teams to meet the annual sales targets.

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

The Company has adopted a share option scheme for the purpose of providing incentives and rewards to eligible participants, including eligible employees of the Group, who have contributed to the success of the Group.

The Company has adopted a share award scheme in August 2019 (the "**Share Award Scheme**") for the purpose of recognising the contributions made by certain participants and providing incentives in retaining the participants for the continual operation and development of the Group and attracting suitable personnel for future development of the Group.

DIVIDENDS

To extend the Company's gratitude for the support of our Shareholders, the Board has recommended the distribution of a final dividend for the year ended 31 December 2021 of HK2.39 cents per share to Shareholders whose names appear on the register of members of the Company on Wednesday, 8 June 2022, amounting to approximately HK$14,878,000, subject to the approval of the Shareholders at the Company's forthcoming annual general meeting to be held on Friday, 27 May 2022. Total dividend payout ratio is approximately 40.0% of the profit for the year attributable to owners of the Company. The above-mentioned final dividend is expected to be paid on or before Thursday, 30 June 2022.

CLOSURE OF THE REGISTER OF MEMBERS

To be eligible to attend and vote in the forthcoming annual general meeting

The register of members of the Company will be closed from Monday, 23 May 2022 to Friday, 27 May 2022 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for attending and voting at the forthcoming annual general meeting, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Friday, 20 May 2022.

To qualify for the proposed final dividends

The register of members of the Company will be closed from Wednesday, 1 June 2022 to Wednesday, 8 June 2022 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for receiving the proposed final dividends, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Tuesday, 31 May 2022.

SHARE OPTION SCHEME

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

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

(a) The maximum number of the Company's shares issuable upon exercise of all options to be granted under the New Share Option Scheme and any other schemes of the Company must not in aggregate exceed 10% of the all issued shares of the Company as at the date of the adoption of the New Share Option Scheme (that is, 20 August 2021, the "**Adoption Date**") (which were 622,500,000 shares) unless shareholders' approval has been obtained, and which must not in aggregate exceed 30% of the shares of the Company in issue from time to time.

    As at the date of this announcement, the total number of shares available for issue under the New Share Option Scheme is 62,250,000 shares, which represents 10% of the issued shares as at the Adoption Date and the date of this announcement.

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

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

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

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

(f) The New Share Option Scheme shall be valid and effective for a period of ten years commencing on the Adoption Date (that is, 20 August 2021).

A summary of share options granted under the Share Option Scheme of the Company as at 31 December 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)	Number of Share Options Outstanding as at 1 January 2021	Granted during the Year	Cancelled during the Year	Lapsed during the Year	Outstanding as at 31 December 2021	Approximate percentage of the Company's total issued share capital
Zhao Li Sheng (Note 1)	Chairman/ Executive Director	23 April 2018	23 April 2018 to 22 April 2024	1.26	468,000	–	–	–	468,000	0.0751%
Chan Lok San (Note 2)	Executive Director	23 April 2018	23 April 2018 to 22 April 2024	1.26	416,000	–	–	–	416,000	0.0668%
Zhou Xuhua	Executive Director	23 April 2018	23 April 2018 to 22 April 2024	1.26	416,000	–	–	–	416,000	0.0668%
Duan Jidong	Independent non-executive Director	23 April 2018	23 April 2018 to 22 April 2024	1.26	372,000	–	–	–	372,000	0.0597%
Zhang Jianbin	Independent non-executive Director	23 April 2018	23 April 2018 to 22 April 2024	1.26	372,000	–	–	–	372,000	0.0597%
Wong Cheuk Lam	Independent non-executive Director	23 April 2018	23 April 2018 to 22 April 2024	1.26	372,000	–	–	–	372,000	0.0597%
Sub-total of Share Options granted to Directors					**2,416,000**	**-**	**-**	**-**	**2,416,000**	**0.3881%**
77 Employees	Employees of the Group	23 April 2018	23 April 2018 to 22 April 2024	1.26	15,952,000	–	–	–	15,952,000	2.5626%
Total					**18,368,000**	**-**	**-**	**-**	**18,368,000**	**2.9507%**

No share option was granted under the New Share Option Scheme during the Year Under Review.

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

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

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

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

SHARE AWARD SCHEME

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

The Share Award Scheme shall be subject to the administration of the Board in accordance with the Award Scheme Rules (as defined in the August Announcement). The trustee (the "**Trustee**") shall hold the shares of the Company granted under the Share Award Scheme and any income derived from them in accordance with the terms of the trust deed entered into and among the Company and the Trustee. The total number of shares to be awarded under the Share Award Scheme shall not exceed 16,000,000 shares of the Company (subject to adjustment in the event of sub-division of shares, consolidation of shares or bonus issue in accordance with the Award Scheme Rules) unless otherwise determined by the resolution of the Board.

In September 2019 and October 2020, the Trustee purchased an aggregate of 6,000,000 shares and 10,000,000 shares of the Company from the market for the purpose of the Share Award Scheme, respectively. The Board resolved to grant the Award with an aggregate of 1,556,000 Awarded Shares on 21 January 2022 to 73 Selected Participants under the Share Award Scheme at nil consideration, among which 384,000 Awarded Shares were granted to 12 Selected Participants who are Connected Grantees and 1,172,000 Awarded Shares were granted to 61 Selected Participants who are Non-connected Grantees. The Awarded Shares represent approximately 0.25% of the total issued share capital of the Company as at the Date of Grant (being 622,500,000 Shares). The closing price of the Shares on the Date of Grant was HK$0.690 per Share and the average closing price of the Share for the five business days immediately preceding the Date of Grant was HK$0.702 per Share. Subject to the acceptance by the Grantees, the Awarded Shares shall be vested in the Grantees on 21 January 2022. Please refer to the announcement of the Company dated 21 January 2022 for further details.

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

GOING CONCERN

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

PUBLIC FLOAT

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

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

For the year ended 31 December 2021, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

AUDIT COMMITTEE

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

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

During the Year Under Review, the Audit Committee had held two meetings and all the members attended the meetings. The work performed by the Audit Committee during the Year Under Review included reviewing the audited consolidated financial statements of the Group for the year ended 31 December 2020, the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2021 and the effectiveness of the internal control practices of the Group. The Audit Committee has also reviewed the audit plan and approach of the external auditor and monitored the progress and results of the audit regularly.

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

The Audit Committee has, together with the management of the Company and external independent auditor, reviewed the consolidated financial statements for the year ended 31 December 2021, this results announcement, the annual report, the accounting principles and practices adopted by the Group, as well as the risk management and internal control systems of the Group for the Year Under Review, and agreed with the accounting treatments adopted by the Group, and was of the opinion that the preparation of the financial statements in this announcement complies with the applicable accounting standards and the requirements under the Listing Rules and adequate disclosures have been made.

EVENTS AFTER THE REPORTING PERIOD

Grant of award pursuant to share award scheme and exempted connected transaction (grant of award to connected person)

References is made to the announcement headed "Grant of award pursuant to share award scheme and exempted connected transaction (grant of award to connected person)" of the Company dated 21 January 2022 (the "**Announcement**"). Unless otherwise defined, capitalised terms used in this paragraph shall have the same meanings as those defined in the Announcement.

The Board resolved to grant the Award with an aggregate of 1,556,000 Awarded Shares on 21 January 2022 to 73 Selected Participants under the Share Award Scheme at nil consideration, among which 384,000 Awarded Shares were granted to 12 Selected Participants who are Connected Grantees and 1,172,000 Awarded Shares were granted to 61 Selected Participants who are Non-connected Grantees. The Awarded Shares represent approximately 0.25% of the total issued share capital of the Company as at the Date of Grant (being 622,500,000 Shares). The closing price of the Shares on the Date of Grant was HK$0.690 per Share and the average closing price of the Share for the five business days immediately preceding the Date of Grant was HK$0.702 per Share. Subject to the acceptance by the Grantees, the Awarded Shares shall be vested in the Grantees on 21 January 2022. Please refer to the announcement of the Company dated 21 January 2022 for further details.

Impact from the Pandemic

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

DISCLOSURE OF INFORMATION

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

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

Hong Kong, 29 March 2022

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