

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 REPORT
2021



买跨境好药 就上金活健康之家

香港直邮-进口医药-品质好货



扫一扫
 立即购买



京东旗舰店



天猫旗舰店

Healthy Life with KINGWORLD



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Corporate Information

DIRECTORS

Executive Directors

Mr. Zhao Li Sheng (*Chairman*)

Ms. Chan Lok San

Mr. Zhou Xuhua

Independent Non-executive Directors

Mr. Duan Jidong

Mr. Wong Cheuk Lam

Mr. Zhang Jianbin

AUDIT COMMITTEE

Mr. Wong Cheuk Lam (*Chairman*)

Mr. Duan Jidong

Mr. Zhang Jianbin

REMUNERATION COMMITTEE

Mr. Zhang Jianbin (*Chairman*)

Mr. Duan Jidong

Mr. Wong Cheuk Lam

NOMINATION COMMITTEE

Mr. Duan Jidong (*Chairman*)

Mr. Wong Cheuk Lam

Mr. Zhang Jianbin

COMPANY SECRETARY

Mr. Chan Hon Wan

AUTHORISED REPRESENTATIVES

Mr. Zhao Li Sheng

Mr. Chan Hon Wan

REGISTERED OFFICE

Ocorian Trust (Cayman) Limited
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HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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The PRC

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

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Corporate Information

PRINCIPAL BANKS

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BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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LEGAL ADVISORS TO THE COMPANY

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AUDITOR

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STOCK CODE

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WEBSITE ADDRESS

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Financial Highlights

	For the year ended 31 December		Changes Increase/ (Decrease)
	2021 RMB'000	2020 RMB'000	
Financial Highlights			
Revenue	847,386	745,383	13.7%
Cost of sales	(583,788)	(465,229)	25.5%
Gross profit	263,598	280,154	(5.9)%
Profit before taxation	69,434	70,891	(2.1)%
Profit for the year	51,211	50,889	0.6%
Profit attributable to owners of the Company	30,319	11,716	158.8%
Basic earnings per share (RMB cents)	5.00	1.91	161.8%
Proposed final dividends per share (HK cents)	2.39	0.65	267.7%

	As at 31 December		Changes Increase/ (Decrease)
	2021	2020	
Liquidity and Asset-liability Ratio			
Current ratio ⁽¹⁾	1.35	1.29	4.7%
Quick ratio ⁽²⁾	1.13	1.05	7.6%
Gearing ratio ⁽³⁾	5.8%	6.7%	(13.4)%

Notes:

- (1) Current ratio is calculated as total current assets divided by total current liabilities as at the relevant year end.
- (2) Quick ratio is calculated as total current assets less inventories divided by total current liabilities as at the relevant year end.
- (3) Gearing ratio is calculated as total interest-bearing bank borrowings, less cash and cash equivalents, divided by total equity as at the end of relevant year and multiplied by 100%.

Chairman's Statement

Dear Shareholders,

On behalf of Kingworld Medicines Group Limited (the "**Company**") and its subsidiaries (together, the "**Group**"), I would like to express my sincere gratitude to all shareholders (the "**Shareholders**") and stakeholders for your continuing attention, support and encouragement to the Group. For the Group, the year ended 31 December 2021 (the "**Year Under Review**") was a challenging year with opportunities. Nevertheless, with the continuing endeavours and constant efforts of all our staff, we strived to create a powerful driving force to foster the development of our various lines of businesses which have consequently reached their new heights with stability.

MARKET REVIEW

In 2021, the second year that the novel coronavirus (COVID-19) (the "**Pandemic**") has been threatening across the world, the economies of most countries and regions have recovered significantly. In particular, as the top two economies of the world, China's gross domestic product (GDP) increased by 8.1% in 2021, with a total economic output of approximately RMB114.4 trillion, equivalent to approximately US\$17.7 trillion at an annual average exchange rate, ranking it firmly the second largest economy in the world with an annual growth of 18.0%. According to the first estimates released by the U.S. Department of Commerce, the real GDP of the United States grew by 6.9% year-on-year in the fourth quarter of 2021 with its economic growth of 5.7% in 2021, the highest since 1984. Besides China and the United States, other major economies have been on the track of recovery in 2021. According to the preliminary data released by Eurostat, the GDP of both Eurozone and EU grew by 5.2% last year, after adjustment for seasonal and working days. In general, economic development across the world was stable with improvement.



Chairman's Statement

The economy of China's pharmaceutical sector has seen a substantial rebound in chemical reagents, traditional Chinese medicine and biopharmaceutical products in 2021 after the downturn impacted by the pandemic in 2020 and the normalization of pandemic controls, as shown in the statistics of the National Bureau of Statistics. According to statistics, China's healthcare market of Chinese medicine grew from RMB1,029 billion in 2014 to RMB3,024 billion in 2020, representing CAGR of 19.7%, and is expected to reach RMB3,800 billion in 2021. The healthcare market size of Chinese medicine is expected to reach over RMB7,500 billion in 2025 with a year-on-year growth rate of 15% to 20%. Along with the aging population, increases in occurrence rates of chronic disease and cancer, change in disease spectrum, as well as the demand factors of higher health awareness and higher consumption resulting from advanced level of income of residents, these supported the growth of Chinese medicine market. Since the pandemic, the implementation of beneficial policies relating to Chinese medicine particularly favored the Chinese medicine industry with a supporting-policies period. The Work Report of the PRC in 2021 has firmly supported the development of Chinese medicine and facilitated comprehensive reforms in Chinese medicine. To facilitate the prosperity by reforms, The Work Report of the PRC has reiterated the development directions of Chinese medicine in China, that Chinese medicine will become a new dynamic for China in future. In general, the upward development of domestic and global economy in stability will be beneficial to our domestic business development of the Group.

Looking at the Hong Kong market, the impact of the Pandemic on Hong Kong's economy has been continuous in 2021, causing further deferral of reopening the border for cross-border travel which led to a dramatic decline in the number of travellers visiting Hong Kong. As a result, the local retail industry has entered a "cold winter". Nevertheless, the Group remained aggressive to expand business through multi-channels and promoted products in multi-dimensional manner. The growth of local business operation in Hong Kong was flat compared with the corresponding period last year and has not yet resumed to the pre-Pandemic level.

2021 is the inaugural year of the "14th Five-Year Development Plan" of China. With the much-anticipated arrival of the post-Pandemic era, China's pharmaceutical industry is also accelerating its transformation. Since the implementation of the new round of medical and health structural reform, improvement in China's basic medical and health system has been accelerated. People's health condition and fair access to basic medical and health services have been improving continuously. The key tasks of the medical reform include adoption of volume-based procurement, reforming the payment method of medical insurance, graded diagnosis and treatment, and compiling the list of essential medicines, etc. With the development of the Internet + medical industry, online drug sales have become more and more popular, and various policies regulating online sales of prescription drugs have been introduced. The online sales of prescription drugs have gained market share with the lifting of sales restriction. This also has also brought convenience to the public in drug purchase. In recent years, the Group's involvement in prescription drugs and pharmaceutical e-commerce is expected to capture this policy's advantage and shall benefit the Group's long-term development.

The National Bureau of Statistics released key data of the seventh national census in May 2021. The latest data in respect of the ageing population in China is set out as follows: in 2021, the population aged 60 and above was 264.02 million, accounting for 18.7% of the total population, representing an increase of 5.4% as compared to 2020. Meanwhile, the population aged 15 to 59 was 894.38 million, accounting for 63.4% of the total population. The increase in the aging population was intensified with a decrease of the total population of adolescents and adults by 6.8%. The aging population will lead to a booming market for chronic diseases, with residents' increased awareness of health care and willingness to pay. Traditional Chinese medicine has significant advantages in the treatment of chronic and complex diseases in areas such as prevention of diseases, health care and health preservation. Leveraging on such feature, the demand for traditional Chinese medicine will continue to expand from "treatment" to "prevention and

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health care", which shall further drive the market demand for traditional Chinese medicine. The Group has a number of proprietary Chinese medicine products that have a history of over 100 years and are regarded as household essentials and medicine with health care functions (such as Nin Jiom Chuan Bei Pei Pa Koa, Taiko Seirogan, Kingworld Imada Red Flower Oil, Foci Minshan Brand product series), which are safe, effective and well-known. The expansion of market capacity is conducive to the business development of the Group.

ACHIEVEMENTS FROM DEVELOPMENT

With the outbreak of corona viruses with Delta and Omicron variants in 2021, the progress of social and economic restoration back to normal was disrupted and people's livelihood were severely affected. The number of infected people around the world rose sharply and the medical system was overburdened. Thanks to the adoption of appropriate preventive measures, China has not experienced massive outbreak but only occasional sporadic cases which have been under control through strict preventive measures. In the meantime, under the Pandemic prevention policy of "prevention of importation of cases and controlling the spread of virus in the community", normal livelihood and travel were still restricted. Over-the-counter drugs for treating fever, influenza and cough often faced the unfavourable situation of being removed from shelves, such as the Group's Nin Jiom Chuan Bei Pei Pa Koa. Nevertheless, all marketing personnel of the Group, in compliance with the local prevention and control policies, faced difficulties and fought at the front line. They seized every marketing opportunity in order to promote all the products operated by the Group into the third and fourth-tier markets, so as to fully develop the untapped markets and the county-level markets in the economically developed regions. Due to the hard work of the marketing personnel of the Group, the annual results have greatly recovered due to the following actions, by frequently communicating with customers; frequently hosting marketing activities to enhance consumer confidence; engaging in experiential marketing; establishing connection with consumers; developing new online and offline retail models; actively embracing and

participating in new marketing methods by means of social media; cooperating and live streaming with top and medium-sized (頭部、腰部主播) celebrities. The Group has since established its own live streaming team, and grasped the opportunities and challenges brought about by the consumers' changing consumption habits and market development trends.

In 2021, Shenzhen Dong Di Xin Technology Company Limited ("**Dong Di Xin**"), a non-wholly owned subsidiary of the Group, continued to enhance the semi-automated transformation of production lines and steadily improved production efficiency. Products of Dong Di Xin achieved balanced developments in the key American, European and Asia Pacific markets. At the same time, Dong Di Xin continued to increase investment in the research and development of proprietary products, attracted high-quality students from well-known engineering colleges to enrich the team of research and development talents, and jointly developed new technology products for pain physiotherapy with experts of Chinese University of Hong Kong in the field of medical rehabilitation.

In 2021, the Group cooperated with Shenzhen Guoxin Southern Intellectual Property Research Institute on the "Fifth Five-Year Strategic Plan of Kingworld Group" and conducted in-depth interviews with over 100 employees and members of the management at various levels through the distribution of 16 rounds of questionnaires containing nearly 250,000 words in total and nearly 70 seminars were held. A mission-driven and vision-led dynamic strategic management system was established to create an enterprise management system with strategic management as the "main programme". Based on the consideration of the development direction and goals in the next 50 years, the mission of Kingworld was determined as: "Kingworld Group is committed to becoming a world-class outstanding enterprise in the pharmaceutical and health industry. Through continuous technological innovations, the Company provides safe and effective medical and health products and services to customers around the world. Adhering to its business philosophy of being proactive, sincere and altruistic, the Company wins the trust of

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customers, and continues expanding the market share, developing steadily and healthily, assisting employees to grow, generating returns for the benefit of shareholders, assuming social responsibilities, and striving to build a harmonious and better community.”

In 2021, Longde Health Industrial Park, which has been the Group's important industrial development. As at March 2022, the underground pile foundation works of the main building and dormitory have been completed. For the aboveground construction work, the first floor of the main building was in the process of capping and the fourth floor of dormitory building has been capped. It is expected that the Construction of the Longde Health Industrial Park will be completed as schedule and by end of October 2022. With the gradual advancement of the regional development strategy of “one core, two nuclei and multiple fulcrums” in the Longgang District of Shenzhen, Longde Health Industrial Park enjoys a unique geographical location (located in Baolong Street, only one kilometer away from Pingshan High-speed Railway Station, within two key planning areas of Baolong Science and Technology City and Eastern High-speed Railway New City), and will be able to form a complementary industrial landscape with Baolong Science and Technology City and Eastern High-speed Railway New City in the future for sharing public resources with significant geographical advantages. At present, it has attracted the attention of a number of biopharmaceutical manufacturers and scientific research units, they have conducted several rounds of discussions with the Group on intended entry to the Longde Health Industrial Park and showed strong interests in the future development of Longde Health Industrial Park.

In 2021, the Group realized the recovery and development of sales throughout the year, achieved the targets required by the Group's equity incentives, and fulfilled the conditions for the granting of share award incentives. The purpose of launching the share award scheme was to motivate and encourage employees, so as to retain existing talents, to support the sustainable operation and development of the Group while attracting more outstanding new talents to join the Group, to inject new impetus into the Group's

future development. The share award scheme conveyed the Group's market confidence in the new round of high-quality and positive development of the enterprise in 2022. At the same time, the cohesion of outstanding talents will enhance the core competitiveness of the Group, encourage key employees to continue growing together with the Group, establish a good atmosphere for employees to work hard and be positive, attract outstanding talents from all walks of life to jointly promote the development of the Group, and lay a solid foundation for achieving the objectives of the Group's Fifth Five-Year Strategic Plan.

On 21 January 2022, a total of 1,556,000 awarded shares were granted to 73 selected participants under the share award scheme at nil consideration. The share award incentives have also moved and motivated the beneficiaries of the equity incentives. Employees from sales, marketing and functional departments have expressed that they share the same destiny and heart, the share award incentives have brought not only gains on shares but also the sense of achievement in working together.

In March 2021, a Hong Kong incorporated subsidiary of the Group completed the equity transfer of Fat Chi Medicine Company Limited, a joint venture with Lanzhou Foci, and established a Hong Kong joint venture operation company to officially operate a range of Foci products in the Hong Kong and Macau markets. The products manufactured by Lanzhou Foci and sold in the markets of Hong Kong and Macau are products under the Minshan brand (岷山牌), which have certain influence in the Hong Kong and Macau markets with 36 stock keeping units and are well received by middle-aged and elderly consumers. A batch of new products are being registered according to the needs of the Hong Kong and Macau markets. The Group will continue to enrich the product portfolio and implement the marketing network in the Hong Kong and Macau markets. In the future, it will continue to contribute sales and profits to the Group. Affected by the Pandemic, the expansion of overseas business was hindered. In the future, longyao (龍藥) will be promoted for expanding into the international markets depending on the development of the Pandemic.

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FUTURE OUTLOOK

After the Pandemic, with the increase in national health awareness, people's desire for a better life and the improvement of immunity of the whole community, the healthcare industry will have greater and better development space. The Group's Fifth Five-year Strategic Plan has been determined. In the future, the Group will gradually open up the service chain and data chain of healthcare products, deeply formulate the layout of upstream and downstream enterprises in the greater healthcare field, and further improve the landscape of the greater healthcare industry. We will expand and strengthen Kingworld's advantageous projects, innovate and develop Kingworld's new competitive points in the future, and embark on a road to the greater healthcare industry with Kingworld's characteristics. We will form data-driven, product-led and capital-empowered models, integrate online and offline resources, realize digitalization upgrade of the greater healthcare industry. We will strive to help people move away from the pains of diseases by achieving a mutually beneficial win-win goal through digital transformation and upgrading.

The year of 2022 marks the beginning of the Fifth Five-Year Plan of Kingworld Medicines Group. At this important turning point, the Group will continue to keep pace with the times, set foot on the train of high-quality economic development in China, and firmly grasp the development opportunities brought by Shenzhen as a socialist pilot demonstration zone and the vast healthcare demand arising from the increasing aging population. The Group shall consolidate the original business position, cultivate independent research and development capabilities, and take the Longde Health Industrial Park as an opportunity to build a strategy of integrating industry, business and finance. Based on the outline of the Fifth Five-Year Plan, the Group will implement the breakdown of various sub-strategic objectives, formulate investment plan in the future seed business, integrate and optimize the allocation of personnel, financial and material resources, and give priority to ensure the investment and promotion of strategic resources.

In 2022, the Group continued to strengthen its product mix. In response to the trend of domestic consumption upgrading favouring foreign high-quality healthcare products, the Group launched a series of French self-owned brand products under the Group in a timely manner, and enrich the product categories to satisfy the healthcare needs of different population groups to address their pain points. Meanwhile, the Group will continue to leverage on the operational advantages of the pharmaceutical retail market network and professional marketing team to accelerate the introduction of domestic and foreign key healthcare product categories, and continue to empower the marketing network to strengthen the Group's core competitiveness. Furthermore, the Group will also rely on Kingworld Imada Red Flower Oil as the foundation to strengthen the building of its own brand and increase the launching of other series of products in the market.

The construction of the Longde Health Industrial Park is scheduled to be completed by the end of 2022. The Group will focus on the positioning of a "featured boutique type health industrial park" and four major functional centers, taking advantage of the advantageous location of the Greater Bay Area and the preferential policies of Shenzhen. The Longde Health Industrial Park shall look for industrial partners with sustainable development and core competitiveness, gradually improve the healthcare industrial supply chain through utilisation of its platforms, and to better promote the industrialization and internationalization of the Group's traditional Chinese medicine products.

On 18 February, 2022, 14 ministries including the National Development and Reform Commission jointly issued Several Policies on Promoting the Stable Growth of Industrial Economy 《促進工業經濟平穩增長的若干政策》 and Several Policies on Promoting the Resumption of Development of Difficult Industries in the Service Industry 《關於促進服務業領域困難行業恢復發展的若干政策》. Stable growth has been mentioned many times in the government working report, and stable growth has an important position in construction of the economy. To this end, the Group has formulated a stable growth strategy of "reducing costs and

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increasing efficiency" through optimizing management processes, reducing operating costs and improving the quality of the Group's operations. At the same time, we will continue to strengthen the construction of data infrastructure, focus on user connection and touch points simultaneously, connect the data of people, products and markets, and carry out effective marketing through accurate data analysis and finding the common touch points of people, products and markets, to realize accurate sales, improve user experience and partner satisfaction, while achieving precision in marketing activities, increasing return on investment and continuing to support business growth.

With the implementation of the Fifth Five-Year Strategic Plan, stable and improving business recovery, improvement and effectiveness of the industrial layout, the Group will continue to improve the talent development platform in the future. More professional high-end talents will be attracted to establish a talent training team, while at the same time more talents will be included in the scope of equity incentives, and a short-term, medium-term and long-term incentives combined mechanism will be established to gather talents with business, stabilize and develop talent teams, allow each employee who grows with the enterprise to become a partner, and fully stimulate the proactive motivation of employees, strengthen the sense of ownership, in order to work together and work hard to achieve the Group's strategic operation goals in an all-round manner, promote the long-term and stable development of the Group, and jointly make more contributions to society.

ACKNOWLEDGEMENT

I would like to take this opportunity to express my sincere gratitude to my fellow directors ("**Directors**") of the board (the "**Board**"), the management and all employees for their valuable contributions to the development of the Group. At the same time, on behalf of the Board, I would like to express my appreciation to all Shareholders, investors, business partners and other stakeholders for their continuous trust and support to the Group. For the year of 2022, in the face of a stable and positive macroeconomic situation and the Pandemic is still not over, the Group will maintain the Fifth Five-Year Plan as the guidance, unite and work together to promote the growth of employees, generate returns for the benefit of Shareholders, and strive to create a harmonious and better life community.

Mr. Zhao Li Sheng

Chairman of the Board

Hong Kong, 29 March 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 Seriogon (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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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*

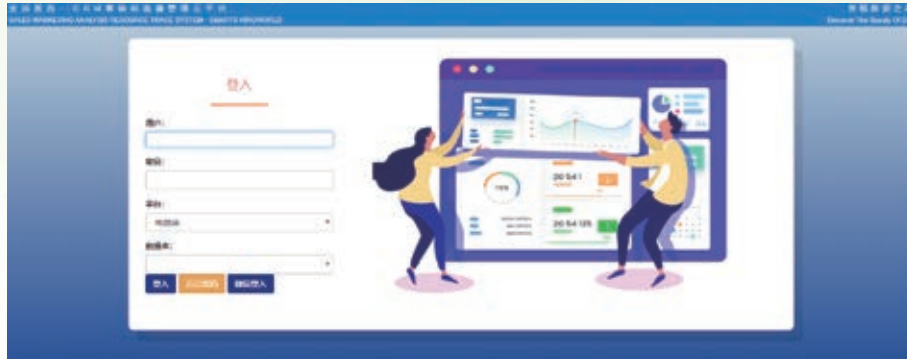
Pharmaceutical products distribution has been one of the key businesses of the Group for many years, including various well-known brands, such as Nin Jiom product series, the Taiko Seriozan, Kingworld Imada Red Flower Oil, and Enalapril Maleate and Folic Acid Tablets ("**Enalapril**"), which have achieved 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 Nin Jiom Pei Pa Candies achieved a year-on-year increase of 14%. The Taiko Seriozan 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 report, 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.

Management Discussion and Analysis



(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" 《风起洛阳》, both are annual dramas, and "The Hero" 《最后的赢家》, a variety show, and "See You Again" 《再次见到你》 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.

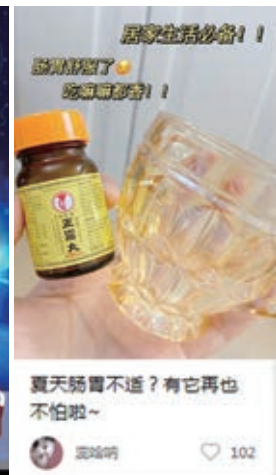
Management Discussion and Analysis



(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.



Management Discussion and Analysis

(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.

Management Discussion and Analysis



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.



Management Discussion and Analysis

(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.



Management Discussion and Analysis



(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.



Management Discussion and Analysis

(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.

Management Discussion and Analysis

(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 Discussion and Analysis

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”.

Management Discussion and Analysis

- (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.

Management Discussion and Analysis

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 report, 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.



Management Discussion and Analysis

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.



Management Discussion and Analysis



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.



Management Discussion and Analysis

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.



Management Discussion and Analysis

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.

Management Discussion and Analysis



Management Discussion and Analysis



the
shenzhen
2021 **深圳十大杰出青年**
—>>> 推选活动 <<<—

2021“深圳十大杰出青年”推选活动

编号:403号

赵键玮
深圳市金活医药有限公司董事
长助理

长按识别二维码
请为TA点赞

the
shenzhen
2021 **深圳十大杰出青年**
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督察

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请为TA点赞

Management Discussion and Analysis

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.

Management Discussion and Analysis

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 8 to the consolidated financial statements in this report.

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.

Management Discussion and Analysis

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.

CASH FLOWS

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

During the Year Under Review, the Group's cash and cash equivalents decreased by approximately RMB62,893,000, which mainly comprised the net cash inflow generated from operating activities with the amount of approximately RMB81,199,000, net cash outflow used in investing activities with the amount of approximately RMB50,835,000, net cash outflow used in financing activities with the amount of approximately RMB87,236,000 and the foreign exchange loss of approximately RMB6,021,000. Details of cash flows of the Group are set out in pages 90 and 91 of the "Consolidated Statement of Cash Flows" in this report.

Management Discussion and Analysis

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 RMB107,600,000, RMB55,558,000, RMB18,801,000 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 RMB66,301,000 and RMB11,425,000 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 report.

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.

Management Discussion and Analysis

CAPITAL COMMITMENT

As at 31 December 2021, the Group had capital commitment of approximately RMB325,069,000 (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:

Management Discussion and Analysis

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 strategic 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.

Management Discussion and Analysis

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.



Management Discussion and Analysis

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.

Directors' and Senior Management's Biographies

The biographical details of the Directors and senior management of the Company as at the date of this report are set out below:

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Zhao Li Sheng (趙利生), aged 63, was appointed as an executive Director of the Company on 25 September 2008. He is the co-founder of the Group and the chairman of the Company. He is primarily responsible for the Group's overall strategic planning and business management. He has over 26 years of experience in business management and development in the distribution of pharmaceutical and healthcare products. He was also appointed as the chairman of Shenzhen Kingworld Industry Company Limited ("**SZ Industry**") in 1994 and the general manager and chairman of SZ Kingworld Medicine Company Limited ("**SZ Kingworld**") in 1996. Mr. Zhao was qualified as a senior business manager by the Business Management Qualification Accreditation Committee of Hubei Province in December 2002. Mr. Zhao was a member of the standing committee (常委) of the 4th and 5th Shenzhen Committee of the Chinese People's Political Consultative Conference (深圳市政協第四及第五屆委員會). Mr. Zhao was the vice-president of The Fifth Council of the Shenzhen General Chamber of Commerce (深圳市總商會(工商聯)第五屆理事會) in 2005. He was the honorary director (名譽會董) of the Federation of Hong Kong Chiu Chow Community Organisations, the council member (理事) of the Third Session of China Overseas Friendship Association (第三屆中華海外聯誼會) in 2008 and the standing council member (常務理事) of the Third China Economic and Social Council (第三屆中國經濟社會理事會) in 2009. Currently, he is the vice president (副會長) of the Shenzhen Healthcare Association (深圳市保健協會) and the Fifth Council of the Pharmaceutical Profession Association (深圳市醫藥行業協會第五屆理事會). He is also the chairman of the Youth Chawnese Committee of Shenzhen (深圳潮人海外經濟促進會青年委員會). He is the spouse of Ms. Chan Lok San, an executive Director of the Company.

Ms. Chan Lok San (陳樂樂), aged 58, was appointed as an executive Director of the Company on 25 September 2008. She is the co-founder of the Group. She is primarily responsible for the Group's financial planning and human resources management. She has over 24 years of experience in the pharmaceutical industry as well as over 14 years of experience in property management. Ms. Chan has been working for SZ Industry since 1994 and SZ Kingworld since 1996, respectively. She has been the vice chairlady of SZ Kingworld and SZ Industry since 2005 and 2006, respectively, and the vice chairlady of Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited since 2005 and the legal representative of Shenzhen Kingworld Department Store Property Management Company Limited and Shenzhen King Gibson Golf Company Limited. She received a master degree in business administration of senior management from Sun Yat-Sen University in 2010. In 2011, she was appointed as a committee of Shenzhen Golf Society and a vice-chairlady of Shenzhen Clothing Society. She was also a member of the Global Foundation of Distinguished Chinese (世界傑出華人基金會) in 2003. Since 25 December 2012, she has served as the chairlady of the EMBA Alumni Association of Sun Yat-Sen University. Currently, she is also the director (理事) of Sun Yat-Sen University Entrepreneur Alumni Association (Third Session) (第三屆中山大學企業家校友聯合會). She is the spouse of Mr. Zhao Li Sheng, an executive Director of the Company.

Mr. Zhou Xuhua (周旭華), aged 55, was appointed as an executive Director of the Company on 3 August 2009. He has been the general manager of SZ Kingworld since 2009. He is primarily responsible for the business development and operations of SZ Kingworld. He was the business manager of SZ Industry between 1994 and 1995 and was the regional manager and deputy general manager of SZ Kingworld after he joined SZ Kingworld in 1996. He has 24 years of experience in the pharmaceutical industry. Mr. Zhou has worked as a clerk and was later promoted to become a supervisor of Shenzhen International Arcade between 1987 and 1993. He completed his education at Shenzhen Finance School (深圳市財經學校) in 1987.

Directors' and Senior Management's Biographies

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Duan Jidong (段繼東), aged 56, was appointed as an independent non-executive Director of the Company on 5 November 2010. He has approximately 31 years of experience in the pharmaceutical industry. Mr. Duan received a bachelor degree in medicine at The Shanghai Railway Medical Institute (上海鐵道醫學院) in 1989, and was a surgeon with the Central Hospital of Shenyang Railway Bureau (原瀋陽鐵路局中心醫院) from 1989 to 1994 and worked in the Beijing Mundipharma Pharmaceutical Company Limited (北京萌蒂製藥有限公司) from 1994 to 1998. Mr. Duan served as the chairman and legal representative of Kunming Baker Norton Pharmaceutical Company Limited from December 2002 to April 2006, a director of Holley Pharmaceutical (Chongqing) Co., Ltd. (重慶華立藥業股份有限公司, stock code : 000607), a company listed on the Shenzhen Stock Exchange, from 2005 to 2006, and a director of Wuhan Jianmin Pharmaceutical Groups Corp, Ltd. (武漢健民藥業集團股份有限公司, stock code: 600976), a company listed on the Shanghai Stock Exchange, from 2004 to 2006. He was a chief executive officer from 2002 to 2005, and a director from 2004 to 2006, of Kunming Pharmaceutical Group Corporation, Ltd. (昆明製藥集團股份有限公司, stock code: 600422), a company listed on the Shanghai Stock Exchange. From April 2008 to April 2011, he was an independent non-executive director of Zhejiang CONBA Pharmaceutical Company Limited (浙江康恩貝製藥股份有限公司, stock code: 600572), a company listed on the Shanghai Stock Exchange. Since February 2013, he has been an independent non-executive Director of Yan He Medicines Company Limited (仁和藥業股份有限公司, stock code : 000650), a company listed on the Shenzhen Stock Exchange. Currently, he is the chairman of Beijing Strategy & Action Enterprise Management Consulting Company Limited (北京時代方略企業管理諮詢有限公司).

Mr. Wong Cheuk Lam (黃焯琳), aged 53, was appointed as an independent non-executive Director of the Company on 5 November 2010. He has over 26 years of experience in accounting and finance fields. Mr. Wong obtained a bachelor degree in arts from the University of Hong Kong in 1992 and a master degree in business from Victoria University of Technology, Australia in 1997. Mr. Wong is a member of the Hong Kong Institute of Certified Public Accountants, a member of CPA Australia and a Certified Taxpay Strategist (PRC). From 1994 to 2003, Mr. Wong worked in accounting positions in Sakura Finance Asia Limited, BOCI Securities Limited and Going Accounting Services Company. He worked at Zhengzhou China Resources Gas Company Limited (鄭州華潤燃氣股份有限公司), a company previously named Zhengzhou Gas Company Limited and was listed on the Stock Exchange as a company secretary from 2003 to January 2013, a chief financial officer from July 2005 to January 2013 and a financial controller from October 2007 to July 2010. From February 2015 to May 2015, Mr. Wong worked in Genvon Group Limited (currently named Beijing Enterprises Medical and Health Industry Group Limited), a company listed on the Main Board of the Stock Exchange (stock code: 2389), as financial controller and deputy company secretary. From May 2015 to June 2016, Mr. Wong was the CFO and company secretary of ASR Logistics Holdings Limited (currently named Beijing Sports and Entertainment Industry Group Limited), a company listed on the Main Board of the Stock Exchange (stock code: 1803). From August 2018 to October 2019, Mr. Wong was employed as the deputy company secretary of China Shun Ke Long Holdings Limited (中國順客隆控股有限公司), a company listed on the Main Board of the Stock Exchange (Stock code: 974). Since March 2020, Mr. Wong has worked in Megain Holding (Cayman) Co., Limited (美佳音控股有限公司) as a company secretary.

Directors' and Senior Management's Biographies

Mr. Zhang Jianbin (張建斌), aged 61, was appointed as an independent non-executive Director of the Company on 1 August 2013. Mr. Zhang has over 29 years of experience in teaching and researching in the management aspect of marketing, services marketing and brand marketing, and in project consultation work. Mr. Zhang obtained a bachelor degree in engineering (industrial management engineering profession) from Wuhan University of Technology (formerly known as Wuhan Institute of Technology) in June 1982. Mr. Zhang completed a USA MBA program (organised by the graduate school of Columbia University and other universities) of Beijing Information Science & Technology University (formerly known as Beijing Institute of Machinery) in September 1986, and obtained a doctor's degree of economics (industrial economics profession) from the College of Economics, Jinan University in July 1999. Mr. Zhang worked in the Management Engineering Faculty of Wuhan University of Technology (formerly known as Wuhan Institute of Technology) as a teaching assistant and a lecturer from July 1982 to March 1989. He worked in the Management Engineering Faculty of Guangdong University of Technology (formerly known as Guangdong Institute of Technology) as a teaching assistant, lecturer, associate professor and served as deputy director, director and deputy head of the Teaching and Research Department from March 1989 to June 1998. Mr. Zhang has been teaching at Jinan University since July 1998 and is an associate professor and a tutor to master's degree research students at the Management School of Jinan University. Mr. Zhang was also the director of the MBA Department and deputy director of the MBA education centre from 2003 to 2005. Mr. Zhang was a chief marketing consultant of the Fourth Shoe Factory (第四皮鞋廠) in Wuhan city from 1987 to 1989. He was a factory director of Zhongshan Precision Instrument Factory (中山先能精密儀器廠) from 1991 to 1992 and a manager of the Planning Department of Guangdong International Mass Advertising Media Company (廣東國際大眾廣告傳播公司) from 1992 to 1993. From 1993 to 1995, Mr. Zhang was a general manager of Guangdong Design and Planning Company (廣東創世紀設計策劃公司) and was a marketing consultant of Guangdong Construction Real Estate Company (廣東建業房地產公司) from 1995 to 1996. He was a marketing consultant of Guangdong Yihe Real Estate (Group) (廣東頤和地產(集團)有限公司) from 1997 to 2002 and a consultant of Guangdong Persian Technology Company Limited (廣東波斯科技股份有限公司) from 2002 to 2012.

SENIOR MANAGEMENT

Mr. Chan Hon Wan (陳漢雲), aged 61, was appointed as the financial controller and company secretary of the Company on 25 June 2009. Currently, he is also the authorised representative of the Company. He is responsible for the management of the Group's financial matters. Mr. Chan has over 36 years of experience in auditing and accounting fields. He served as a financial controller of Fairwood Fast Food Limited from 1995 to 1998. He also worked as a corporate finance director of Texwood Limited from 2000 to 2005 and a business director of Texwood Group from 2006 to 2008, respectively. Mr. Chan received a bachelor degree in economics from Macquarie University Australia in 1986. In 2005, he received a master degree in science (accountancy) from the Hong Kong Polytechnic University. He is an associate member of the Institute of Chartered Accountants in Australia and an associate member of the Hong Kong Institute of Certified Public Accountants.

Ms. Fang Danna (方丹娜), aged 56, has been the financial manager of SZ Kingworld since 1995. She is primarily responsible for the management of SZ Kingworld's financial policies. Ms. Fang has approximately 30 years of experience in the accounting industry. She worked for the accounting department of Shenzhen Xinwei Electronics Company Limited (深圳新偉電子有限公司) in 1989 before she joined SZ Industry as a financial manager in 1995. Ms. Fang completed a course in accounting from Wuhan University (武漢大學) in 1991.

Directors' and Senior Management's Biographies

Mr. Zhao Kin Wai (趙鍵璋), aged 31, joined the Group in 2017 as an assistant to the Chairman. He is mainly responsible for the informatization, product introduction and Longde business of the Group. Mr. Zhao obtained a master's degree from Columbia University in 2016. He is proficient in mathematics and business, and has working experience as a real estate financial analyst in the United States. He is the vice chairman of the Hong Kong Youth Development Alliance and a member of the Internet Society of Hong Kong. He has been a CPPCC member in Nanshan District, Shenzhen since 2021. Mr. Zhao Kin Wai is the son of Mr. Zhao Li Sheng, the Chairman and an executive Director of the Company, and Ms. Chan Lok San, an executive Director of the Company.

Mr. Liu Jinwu (劉金武), aged 43, is the deputy controller of the pharmaceutical department of SZ Kingworld. He is mainly responsible for the market planning, promotion and market management of various products of the pharmaceutical department. Mr. Liu has over 15 years of experience in marketing and management operations. In 2005, he worked in the marketing department of Shenzhen Jie Nuo Import and Export Trading Company (深圳傑諾進出口貿易公司). Mr. Liu graduated from Hunan College of Traditional Chinese Medicine majoring in traditional Chinese medicine in 2002. He joined SZ Kingworld in 2007.

Mr. Xie Yaoliang (謝耀樑), aged 51, is the executive sales and marketing general manager of SZ Kingworld. He is mainly responsible for the sales of the pharmaceutical segment. Mr. Xie has over 22 years of experience in the pharmaceutical field. In 2014, he completed the relevant courses of the Zhongda Kingworld EMBA Seminar (中大金活EMBA課程研修班) of Sun Yat-sen University. Mr. Xie joined SZ Kingworld in 1999.

Ms. Zhang Yingxia (張迎霞), aged 46, is the controller of the operation management center SZ Kingworld. She is mainly responsible for the coordination and management of pharmaceutical business operations and the data construction of the Group. Ms. Zhang has over 20 years of experience in the pharmaceutical industry. She graduated from Nanjing University majoring in international affairs in 1995, and graduated from Nanjing Academy of Political Science majoring in law in 2004. Ms. Zhang joined SZ Kingworld in 2008.

Mr. Xing Guang Qian (邢光前), aged 41, is the controller of Zhejiang-Shanghai region of SZ Kingworld. He is primarily responsible for the sales and management in Beijing, Shanghai, Zhejiang, Jiangxi and Shandong. Mr. Xing has over 20 years of experience in the pharmaceutical industry. He was a lecturer at Zhejiang Dianzi University from 2014 to 2017. Mr. Xing completed the relevant courses of Innovative Development EMBA Advanced Seminar (創新發展EMBA高級研修班) of Shanghai Jiao Tong University in 2020. He joined SZ Kingworld in 2013.

Mr. Fang Jia Zhi (方嘉治), aged 39, is the manager of the investment center of Kingworld Medicines Group Limited. He is primarily responsible for affairs of the investment center of the Group. Mr. Fang has over 14 years of experience in corporate restructuring and investment related fields. From 2007 to 2010, he served as the head of the securities department of SZ Kingworld, where he participated in the preparation for the listing of the Company; from November 2010 to February 2015, he served as controller, deputy manager and manager of the investment center of SZ Kingworld successively, where he participated in and was responsible for project research, equity participation and acquisition matters. Since August 2015, he has been the manager of the investment development center of the Group, responsible for investment matters. Since 2021, he has served as a supervisor of Fat Chi Medicine Company Limited (佛慈藥廠有限公司), a Hong Kong company. Mr. Fang graduated from School of Law of Huaqiao University majoring in law in 2006. He joined SZ Kingworld in 2007.

Directors' and Senior Management's Biographies

Mr. Huang Zhihui (黃志輝), aged 30, is the manager of the audit and supervision center of the Group. He is primarily responsible for formulating, implementing and reviewing the internal control of SZ Kingworld. Mr. Huang completed accounting related courses at Central South University in 2019. He joined SZ Kingworld in 2016.

Ms. Wang Hui (王慧), aged 38, executive controller of Human Resource Center of SZ Kingworld. She is responsible for human resource management of the Group. Ms. Wang has over 15 years of experience in the human resource management field. She has been worked for Human Resource Center of Philips Respironics since 2007. She served as training manager of DOVINIE from 2010 to 2016 and training consultant of Shenzhen Jiufu Chaoneng (深圳玖富超能) from 2016 to 2018. Ms. Wang obtained Master degree in Human Resource Management from Keele University of UK in 2007. She joined SZ Kingworld in 2018.

Mr. Chen Yong (陳勇), aged 49, manager of the finance department of SZ Kingworld. He is primarily responsible for the finance work of SZ Kingworld Medicine (深圳金活醫藥) and Dong Di Xin. Mr. Chen has over 29 years of experience in the financial accounting industry. He worked for accounting department of Yuan Cheng CCB House Credit (源城建行房信) in 1994, accounting department of Zhuhai Red Flag CCB (珠海紅旗建行) in 1997 and finance department of Shenzhen Mumianhua Hotel (深圳市木棉花酒店) in 2001. Mr. Chen obtained financial practice qualification from Ministry of Personnel of the People's Republic of China in 2000. He obtained intermediate certificate in accounting from Ministry of Finance of the People's Republic of China in 2006. Mr. Chen graduated from Foshan Agricultural and Animal Husbandry College (佛山農牧高等專科學校) in 1994. He joined SZ Kingworld in 2004.

Mr. Chen Yueyue (陳躍躍), aged 40, controller of SZ Kingworld in East China. He is primarily responsible for the sales management. Mr. Chen has over 10 years of experience in the medicine sales industry. He graduated from Nanjing University of Chinese Medicine in 1994. Mr. Chen joined SZ Kingworld in 2011.

Mr. Liu Yibing (劉亦兵), aged 62, is the assistant of the General Manager of SZ Kingworld. He is primarily responsible for the implementation of the Group's administrative policies. Mr. Liu has approximately 19 years of experience in the administrative field. He worked in the cadre training center at the human resources department of Foxconn International Group between 1995 and 1998. Mr. Liu received a bachelor degree in Chinese literature from Hunan Normal University (湖南師範大學) in 1982. He joined SZ Kingworld in 2001.

Mr. Ceng Yun (曾瀟), aged 51, is the sales controller (commerce) of SZ Kingworld. He is primarily responsible for the customer and sales management. Mr. Ceng has approximately 22 years of experience as a sales manager in the pharmaceutical industry. Mr. Ceng completed a master degree in industrial economics from Nanchang University (南昌大學) in 2001. He joined SZ Kingworld in 1996.

Directors' and Senior Management's Biographies

Mr. Huang Ruozhong (黃若忠), aged 59, is the corporate finance controller of SZ Kingworld and is responsible for managing the matters relating to the Listing. He has 26 years of experience in handling securities and finance related matters. Mr. Huang worked in the securities department of the Shantou branch of the Bank of Communications Co. Ltd. from 1992 to 1999. Mr. Huang worked in the securities trading department of the Shantou Trust and Investment Company from 1999 to 2002, and worked for the Deheng Securities Company Limited (德恒證券有限公司) from 2002 to 2003. Since 2004, Mr. Huang has been the executive directors of 20 subsidiaries and served as a director of Zhuhai Jinming since 2006. In 1998, he obtained financial practice qualification (intermediate class) from Ministry of Personnel of the People's Republic of China. In 2001, Mr. Huang was presented with the qualification of handling securities business by the Securities Association of China (中國證券協會). He graduated from the Chinese People's Liberation Army Air Force Engineering University (中國人民解放軍空軍工程大學) and Chinese People's Liberation Army Guilin Air Force Academy (中國人民解放軍桂林空軍學院) in 1985 and 1989 respectively. In 2014, he completed the relevant courses of the Zhongda Kingworld EMBA Seminar (中大金活EMBA課程研修班) of Sun Yat-sen University. Mr. Huang joined SZ Kingworld in 2003.

The emoluments of each of the above senior management of the Group fall within the band of Nil to HK\$1,000,000.

Corporate Governance Report

The Board strives to uphold the principles of corporate governance set out in the Corporate Governance Code (the “**CG Code**”) in force during the Year Under Review as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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, in force during the Year Under Review 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.

BOARD OF DIRECTORS

The Board is the core of the Company’s corporate governance framework and its role is clearly separated from that of senior management. The Board is responsible for providing guidance for senior management and maintaining effective supervision over senior management. Since the day-to-day running of the Company has been delegated by the Board to the senior management, the senior management is responsible for the implementation of the policies resolved. In general, the responsibilities of the Board include formulating operation plans and investment proposals of the Company, preparing the proposed and final annual budgets of the Company, assessing the performance of the Company and overseeing the work of senior management.

Corporate Governance Report

As at 31 December 2021, the Board comprises a total of six Directors, being three executive Directors (the “**Executive Directors**”), and three independent non-executive Directors (the “**Independent Non-executive Directors**”). Mr. Zhao Li Sheng, Ms. Chan Lok San and Mr. Zhou Xuhua served as Executive Directors and Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam served as Independent Non-executive Directors. These Independent Non-executive Directors, who have different business and professional backgrounds, have brought valuable experience and expertise for the best interests of the Group and its Shareholders. Each Independent Non-executive Director has been appointed for a 3-years term of services. Biographical details of and the relationship between the Directors are set out in the paragraph headed “Directors’ and Senior Management’s Biographies” of this report.

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group, and to review and approve the Group’s annual and interim results. During the Year Under Review, six Board meetings were held and attendance of each Director at the Board meetings is set out in the paragraph headed “Board/Committee Meetings and Individual Attendance” of this report.

All members of the Board fully understand their collective and individual responsibility to the Shareholders, and will try their best to carry out their duties to make contributions to the Group’s results.

Throughout the Year Under Review and up to the date of this report, the Company has complied with the requirements under Rules 3.10(1) and (2) and 3.10A of the Listing Rules and has appointed three Independent Non-executive Directors, representing more than one-third of the number of Directors at the Board, with at least one Independent Non-executive Director possessing the appropriate professional qualifications, or accounting or related financial management expertise.

Every Director is entitled to have access to Board papers and related materials and has access to the advice and services of the Company Secretary. The Board and each Director also have separate and independent access to the Company’s senior management.

Corporate Governance Report

Pursuant to article 108 of the articles of association of the Company (the “**Articles of Association**”), one third of the Directors shall retire from office by rotation at each annual general meeting and every Director shall be subject to retirement by rotation at least once every three years. Accordingly, Ms. Chan Lok San being an executive Director and Mr. Wong Cheuk Lam being an independent non-executive Director, shall hold office until the forthcoming annual general meeting of the Company and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company. In considering the re-election of Mr. Wong Cheuk Lam, with the assistance and recommendation from the nomination committee of the Company, the Board has reviewed the structure, size, composition and diversity of the Board from a number of aspects, including but not limited to the age, gender, nationality, length of service and the professional experience, skills and expertise of Mr. Wong Cheuk Lam. The Board is of the view that his education, background and experience practice allow him to provide valuable and relevant insights and contribute to the diversity of the Board. The Board is also of the view that during his tenure as independent non-executive Director, Mr Wong Cheuk Lam has made positive contributions to the Group’s development, strategy and performance with his independent advice and comments and his understanding of the business of the Group. The Board believes that Mr. Wong Cheuk Lam will bring his valuable experience to the Board for promoting the best interests of the Company and its Shareholders. Holding less than seven listed company directorship, Mr. Wong Cheuk Lam is able to devote sufficient time and attention to perform the duties as independent non-executive Directors. Alongside the other independent non-executive Directors, he will contribute to ensuring that the interests of all Shareholders are taken into account and that relevant issues are subject to objective and dispassionate consideration by the Board. The Company received written confirmation from Mr. Wong Cheuk Lam on his independence in accordance with the Listing Rules. In view of the aforesaid factors, the Board would recommend Mr. Wong Cheuk Lam for re-election at the forthcoming annual general meeting of the Company.

Accordingly, Ms. Chan Lok San and Mr. Wong Cheuk Lam shall retire at the forthcoming annual general meeting of the Company. The retiring Directors, all being eligible, offer themselves for re-election.

BOARD COMMITTEES

The Board has formed three committees, namely the audit committee, the remuneration committee and the nomination committee, for overseeing particular aspects of the Company’s affairs. All committees have been formed with specific written terms of reference in compliance with the Listing Rules which deal with their respective authorities and duties.

Copies of minutes of all meetings and resolutions of the committees, which are kept by the company secretary of the Company (the “**Company Secretary**”), are circulated to all Board members and the committees are required to report back to the Board on their decision and recommendations where appropriate. The procedures and arrangements for a Board meeting have been adopted for the committee meetings so far as practicable.

Members, duties and responsibilities of the committees are as follows:

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.

Corporate Governance Report

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, the results announcement, this annual report, the accounting principles and practices adopted by the Group, as well as the risk management and internal control systems of the Group for the Year Under Review, and agreed with the accounting treatments adopted by the Group, and was of the opinion that the preparation of the financial statements in this annual report complies with the applicable accounting standards and the requirements under the Listing Rules and adequate disclosures have been made.

REMUNERATION COMMITTEE

The Company established a remuneration committee (the "**Remuneration 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 Remuneration Committee has three members, namely Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam, who are Independent Non-executive Directors. Mr. Zhang has been appointed as the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee are (among other things) to review and approve the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management and to make recommendations to the Board on the Group's policy and structure for all remuneration of the Directors and senior management.

During the Year Under Review, the Remuneration Committee held two meetings and all the members attended the meeting. The work performed by the Remuneration Committee during the Year Under Review included considering the policy for the remuneration of executive directors, the performance of executive directors, and the terms of executive directors' service contracts.

Corporate Governance Report

The Remuneration Committee adopted the approach under Code Provision B.1.2(c)(ii) of the CG Code to make recommendation to the Board on the remuneration packages of the individual Executive Directors and senior management of the Company.

NOMINATION COMMITTEE

The Company established a nomination committee (the “**Nomination 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 Nomination Committee has three members, namely Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam. Mr. Duan has been appointed as the chairman of the Nomination Committee.

The primary duties of the Nomination Committee are (among other things) reviewing the structure, size and diversity of the Board, making recommendations to the Board on appointment of Directors and succession planning for Directors and assessing independence of the Independent Non-executive Directors.

The Nomination Committee shall assess whether any vacancy on the Board has been created or is expected on a regular basis or as required. In the selection and nomination for new Directors, the Nomination Committee identifies the key attributes that an incoming Director should have, based on attributes of the existing Board and the requirements of the Group. The Nomination Committee utilises various methods for identifying potential candidates, including recommendations from the members of the Board, management and professional search firms. All potential candidates are evaluated by the Nomination Committee based on their qualifications. The potential candidates will go through a shortlisting process. Interviews are then set up with the shortlisted candidates for the Nomination Committee to assess them before a decision is made. New Directors are appointed by way of a board resolution, after the Nomination Committee has approved their nominations.

The Nomination Committee has adopted a policy concerning diversity of Board members, which is achieved through consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, industry experience, skills, knowledge and length of service in related business areas and will make recommendations on any proposed changes to the Board to complement the Company’s corporate strategy.

The Nomination Committee reviews the Board’s nomination policy and diversity policy on a regular basis and discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

During the Year Under Review, the Nomination Committee held two meetings and all the members attended the meetings. The work performed by the Nomination Committee during the Year Under Review included reviewing the established policy and procedure for the nomination and appointment of new Directors, reviewing the Board’s nomination policy and diversity policy and the measurable objectives that the Board has set for implementing such policy and assessing the independence of the Independent Non-executive Directors. The Nomination Committee, having reviewed the structure, size, composition and diversity of the Board including the gender, age, culture and educational background, professional experience and industry experience of each Director vis-a-vis the Group’s business strategy as well as the structure for the rotation of Directors, considered that the existing arrangements were appropriate.

Corporate Governance Report

BOARD/COMMITTEE MEETINGS AND INDIVIDUAL ATTENDANCE

It is proposed to hold Board meetings at least four times a year regularly. Notice is given to Directors at least fourteen days before a regular Board meeting. Directors will be given reasonable and practicable notification under relevant circumstance for any special Board meeting called.

Before each Board meeting, the Directors are provided with a detailed agenda and sufficient relevant information, so as to enable the Directors to make appropriate decisions in relation to the matters to be discussed therein. All Directors are given an opportunity to include matters of their concern in the agenda of the Board meeting. If any Director or any of his/her associates has material interests in any resolution of the Board meeting, such Director must abstain from voting and should not be counted in the quorum of the meeting.

Details of the attendance records of Directors on Board meetings and board committee meetings for the year ended 31 December 2021 are as follows:

Name of Directors	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Executive Directors					
Mr. Zhao Li Sheng (<i>Chairman</i>)	5/5	–	–	–	1/1
Ms. Chan Lok San	5/5	–	–	–	1/1
Mr. Zhou Xuhua	5/5	–	–	–	1/1
Independent Non-executive Directors					
Mr. Duan Jidong	5/5	2/2	2/2	2/2	1/1
Mr. Wong Cheuk Lam	5/5	2/2	2/2	2/2	1/1
Mr. Zhang Jianbin	5/5	2/2	2/2	2/2	1/1

Subsequent to the year ended 31 December 2021 and up to the date of this report, the Board held two other Board meetings in January for the main purposes of approval the grant of share award to selected participants and in March 2022 for the main purposes of approving the annual results of the Group for the year ended 31 December 2021 and this annual report for publication and formulating business development strategies. All Directors attended such meeting.

TRAINING AND SUPPORT OF DIRECTORS

All Directors have been given relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors and duty of disclosure of interest and business of the Group. All Directors have been updated on the latest developments regarding the Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices. There is a procedure agreed by the Board to ensure the Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses.

Corporate Governance Report

The Directors confirmed that they have complied with Code Provision A.6.5 of the CG Code on Directors' training and have provided a record of the training they received to the Company. All Directors have participated in continuous professional development by the following means to develop and refresh their knowledge.

Name of Directors	Training received
Mr. Zhao Li Sheng	— Reading materials/attending external and in house seminars and programmes
Ms. Chan Lok San	— Reading materials/attending external and in house seminars and programmes
Mr. Zhou Xuhua	— Reading materials/attending external and in house seminars and programmes
Mr. Duan Jidong	— Reading materials/attending external and in house seminars and programmes
Mr. Wong Cheuk Lam	— Reading materials/attending external and in house seminars and programmes
Mr. Zhang Jianbin	— Reading materials/attending external and in house seminars and programmes

RESPONSIBILITIES OF THE DIRECTORS AND EXTERNAL AUDITORS

The Directors are responsible for the preparation of the consolidated financial statements of the Group in accordance with the relevant laws and disclosure stipulations of the Listing Rules and ensuring that these consolidated financial statements give a true and fair view of the state of affairs of the Group, its results and cash flows for the relevant period. The Board also ensures the timely publication of the consolidated financial statements of the Group. The Board confirms that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt about the Company's ability to continue as a going concern.

The responsibilities of the external auditors are to express an independent opinion on the consolidated financial statements prepared by the Directors based on their audit and to report their opinion solely to all the Shareholders, and for no other purpose. The statement of external auditor of the Company, Crowe (HK) CPA Limited, about their reporting responsibilities on the consolidated financial statements of the Group is set out in the "Independent Auditor's Report" of this report.

REMUNERATION OF EXTERNAL AUDITORS

For the year ended 31 December 2021, the remuneration paid to the external auditors in Hong Kong and the PRC, for audit services amounted to approximately RMB1,375,000 (equivalent to approximately HK\$1,650,000).

For the year ended 31 December 2021, the total remuneration for the permissible non-audit services provided by the external auditors amounted to RMB191,000 (equivalent to approximately HK\$230,000), mainly represents remuneration for interim review services.

Corporate Governance Report

INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL COMPLIANCE GUIDELINES

The Board has to be fully responsible for the stability and effectiveness of the systems of internal control and risk management of the Group. Such systems were set up by the Group to fulfill specific needs of the Group and the risks that its management faces. The Group has set up rigorous procedures to avoid unauthorised use or disposal of the Group's assets, ensure proper maintenance of accounting records, and provide reliable financial information for internal and external uses.

The Board has assigned internal audit department to conduct a review on the internal control system, work flow and risk management system of the Group. The result was satisfactory. Such systems and work flow are compliant with the internal compliance guidelines of the Group.

For the year ended 31 December 2021, through reviews conducted by the Audit Committee and study results from the internal audit department, the Board has conducted a review on the effectiveness of internal control system, the risk management system and the internal compliance guidelines, and has come to the conclusion that such systems and guidelines have been effectively and adequately executed and followed.

CORPORATE GOVERNANCE MEASURES

During the Year Under Review, since no new opportunities relating to the Restricted Activity (as defined in the Company's prospectus dated 12 November 2010, the "**Prospectus**") were referred to the Group, the Independent Non-executive Directors had not reviewed any decision in relation to new opportunities referred to the Group.

The Independent Non-executive Directors had, however, reviewed the compliance with the non-competition undertaking entered into by Golden Land International Limited ("**Golden Land**"), Mr. Zhao Li Sheng ("**Mr. Zhao**"), Golden Morning International Limited ("**Golden Morning**") and Ms. Chan Lok San ("**Ms. Chan**"), the controlling shareholders of the Company (the "**Controlling Shareholders**"), in favour of the Company under the Deed of Non-Competition (as defined in the Prospectus), the options, pre-emptive rights or first rights of refusals, if any, provided by the Controlling Shareholders on its existing or future competing businesses. The Independent Non-executive Directors confirmed that the terms of the Deed of Non-Competition were complied with by the Controlling Shareholders during the Year Under Review. The Independent Non-executive Directors are not aware of any breach of the terms of the Deed of Non-Competition by the Controlling Shareholders and therefore, no enforcement action was taken against the Controlling Shareholders by the Company during the Year Under Review.

Each of the Controlling Shareholders has confirmed that he/she/it has, during the Year Under Review, complied with the non-competition undertaking under the Deed of Non-Competition.

DIRECTORS' INSURANCE

The Company has arranged appropriate insurance cover in respect of the legal action against the Directors.

COMPANY SECRETARY

Mr. Chan Hon Wan was appointed as the Company Secretary on 25 June 2009. He is an employee of the Company and has day-to-day knowledge of the Company's affairs. He is responsible for ensuring a good information flow within the Board and the compliance of the board policy and procedures.

During the Year Under Review, Mr. Chan has confirmed that he has duly complied with the relevant requirement under Rule 3.29 of the Listing Rules and taken no less than 15 hours of relevant professional training. His biographical details are set out in the paragraph headed "Directors' and Senior Management's Biographies" in this report.

Corporate Governance Report

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to convene and putting forward proposals at an extraordinary general meeting

Extraordinary general meetings shall be convened on the written requisition of any one or more Shareholder(s) holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. Such requisition shall be made in writing to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself/themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for directing Shareholders' enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary of the Company by mail to Unit 613, 6th Floor, Goodluck Industrial Centre, 808 Lai Chi Kok Road, Kowloon, Hong Kong, or by e-mail to kingw@kingworld.com.cn.

Shareholders may also make enquiries with the Board at the general meetings of the Company.

INVESTOR RELATIONS

The Company believes that maintaining effective communication with the investors is crucial so as to let them have a deeper understanding of the Company's business and its development. To achieve this goal and increase transparency, the Company will continue to adopt proactive measures to foster better investor relations and communications. As such, the Company has formulated investor relations policies for the purpose of letting investors have access to information of the Group in a fair and timely manner, so that they can make an informed decision.

We welcome investors to write to the Company or send their inquiries to the Company's website www.kingworld.com.cn to share their opinions with the Board. The Company's website also discloses the latest business information of the Group to investors and the public.

On behalf of the Board
Kingworld Medicines Group Limited
Mr. Zhao Li Sheng
Chairman of the Board

Hong Kong, 29 March 2022

Report of the Directors

The Directors have pleasure in presenting the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2021 (the “**Financial Statements**”).

PRINCIPAL BUSINESS

The Company is an investment holding company. The Group is principally engaged in (i) distribution of imported branded pharmaceutical and healthcare products in the PRC; and (ii) manufacturing and sales of electrotherapeutic, physiotherapeutic devices and general medical examination devices. As at 31 December 2021, the Group managed a portfolio of eleven categories with more than sixty products including pharmaceutical products, healthcare products, general foodstuffs and medical products from fourteen suppliers and/or manufacturers in Japan, United States, Canada, Hong Kong, Taiwan, Thailand and the PRC. Many of the products distributed by the Group are established brand names including Nin Jiom Chuan Bei Pei Pa Koa, Taiko Seirogan, Kingworld Imada Red Flower Oil, Culturelle probiotics product series, Lifeline Care product series and Mentholatum product series. Amongst these brands, “Nin Jiom” has always been the best-seller of the Group. Nin Jiom Chuan Bei Pei Pa Koa is also the best-selling Chinese medical cough relieving product in the PRC, which is the leading product with the largest market share.

RESULTS AND DIVIDENDS

Profit of the Group for the year ended 31 December 2021 and the state of affairs of the Company and the Group as at that date are set out in the Financial Statements on pages 85 to 198 of this report.

To extend the Company’s gratitude for the support of the 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.

POLICY ON PAYMENT OF DIVIDENDS

The Company has adopted a policy on payment of dividends (the “**Dividend Policy**”), which establishes an appropriate procedure on declaring and recommending the dividend payment of the Company.

The Company will declare and/or recommend the payment of dividends to the Shareholders after considering the Company’s ability to pay dividends, which will depend upon, among other things, its actual and expected financial results, cash flow, general business conditions and strategies, current and future operations, statutory, contractual and regulatory restrictions. The Board has complete discretion on whether to pay a dividend, subject to the Shareholders’ approval, where applicable. Even if the Board decides to recommend and pay dividends, the form, frequency and amount will depend upon the operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors affecting the Group. The Board may also consider declaring special dividends from time to time, in addition to the interim and/or final dividends.

The Company shall review and reassess the Dividend Policy and its effectiveness on a regular basis or as required.

Report of the Directors

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.

BUSINESS REVIEW

A review of the business of the Group for the Year Under Review and a discussion on the Group's future business development are provided in the "Management Discussion and Analysis" on pages 11 to 39. An analysis of the Group's performance during the Year Under Review using financial key performance indicators is provided in the five-year "Financial Summary" on page 199. No important event affecting the Group has occurred since the end of the Year Under Review.

ENVIRONMENTAL POLICY

The Group is committed to supporting the environmental sustainability. Our commitment to protect the environment is well reflected by our continuous efforts in promoting green measures and awareness in our daily business operations. The Group encourages environmental protection and promote awareness towards environmental protection to the employees. The Group adheres to the principle of recycling and reducing. It implements green office practices such as double-sided printing and copying, setting up recycling bins, promoting using recycled paper and reducing energy consumption by switching off idle lightings and electrical appliance.

The Group will review its environmental practices from time to time and will consider implementing further eco-friendly measures and practices in the operation of the Group's businesses to move towards adhering the 3Rs – Reduce, Recycle and Reuse and enhance environmental sustainability.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the Year Under Review, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

Report of the Directors

RELATIONSHIPS WITH STAKEHOLDERS

The Company recognises that employees are the valuable assets. Thus the Group provides competitive remuneration package to attract and motivate the employees. The Group regularly reviews the remuneration package of employees and makes necessary adjustments to conform to the market standard.

The Group also understands that it is important to maintain good relationship with business partners and bank enterprises to achieve its long-term goals. Accordingly, our senior management have kept good communication, promptly exchanged ideas and shared business update with them when appropriate. During the Year Under Review, there was no material and significant dispute between the Group and its business partners or bank enterprises.

KEY RISKS AND UNCERTAINTIES

The Group's financial condition, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to the Group's businesses. The followings are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

Market Risk

Market risk is the risk that deteriorates profitability or affects ability to meet business objectives arising from the movement in market prices. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign exchange risk

RMB and HK\$ are the functional and operational currencies of the Group. The Group faces foreign exchange risk arising from the fluctuations in RMB and HK\$. The Group has no major risks in changes in other currency exchange rates.

Liquidity Risk

Liquidity risk is the potential that the Group will be unable to meet its obligations when they fall due because of an inability to obtain adequate funding or liquidate assets. In managing liquidity risk, the Group monitors cash flows and maintains an adequate level of cash and cash equivalents to ensure the ability to finance the Group's operations and reduce the effects of fluctuation in cash flows.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels.

Key functions in the Group are guided by their standard operating procedures, limits of authority and reporting framework. Our management will identify and assess key operational exposures regularly so that appropriate risk response can be taken.

Report of the Directors

LITIGATION AND CONTINGENT LIABILITIES

Save as disclosed in the paragraph headed “Litigation” on page 36 of this report, as at 31 December 2021, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

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.

Report of the Directors

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 report, 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 report.

- (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).

Report of the Directors

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 31 December 2021	Approximate percentage of total issued share capital
						Outstanding as at 1 January 2021	Granted during the Year	Cancelled during the Year		
Zhao Li Sheng (Note 1)	Chairman/Executive Director	23 April 2018	23 April 2018 to 22 April 2024	1.26	327,600	-	-	(327,600)	-	-
Chan Lok San (Note 2)	Executive Director	23 April 2018	23 April 2018 to 22 April 2024	1.26	291,200	-	-	(291,200)	-	-
Zhou Xuhua	Executive Director	23 April 2018	23 April 2018 to 22 April 2024	1.26	291,200	-	-	(291,200)	-	-
Duan Jidong	Independent non-executive Director	23 April 2018	23 April 2018 to 22 April 2024	1.26	260,400	-	-	(260,400)	-	-
Zhang Jianbin	Independent non-executive Director	23 April 2018	23 April 2018 to 22 April 2024	1.26	260,400	-	-	(260,400)	-	-
Wong Cheuk Lam	Independent non-executive Director	23 April 2018	23 April 2018 to 22 April 2024	1.26	260,400	-	-	(260,400)	-	-
Sub-total of Share Options granted to Directors						1,691,200	-	(1,691,200)	-	-
77 Employees	Employees of the Group	23 April 2018	23 April 2018 to 22 April 2024	1.26	9,612,400	-	-	(9,612,400)	-	-
Total					11,303,600	-	-	(11,303,600)	-	-

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.

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

Report of the Directors

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.

BORROWINGS

Details of the Group’s bank borrowings as at 31 December 2021 are set out in Note 27 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

Other than the Share Option Scheme of the Company as disclosed above, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the Year Under Review or subsisted at the end of the year.

Report of the Directors

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save as disclosed in this report, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company, the Company's subsidiaries or holding companies, or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the Year Under Review.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Articles of Association, each Director or other officers of the Company shall be indemnified out of the assets and profits of the Company against all losses or liabilities which he or she may sustain or incur in or about the execution of the duties of his or her office or otherwise in relation thereto. In addition, the Company has maintained appropriate directors and officers liability insurance in respect of relevant legal actions against the Directors.

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 report, 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.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 30 to the consolidated financial statements.

RESERVES

Details of change in reserves of the Group and the Company are set out on page 89 of the "Consolidated Statement of Changes in Equity" and Note 30 to the consolidated financial statements.

Report of the Directors

DISTRIBUTABLE RESERVES

Under the Companies Law of the Cayman Islands, the funds in the share premium account and contributed surplus account of the Company are distributable to the owners of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

As at 31 December 2021, the aggregate amount of reserves available for distribution to owners of the Company was approximately RMB112,667,000 (31 December 2020: approximately RMB130,829,000). After the end of the Year Under Review, the Directors proposed a final dividend of HK2.39 cents (equivalent to RMB1.95 cents) (2020: HK0.65 cents, equivalent to RMB0.55 cents) per share amounting to approximately RMB12,138,000 (2020: approximately RMB3,424,000). The proposed final dividend has not been recognised as a liability at the end of the Year Under Review.

CHARITY DONATIONS

Charity donations made by the Group during the Year Under Review was approximately RMB2,350,000 (2020: approximately RMB3,976,000).

PROPERTY, PLANT AND EQUIPMENT

Details of changes in property, plant and equipment of the Group are set out in Note 13 to the consolidated financial statements.

INVESTMENT PROPERTIES

The Group's investment properties were revalued as at 31 December 2021, increase in fair value of investment properties arising on revaluation amounting to approximately RMB800,000 has been charged to the consolidated statement of profit or loss. Details of the Group's investment properties as at 31 December 2021 are set out in Note 14 of the consolidated financial statements and on page 200 of this report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the terms of the Company's Articles of Association or the laws in the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to its existing Shareholders.

SUBSIDIARY COMPANIES

Details of the major subsidiary companies of the Company as at 31 December 2021 are set out in Note 15 to the consolidated financial statements.

Report of the Directors

DIRECTORS

The Directors of the Company during the year ended 31 December 2021 and up to the date of this report have been:

Executive Directors

Mr. Zhao Li Sheng (*Chairman*)
Ms. Chan Lok San
Mr. Zhou Xuhua

Independent Non-executive Directors

Mr. Duan Jidong
Mr. Wong Cheuk Lam
Mr. Zhang Jianbin

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Company are set out on pages 40 to 45 under the section headed "Directors' and Senior Management's Biographies" in this report.

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company confirmed that it has received from each Independent Non-executive Director a written annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers, based on the confirmations received, the Independent Non-executive Directors remain independent.

REMUNERATIONS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

The Remuneration Committee considers and makes recommendation to the Board on the remuneration and other benefits payable to the Directors. The committee regularly oversees the remuneration of all Directors to ensure that their remuneration and compensation are at appropriate level. The Group maintains competitive remuneration packages with reference to the industry standard and according to the business development of the Group to attract and retain its Directors as well as to control costs.

The Board determines the remuneration of the Directors on the basis of the Company's performance, together with the relevant Directors' qualifications, responsibilities, experience, contributions and positions held with the Company. Details of the remuneration of the Directors are set out in Note 11 to the consolidated financial statements.

The five highest paid individuals of the Group in the Year Under Review include 3 Directors (2020: 3 Directors). Details of the five highest paid individuals are set out in Note 12 to the consolidated financial statements.

Report of the Directors

SERVICE CONTRACTS OF DIRECTORS

Executive Directors

Each of the Executive Directors has entered into a service contract with the Company for a term of three years commencing from the Listing Date and may be terminated by not less than three months' prior notice in writing served by either party to the other. Subject to the retirement and re-election at the annual general meeting of the Company in accordance with (inter alia) the Articles of Association, the latest service contract was renewed on 25 November 2019 until being terminated pursuant to the terms of the service contract.

For the Year Under Review, the annual remuneration payable to each of the Executive Directors was as follows:

	RMB'000
Mr. Zhao Li Sheng	1,360
Ms. Chan Lok San	1,206
Mr. Zhou Xuhua	496

Under their respective service contracts, each of the Executive Directors is entitled to a discretionary year-end bonus of an amount to be determined by the Remuneration Committee and approved by the Board.

Each of the Executive Directors will also be entitled to reimbursement of reasonable expenses including traveling, hotel, entertainment and other expenses properly incurred in the performance of his or her duties under the relevant service contract.

Independent Non-executive Directors

Each of the Independent Non-executive Directors (other than Mr. Zhang Jianbin) has signed a letter of appointment with the Company for a term of three years commencing on the Listing Date and may be terminated by giving three months' notice in writing thereof by either party to the other. Subject to the retirement and re-election at the annual general meeting of the Company in accordance with (inter alia) the Articles of Association, the latest letter of appointment was renewed on 25 November 2019 until being terminated pursuant to the terms of the letter of appointment. Mr. Zhang Jianbin has signed a letter of appointment with the Company for a term of three years commencing from 1 August 2013, which may be terminated by giving three months' notice in writing by either party to the other. Subject to the retirement and re-election at the annual general meeting of the Company in accordance with (inter alia) the Articles of Association, the letter of appointment was renewed on 1 August 2019 until being terminated pursuant to the terms of the letter of appointment.

For the Year Under Review, the annual remuneration payable to each of the Independent Non-executive Directors was as follows:

	RMB'000
Mr. Duan Jidong	274
Mr. Wong Cheuk Lam	274
Mr. Zhang Jianbin	274

Report of the Directors

Each of the Independent Non-executive Directors will also be entitled to reimbursement of traveling expenses properly incurred in the performance of his/her duties under the relevant appointment letter.

Save as disclosed above, none of the Directors has entered or is proposed to enter into any service agreements with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed under the paragraph headed "Continuing Connected Transactions", during the year ended 31 December 2021, no Director is considered to have interests in the businesses which compete or are likely to compete directly or indirectly with the businesses of the Group.

DISCLOSURE OF INTERESTS

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

As at 31 December 2021, the interests and short positions held by the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

(I) Interest in the shares in the Company:

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

Report of the Directors

Notes:

1. In addition to 19,072,000 shares which are beneficially owned by Mr. Zhao Li Sheng ("**Mr. Zhao**"), Mr. Zhao is deemed (by virtue of the SFO) to be interested in 388,556,250 shares in the Company. These shares are held in the following capacities:
 - (a) 297,812,250 shares are held by Golden Land International Limited ("**Golden Land**"). Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Mr. Zhao is deemed to be interested in the 297,812,250 shares held by Golden Land. Mr. Zhao is also the sole director of Golden Land.
 - (b) 744,000 shares are held by Ms. Chan Lok San ("**Ms. Chan**"), the spouse of Mr. Zhao, in her own name and 90,000,000 shares are held by Golden Morning International Limited ("**Golden Morning**"). Ms. Chan, is the beneficial owner of the entire issued share capital of Golden Morning, therefore, Mr. Zhao is also deemed to be interested in the 744,000 shares held by Ms. Chan and 90,000,000 shares held by Golden Morning.
2. Ms. Chan is deemed (by virtue of the SFO) to be interested in 407,628,250 shares in the Company. These shares are held in the following capacities:
 - (a) 744,000 shares are held by Ms. Chan in her own name and 90,000,000 shares are held by Golden Morning. Ms. Chan is the beneficial owner of the entire issued share capital of Golden Morning, therefore, Ms. Chan is deemed to be interested in the 90,000,000 shares held by Golden Morning. Ms. Chan is also the sole director of Golden Morning.
 - (b) 19,072,000 shares are held by Mr. Zhao Li Sheng, the spouse of Ms. Chan, in his own name and 297,812,250 shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Ms. Chan is also deemed to be interested in the 19,072,000 shares held by Mr. Zhao and the 297,812,250 shares held by Golden Land.
3. 744,000 shares are held by Mr. Zhou Xuhua ("**Mr. Zhou**"), in his own name and Mr. Zhou is also deemed (by virtue of the SFO) to be interested in 2,380,000 shares in the Company held by his spouse, Ms. Huang Xiaoli.
4. Interests in options granted pursuant to the Share Option Scheme.

Report of the Directors

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

Name of Directors	Date of grant	Option Period (Note 3)	Exercise Price per Share (HK\$) (Note 4)	Outstanding as at 1 January 2021	Number of Share Options			Outstanding as at 31 December 2021	Approximate percentage of the Company's total issued share capital
					Granted during the Year	Cancelled during the Year	Lapsed during the Year		
Zhao Li Sheng (Note 1)	23 April 2018	23 April 2018 to 22 April 2024	1.26	327,600	-	-	(327,600)	-	-
Chan Lok San (Note 2)	23 April 2018	23 April 2018 to 22 April 2024	1.26	291,200	-	-	(291,200)	-	-
Zhou Xuhua	23 April 2018	23 April 2018 to 22 April 2024	1.26	291,200	-	-	(291,200)	-	-
Duan Jidong	23 April 2018	23 April 2018 to 22 April 2024	1.26	260,400	-	-	(260,400)	-	-
Zhang Jianbin	23 April 2018	23 April 2018 to 22 April 2024	1.26	260,400	-	-	(260,400)	-	-
Wong Cheuk Lam	23 April 2018	23 April 2018 to 22 April 2024	1.26	260,400	-	-	(260,400)	-	-
Total				1,691,200	-	-	(1,691,200)	-	-

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

Note 2: Ms. Chan (being the spouse of Mr. Zhao) is also a substantial shareholder of the Company through interests of spouse and controlled corporation.

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

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

Report of the Directors

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

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

As at 31 December 2021, save as disclosed above, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

Save as disclosed above, as at 31 December 2021, none of the Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Report of the Directors

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

As at 31 December 2021, so far as was known to the Directors, the interests or short positions held by the following persons (other than the Directors) in the shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or the interests or short positions recorded in the register kept by the Company under section 336 of the SFO were as follows:

Interests in the Shares

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

Notes:

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

Report of the Directors

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

Save as disclosed above, to the best knowledge of the Directors of the Company, as at 31 December 2021, no person (other than the Directors) had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or any interest or short positions recorded in the register kept by the Company under section 336 of the SFO.

DIRECTORS' RIGHTS IN ACQUIRING SHARES AND DEBENTURES

Save as disclosed in the paragraph headed "Share Option Scheme" in this report, at no time during the Year Under Review, the Company or any of its subsidiaries had no arrangements to enable the Directors or executives (including their spouse and children under 18 years of age) of the Company to have the rights to acquire securities of the Company or its associated companies (as defined in the SFO), or to acquire benefits by means of acquisition of securities of the Company or any other body corporate.

Report of the Directors

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the paragraph headed "Continuing Connected Transactions", as at 31 December 2021 and during any time for the year ended 31 December 2021, there was no contract of significance (as defined in Appendix 16 to the Listing Rules) subsisting in which a Director is or was materially interested, whether directly or indirectly.

Save as disclosed under the paragraph headed "Continuing Connected Transactions", as at 31 December 2021 and during any time for the year ended 31 December 2021, there was no contract of significance in relation to the Company's business subsisting to which the Company, its subsidiary, its holding company or a subsidiary of its holding company was a party and in which a Director has or had, or at any time during that period, in any way, whether directly or indirectly, a material interest.

Save as disclosed under the paragraph headed "Continuing Connected Transactions", as at 31 December 2021 and during any time for the year ended 31 December 2021, none of the Directors was in any way, directly or indirectly, materially interested in any contract of significance entered into or proposed to be entered into with the Company in relation to the Company's business.

MANAGEMENT CONTRACTS

There was no contracts concerning the management or administration of the whole or any substantial part of the business of the Company which was entered into or existed during the Year Under Review.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2021, the Group entered into various transactions with certain individuals and entities that are regarded as connected persons of the Company (as defined under Chapter 14A of the Listing Rules). Details of these individuals and entities are set out in Note 35 to the consolidated financial statements.

The recurring related party transactions set out in Note 35 to the consolidated financial statements fall within the definition of "continuing connected transaction" under Chapter 14A of the Listing Rules while the key management remuneration set out in Note 11 to the consolidated financial statements do not fall within the definition of "connected transaction" or "continuing connected transaction" under Chapter 14A of the Listing Rules. The Company has complied with the relevant disclosure requirements in accordance with Chapter 14A of the Listing Rules.

The related party transactions in respect of rental expenses and advertising expenses constitute connected transactions as defined in Chapter 14A of the Listing Rules. However, these transactions are exempt from reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As disclosed in the announcements of the Company dated 1 April 2021 and the circular of the Company dated 10 May 2021 (the "**Circular**"), on 1 April 2021, (1) Kingworld Medicine Healthcare Limited ("**HK Kingworld**"), a wholly-owned subsidiary of the Company, entered into a master distribution agreement with Yuen Tai Pharmaceuticals Limited (遠大製藥廠有限公司) ("**Yuen Tai**") ("**2021 Yuen Tai Master Distribution Agreement**"); and (2) Shenzhen Kingworld Medicine Company Limited ("**SZ Kingworld**"), a wholly-owned subsidiary of the Company, entered into a master distribution agreement with Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited (深圳金活利生藥業有限公司) ("**SZ Kingworld Lifeshine**") ("**2021 SZ Kingworld Lifeshine Master Distribution Agreement**"), respectively (collectively, the "**2021 Master Distribution Agreements**").

Report of the Directors

Unless otherwise defined herein, terms used in the following section headed “2021 Master Distribution Agreements for the period from 27 May 2021 to 31 December 2023” shall have the same meanings as defined in the Circular.

2021 Master Distribution Agreements for the period from 27 May 2021 to 31 December 2023

Transaction	Member of the Group	Connected person	Actual	Approximate
			transaction amounts for the year ended 31 December 2021	annual cap for the year ended 31 December 2021
			RMB'000	RMB'000
Purchase and distribution of Pharmaceutical and Healthcare Products from SZ Kingworld Lifeshine	SZ Kingworld	SZ Kingworld Lifeshine	28,645	39,180
Purchase and distribution of Pharmaceutical and Healthcare Products from Yuen Tai	HK Kingworld/ SZ Kingworld	Yuen Tai	–	4,734

Principal terms of the 2021 Master Distribution Agreements are as follows:

2021 SZ Kingworld Lifeshine Master Distribution Agreement

SZ Kingworld Lifeshine is a wholly-owned subsidiary of Morning Gold Medicine Company Limited, which is owned as to 51% by Mr. Zhao Li Sheng and 49% by Ms. Chan Lok San (both being the Executive Directors of the Company).

On 1 April 2021, SZ Kingworld Lifeshine and SZ Kingworld entered into the 2021 SZ Kingworld Lifeshine Master Distribution Agreement, pursuant to which the Group will purchase certain pharmaceutical and healthcare products from SZ Kingworld Lifeshine and act as the exclusive distributor for distribution of such pharmaceutical and healthcare products in the PRC for the period from 27 May 2021 to 31 December 2023 (both days inclusive).

The terms and conditions (including but not limited to the prices) on which the pharmaceutical and healthcare products are to be purchased by members of the Group should be on normal commercial terms and no less favourable than those obtained from independent third parties suppliers by such member of the Group.

40% of the purchase price shall be paid in advance by the relevant member of the Group within three days after such member of the Group has placed an order for each batch of products and the remaining balance of the purchase price shall be paid upon delivery of the products and the passing of the product inspection.

Report of the Directors

2021 Yuen Tai Master Distribution Agreement

Yuen Tai is a wholly-owned subsidiary of Morning Gold Medicine Company Limited, which is owned as to 51% by Mr. Zhao Li Sheng and 49% by Ms. Chan Lok San (both being the Executive Directors of the Company).

On 1 April 2021, Yuen Tai and HK Kingworld entered into the 2021 Yuen Tai Master Distribution Agreement, pursuant to which the Group will purchase certain pharmaceutical and healthcare products from Yuen Tai and act as the exclusive distributor for distribution of such pharmaceutical and healthcare products in the PRC for the period from 27 May 2021 to 31 December 2023 (both days inclusive).

The terms and conditions (including but not limited to the prices) on which the pharmaceutical and healthcare products are to be purchased by members of the Group should be on normal commercial terms and no less favourable than those obtained from independent third parties suppliers by such member of the Group.

40% of the purchase price shall be paid in advance by the relevant member of the Group within three days after such member of the Group has placed an order for each batch of products and the remaining balance of the purchase price shall be paid upon delivery of the products and the passing of the product inspection.

As disclosed in the announcement of the Company dated 30 December 2020 (the “**Announcement**”), on 30 December 2020, SZ Kingworld entered into (1) a medical masks distribution agreement (“**2021 Medical Masks Distribution Agreement**”); and (2) a medical masks service agreement (“**2021 Medical Masks Service Agreement**”) with SZ Kingworld Lifeshine, respectively (collectively, the “**2021 Medical Masks Agreements**”).

Unless otherwise defined herein, terms used in the following section headed “2021 Medical Masks Agreements” shall have the same meanings as defined in the Announcement.

2021 Medical Masks Agreements

Transaction	Member of the Group	Connected person	Actual transaction amount for the year ended 31 December 2021 RMB'000	Approximate annual cap for the year ended 31 December 2021 RMB'000
Purchase and distribution of medical masks	SZ Kingworld	SZ Kingworld Lifeshine	354	9,000
Provide sales coordination and market research services	SZ Kingworld	SZ Kingworld Lifeshine	–	6,000

Report of the Directors

Principal terms of the 2021 Medical Masks Agreements are as follow:

2021 Medical Masks Distribution Agreement

On 30 December 2020, SZ Kingworld and SZ Kingworld Lifeshine entered into the 2021 Medical Masks Distribution Agreement, pursuant to which SZ Kingworld and/or any wholly-owned subsidiary of the Company shall purchase medical masks from SZ Kingworld Lifeshine and act as its exclusive distributor for distribution of medical masks produced by SZ Kingworld Lifeshine in the Greater China and overseas market. The term of the 2021 Medical Masks Distribution Agreement will be from 1 January 2021 to 31 December 2021 (both days inclusive).

In the event that a customer requests SZ Kingworld Lifeshine to sell the medical masks to it directly, instead of through a distributor, SZ Kingworld Lifeshine may, subject to the compliance with the Listing Rules, sell the medical masks to the customers directly and SZ Kingworld Lifeshine shall pay the relevant service fee to the Group in accordance with the terms of the 2021 Medical Masks Service Agreement.

The prices of the medical masks to be purchased by the Group will be based on the prevailing market prices of similar products and the unit prices of the medical masks from time to time and will be no less favourable to the Group than those terms offered by other independent third parties suppliers.

40% of the purchase price shall be paid in advance by the Group within three days after the Group has placed an order, and SZ Kingworld Lifeshine has confirmed the order, for each batch of products and the remaining balance of the purchase price shall be paid upon delivery of the products and the passing of the product inspection.

2021 Medical Masks Service Agreement

On 30 December 2020, SZ Kingworld and SZ Kingworld Lifeshine entered into the 2021 Medical Masks Service Agreement, pursuant to which the SZ Kingworld and/or any wholly-owned subsidiary of the Company shall provide sales coordination and market research services in relation to the direct sales of medical masks by SZ Kingworld Lifeshine in the Greater China and overseas market. The term of the 2021 Medical Masks Service Agreement will be from 1 January 2021 to 31 December 2021 (both days inclusive).

Report of the Directors

The service fees received by the Group will be based on each successful purchase order obtained by the Group. The Group shall be entitled to service fees which is equal to 3% of the transaction amount paid by the customers to SZ Kingworld Lifeshine for the medical masks ordered. SZ Kingworld Lifeshine shall pay the service fees to the Group within five business days upon the receipt of the transaction amount from the customer.

The service fees and other terms under the Medical Masks Service Agreement will be based on the prevailing market prices of similar services provided from time to time and will be no less favourable to the Group than those terms offered by other independent third parties.

The Independent Non-executive Directors have reviewed the above continuing connected transactions and confirm that these transactions have been entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and
- (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The auditor of the Company has issued a letter to the Board confirming that the above continuing connected transactions:

- (i) have received the approval of the Board;
- (ii) did not involve the provision of goods or services by the Group;
- (iii) have been entered into in accordance with the relevant agreements governing the transactions; and
- (iv) did not exceed the respective annual caps as disclosed in the Circular and Announcement.

Report of the Directors

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 RMB107,600,000, RMB55,558,000, RMB18,801,000 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.

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long 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 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 report.

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.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year Under Review, the total revenue of the Group's five largest customers accounted for approximately 38.6% of the Group's revenue, in which revenue from the largest customer of the Group accounted for approximately 12.1% of the total revenue of the Group. During the same period, total purchases of the Group's five largest suppliers accounted for approximately 89.1% of the Group's total purchase, in which purchase from the largest supplier of the Group accounted for approximately 55.8% of the total purchase of the Group.

None of the Directors, their respective close associates or any Shareholders (interested in 5% or more of the share capital, to the best knowledge of the Board) has any interest in any of the five largest suppliers or the Group's five largest customers.

TAX RELIEF AND EXEMPTION

The Company is not aware that any holders of securities of the Company are entitled to any tax relief or exemption by reason of their holdings of such securities.

EMPLOYEE BENEFITS

Details of the employee benefits of the Group for the year ended 31 December 2021 are set out in Note 34 to the consolidated financial statements. No forfeited contributions (by the Group on behalf of employees who leave the defined contribution plans prior to vesting fully in such contributions) can be used by the Group to reduce the existing level of contributions.

Report of the Directors

EVENT 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.

Save as disclosed above, there is no material event after the reporting period as at the date of this report.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2021 have been audited by Crowe (HK) CPA Limited (“**Crowe**”). Crowe will retire as auditor at the conclusion of the forthcoming annual general meeting and being eligible, offer themselves for re-appointment. A resolution will be submitted to the forthcoming annual general meeting of the Company for the re-appointment of Crowe as the auditor of the Company.

On behalf of the Board
Kingworld Medicines Group Limited
Mr. Zhao Li Sheng
Chairman of the Board

Hong Kong, 29 March 2022

Independent Auditor's Report



國富浩華(香港)會計師事務所有限公司

Crowe (HK) CPA Limited

Member Crowe Horwath International

9/F Leighton Centre,

77 Leighton Road,

Causeway Bay, Hong Kong

TO THE SHAREHOLDERS OF KINGWORLD MEDICINES GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Kingworld Medicines Group Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 85 to 198, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The Key Audit Matter

(a) Impairment of goodwill and other intangible assets

(Refer to notes 2(j)(ii) and (v)(ii), 16, 19 and 32(b) and (i) to the consolidated financial statements)

At 31 December 2021, the carrying amount of goodwill and other intangible assets were approximately RMB90,693,000 and RMB13,703,000, respectively, relating to Shenzhen Dong Di Xin Technology Company Limited acquired in 2015.

Their respective recoverable amounts are based on an assessment of the higher of fair value less cost to sell and value in use of the identified cash generating unit to which the goodwill and other intangible assets are allocated. Value in use is calculated as the net present value of estimated future cash flows. For impairment assessment at the reporting period end, the Group appointed an independent professional valuer to perform valuation for the recoverable amount, being value in use, of the cash generating unit, to which goodwill and other intangible assets are allocated, and made reference to the independent professional valuation.

The Group's assessment of impairment is a judgemental process which requires assumptions and estimates concerning the estimated future cash flows, discount rate and growth rate based on management's view of future business prospects.

How the matter was addressed in our audit

We reviewed and challenged the impairment analysis prepared by the management as outlined below:

With regard to the overall impairment assessments performed by the management, we evaluated the design of internal controls in place to determine any asset impairments.

We reviewed and challenged the appropriateness of the models, key assumptions and estimates used by management and the valuers for determining the recoverable value of the goodwill and other intangible assets.

We evaluated and challenged the key assumptions used in each valuation model and performed sensitivity analysis around key drivers of cash flow forecasts, including unit of sales, gross margins, growth rates and operating costs.

We reviewed the calculation of discount rate used for determining the value in use, taking into account the cost of capital of the Group and comparable companies, and challenged the reasonableness of the methodology and assumptions applied in determining the discount rate.

Furthermore, we assessed historical accuracy in management's forecasting process.

We also assessed the adequacy of the Group's disclosures in respect of goodwill and other intangible assets made in notes 16 and 19, respectively, to the consolidated financial statements.

Independent Auditor's Report

KEY AUDIT MATTERS *(Continued)*

The Key Audit Matter

(b) Impairment of trade receivables

(Refer to notes 2(j)(i), 22, 31(a)(i) and 32(d) to the consolidated financial statements)

At 31 December 2021, trade receivables amounted to approximately RMB136.5 million, net of allowance for expected credit losses approximately RMB6.2 million, for which there was no collateral as security for settlement. In the normal ordinary course of its business, the Group grants its customers with credit period up to 120 days after billing. This may give rise to the risk of bad debt losses arising from unfavorable changes in the customers' abilities to settle their trade debts after year end.

Lifetime expected credit losses of trade receivables are based on management's estimate of the lifetime expected credit losses to be incurred, which is estimated by taking into account the credit loss experience, ageing of overdue trade receivables, customers' repayment history and customers' financial position and an assessment of both the current and forecast of future economic conditions, all of which involve a significant degree of management judgement.

How the matter was addressed in our audit

We reviewed and challenged the assumptions applied by management in estimating the provision for expected credit losses on trade receivables at the year end as outlined below:

We reviewed the Group's credit control and debt recovery procedures and actions taken to monitor and collect the trade receivables.

We reviewed historical settlement history of the customers and checking subsequent cash receipts from the customers after the year end.

We enquired management of any disputes with customers, assessed the replies to the debtor confirmations directly obtained from the customers and reviewed correspondences with the customers for any dispute.

We tested ageing analysis for trade receivables by customers, critically evaluated updated creditworthiness of the customers and assessed other forward looking information such as the future economic conditions.

We assessed the reasonableness of the expected credit loss rates that were applied to calculate the lifetime expected credit losses of trade receivables and checked the calculation of the required provision for the lifetime expected credit losses of trade receivables.

We also assessed the adequacy of the Group's disclosures in respect of trade receivables made in notes 22 and 31(a) to the consolidated financial statements.

Independent Auditor's Report

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Crowe (HK) CPA Limited

Certified Public Accountants

Hong Kong, 29 March 2022

Leung Chun Wa

Practising Certificate Number P04963

Consolidated Statement of Profit or Loss

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

	Note	2021 RMB'000	2020 RMB'000
Revenue	4	847,386	745,383
Cost of sales	7(c)	(583,788)	(465,229)
Gross profit		263,598	280,154
Other revenue, income and other net loss	6	17,604	55,504
Selling expenses		(99,514)	(132,950)
Administrative expenses		(96,644)	(112,559)
Amortisation of intangible assets	19	(13,569)	(13,569)
Valuation gain/(loss) on investment properties	14	800	(1,600)
Impairment losses on financial assets, net	7(c)	(50)	(1,331)
Profit from operations		72,225	73,649
Finance costs	7 (a)	(11,782)	(15,161)
Share of profit of a joint venture	18	8,728	12,381
Share of profits of associates	17	263	22
Profit before taxation	7	69,434	70,891
Income tax	8	(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	10		
Basic (RMB cents)		5.00	1.91
Diluted (RMB cents)		5.00	1.91

The notes on pages 92 to 198 form part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

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

	2021 RMB'000	2020 RMB'000
Profit for the year	51,211	50,889
Other comprehensive loss for the year (net of tax)		
<i>Items that will not be reclassified to profit or loss:</i>		
Fair value loss on financial assets	(1,562)	(1,849)
<i>Items that may be reclassified subsequently to profit or loss:</i>		
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

The notes on pages 92 to 198 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2021
(Expressed in Renminbi)

	Note	2021 RMB'000	2020 RMB'000
Non-current assets			
Right-of-use assets	13	107,896	109,518
Property, plant and equipment	13	102,039	58,368
Investment properties	14	121,800	121,000
Interest in a joint venture	18	85,697	84,969
Interest in associates	17	8,395	2,588
Goodwill	16	90,693	90,693
Other intangible assets	19	13,703	27,272
Financial assets at fair value through profit or loss	23	6,461	6,257
Financial assets at fair value through other comprehensive income	20	37,490	39,962
		574,174	540,627
Current assets			
Inventories	21	106,744	130,221
Trade and other receivables	22	334,506	323,060
Financial assets at fair value through profit or loss	23	10,480	10,552
Financial assets at fair value through other comprehensive income	20	–	94
Cash and cash equivalents	24	187,925	250,818
		639,655	714,745
Current liabilities			
Contract liabilities	25	71,730	56,496
Trade and other payables	26	152,490	187,991
Bank loans	27	229,922	296,538
Lease liabilities	28	7,584	8,003
Tax payable	29(a)	11,897	6,623
		473,623	555,651
Net current assets		166,032	159,094
Total assets less current liabilities		740,206	699,721
Non-current liabilities			
Lease liabilities	28	1,450	1,236
Deferred tax liabilities	29(b)	18,122	19,975
		19,572	21,211
NET ASSETS		720,634	678,510

The notes on pages 92 to 198 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2021
(Expressed in Renminbi)

	Note	2021 RMB'000	2020 RMB'000
CAPITAL AND RESERVES	30		
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

Approved and authorised for issue by the board of directors on 29 March 2022.

Mr. Zhao Li Sheng
Director

Ms. Chan Lok San
Director

The notes on pages 92 to 198 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

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

	Attributable to owners of the Company																	
	Share capital	Share premium	Statutory and discretionary reserves	Fair value reserve	Exchange reserve	Capital reserve	Retained profits	Total	Non-controlling interests	Total Equity								
											RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
											(note 30(a))	(note 30(b))	(note 30(c))	(note 30(d))	(note 30(e))	(note 30(f))		
At 1 January 2021	53,468	152,700	48,641	4,531	(22,894)	(12,555)	367,912	591,803	86,707	678,510								
Changes in equity:																		
Profit for the year	-	-	-	-	-	-	30,319	30,319	20,892	51,211								
Other comprehensive income/(loss) for the year																		
- Exchange difference arising from the translation of foreign operations	-	-	-	-	(2,818)	-	-	(2,818)	58	(2,760)								
- Fair value change on financial assets	-	-	-	(1,562)	-	-	-	(1,562)	-	(1,562)								
Total other comprehensive income for the year	-	-	-	(1,562)	(2,818)	-	-	(4,380)	58	(4,322)								
Total comprehensive income for the year	-	-	-	(1,562)	(2,818)	-	30,319	25,939	20,950	46,889								
Dividends (note 9(b))	-	-	-	-	-	-	(3,301)	(3,301)	-	(3,301)								
Distribution to non-controlling interests (note 15(f))	-	-	-	-	-	-	-	-	(3,920)	(3,920)								
Contributions from a substantial shareholder of the Company	-	-	-	-	-	2,456	-	2,456	-	2,456								
Appropriation of statutory and discretionary reserves	-	-	-	-	-	-	-	-	-	-								
At 31 December 2021	53,468	152,700	48,641	2,969	(25,712)	(10,099)	394,930	616,897	103,737	720,634								
At 1 January 2020	53,468	152,700	44,626	6,380	(20,786)	(5,530)	372,485	603,343	69,847	673,190								
Changes in equity:																		
Profit for the year	-	-	-	-	-	-	11,716	11,716	39,173	50,889								
Other comprehensive income/(loss) for the year																		
- Exchange difference arising from the translation of foreign operations	-	-	-	-	(2,108)	-	-	(2,108)	(689)	(2,797)								
- Fair value change on financial assets	-	-	-	(1,849)	-	-	-	(1,849)	-	(1,849)								
Total other comprehensive income/(loss) for the year	-	-	-	(1,849)	(2,108)	-	-	(3,957)	(689)	(4,646)								
Total comprehensive income/(loss) for the year	-	-	-	(1,849)	(2,108)	-	11,716	7,759	38,484	46,243								
Dividends (note 9(b))	-	-	-	-	-	-	(12,274)	(12,274)	-	(12,274)								
Distribution to non-controlling interest (note 15(f))	-	-	-	-	-	-	-	-	(24,534)	(24,534)								
Share purchased for the share award scheme (note 37)	-	-	-	-	-	(7,025)	-	(7,025)	-	(7,025)								
Contribution from non-controlling interest	-	-	-	-	-	-	-	-	2,910	2,910								
Appropriation of statutory and discretionary reserves	-	-	4,015	-	-	-	(4,015)	-	-	-								
At 31 December 2020	53,468	152,700	48,641	4,531	(22,894)	(12,555)	367,912	591,803	86,707	678,510								

The notes on pages 92 to 198 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

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

	Note	2021 RMB'000	2020 RMB'000
Operating activities			
Profit before taxation		69,434	70,891
Adjustments for:			
Depreciation of property, plant and equipment	7(c)	11,653	10,753
Amortisation of right-of use assets	7(c)	9,562	10,215
Finance costs	7(a)	11,782	15,161
Bank interest income	6	(458)	(1,154)
Interest income from a shareholder loan	6	(108)	(128)
Dividend received from financial assets at fair value through other comprehensive income and through profit or loss	6	(1,615)	(15,594)
Interest received from financial assets at fair value through other comprehensive income	6	(620)	(290)
Loss on disposal of property, plant and equipment	7(c)	1,300	117
Impairment losses on trade receivables	7(c)	50	962
Impairment losses on other receivables	7(c)	–	369
Change in fair value of financial assets at fair value through profit or loss	6	(471)	3,361
Amortisation of intangible assets	7(c)	13,569	13,569
Share of profit of a joint venture	18	(8,728)	(12,381)
Share of profits of associates	17	(263)	(22)
Valuation (gain)/loss on investment properties	14	(800)	1,600
Write-down of inventories	21	6,967	33,562
COVID-19-related rent concessions allowed	13(a)	–	(142)
Changes in working capital			
Decrease in inventories		16,510	41,338
(Increase)/decrease in trade and other receivables		(11,496)	67,125
Decrease in deposits for letters of credit		–	8,549
Increase/(decrease) in contract liabilities		15,234	(15,846)
Decrease in trade and other payables		(35,501)	(85,421)
Cash generated from operations		96,001	146,594
Income tax paid		(14,802)	(23,010)
Net cash generated from operating activities		81,199	123,584

The notes on pages 92 to 198 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

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

	Note	2021 RMB'000	2020 RMB'000
Investing activities			
Payment for the purchase of property, plant and equipment		(58,319)	(9,927)
Payment for the acquisition of financial assets at fair value through other comprehensive income		–	(207,500)
Proceeds from disposal of financial assets at fair value through other comprehensive income		94	197,500
Proceeds from disposal of property, plant and equipment		1,567	–
Interest received from financial assets at fair value through other comprehensive income	6	620	290
Bank interest received	6	458	1,154
Shareholder loan interest received	6	108	128
Payment for acquisition of an associate		(4,978)	–
Dividend received from a joint venture		8,000	–
Dividends received from financial assets at fair value through other comprehensive income and through profit or loss	6	1,615	15,594
Net cash used in investing activities		(50,835)	(2,761)
Financing activities			
Proceeds from new bank loans	24(b)	124,680	421,867
Repayment of bank loans	24(b)	(187,182)	(330,902)
Capital element of lease rentals paid	24(b)	(8,152)	(9,578)
Interest element of lease rentals paid	24(b)	(799)	(793)
Interest on bank loans paid		(10,983)	(14,639)
Payments for shares purchased for the share award scheme	37	–	(7,025)
Dividend paid to owners of the Company	9(b)	(3,301)	(12,274)
Dividends paid to non-controlling interests	15(f)	(3,920)	(24,534)
Contribution from non-controlling interests		–	2,910
Contributions from a substantial shareholder		2,456	–
Net cash (used in)/generated from financing activities		(87,201)	25,032
Net (decrease)/increase in cash and cash equivalents		(56,837)	145,855
Cash and cash equivalents at beginning of year		250,818	113,495
Effect of foreign exchange rate changes		(6,056)	(8,532)
Cash and cash equivalents at end of year	24	187,925	250,818

The notes on pages 92 to 198 form part of these consolidated financial statements.

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.

Notes to the Consolidated Financial Statements

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 (see note 2(f));
- derivative financial instruments (see note 2(aa));
- financial instruments classified as financial assets at fair value through other comprehensive income (see note 2(e)); and
- financial assets at fair value through profit or loss (see note 2(e)).

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.

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 32.

Notes to the Consolidated Financial Statements

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) *Subsidiaries and non-controlling interests*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less any impairment losses (see note 2(j)).

Notes to the Consolidated Financial Statements

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Associate and joint ventures

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operation policy decisions.

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(j)(ii)). At each reporting date, the Group assesses whether there is any objective evidence that the investment is impaired. Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method, together with any other long-term interests that in substance form part of the Group's net investment in the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or *vice versa*, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate and joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(e)(ii)).

Notes to the Consolidated Financial Statements

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) *Other investments in debt and equity securities*

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 31(f). These investments are subsequently accounted for as follows, depending on their classification.

i) *Investments other than equity investments*

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 2(t)(iv)).
- fair value through other comprehensive income (FVOCI) - recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

Notes to the Consolidated Financial Statements

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Other investments in debt and equity securities (Continued)

ii) Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 2(t)(iii).

f) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(h)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated in the consolidated statement of financial position at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(t)(ii).

Notes to the Consolidated Financial Statements

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Property, plant and equipment

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(j)):

- right-of-use assets arising from leases over freehold or leasehold properties where the Group is not the registered owner of the property interest; and
- items of plant and equipment, including right-of-use assets arising from leases of underlying plant and equipment (see note 2(h)).

Changes arising on the revaluation of properties held for own use are generally dealt with in other comprehensive income and are accumulated separately in equity in the property revaluation reserve. The only exceptions are as follows:

- when a deficit arises on revaluation, it will be charged to profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and
- when a surplus arises on revaluation, it will be credited to profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to profit or loss.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(r)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to profit or loss.

Notes to the Consolidated Financial Statements

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Property, plant and equipment (Continued)

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

- buildings held for own use situated on leasehold land under operating leases are depreciated on a straight-line basis over the shorter of their estimated lives, being no more than 50 years and the unexpired term of the lease.
- leasehold land over the remaining lease terms
- leasehold improvements 5 years or over the remaining term of the lease, if shorter
- furniture, fixtures and office equipment 5 to 10 years
- machineries 10 years
- motor vehicles 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

h) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

i) As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Notes to the Consolidated Financial Statements

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Leased assets (Continued)

i) As a lessee (Continued)

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 2(g) and 2(j)(ii)), except for the following types of right-of-use assets:

- right-of-use assets that meet the definition of investment property are carried at fair value in accordance with note 2(f); and
- right-of-use assets related to leasehold land and buildings where the Group is the registered owner of the leasehold interest are carried at fair value in accordance with note 2(g).

The initial fair value of refundable rental deposits is accounted for separately from the right-of-use assets in accordance with the accounting policy applicable to investments in debt securities carried at amortised cost (see notes 2(e)(i), 2(t)(iv) and 2(j)(i)). Any difference between the initial fair value and the nominal value of the deposits is accounted for as additional lease payments made and is included in the cost of right-of-use assets.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("**lease modification**") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions that occurred as a direct consequence of the COVID-19 Pandemic and met the conditions set out in paragraph 46B of HKFRS 16 *Leases*. In such cases, the Group has taken advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognised the change in consideration as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

Notes to the Consolidated Financial Statements

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Leased assets (Continued)

ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with note 2(t)(ii).

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described in note 2(h)(i), then the Group classifies the sub-lease as an operating lease.

i) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value as follows:

- pharmaceutical products
- healthcare products
- medical devices

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Notes to the Consolidated Financial Statements

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Credit losses and impairment of assets

i) Credit losses from financial instruments and contract assets

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables and loans to associates);
- contract assets (see note 2(k)); and
- debt securities measured at FVOCI (recycling).

Financial assets measured at fair value, including units in bond funds, equity securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

Notes to the Consolidated Financial Statements

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Credit losses and impairment of assets (Continued)

i) Credit losses from financial instruments and contract assets (Continued)

Measurement of ECLs (Continued)

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate;

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables, lease receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments (including loan commitments issued), the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Notes to the Consolidated Financial Statements

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Credit losses and impairment of assets (Continued)

i) Credit losses from financial instruments and contract assets (Continued)

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At the end of each reporting period, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

In certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Notes to the Consolidated Financial Statements

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Credit losses and impairment of assets (Continued)

i) Credit losses from financial instruments and contract assets (Continued)

General approach (Continued)

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs, except for trade receivables and contract assets which apply the simplified approach as detailed below.

- | | | |
|---------|---|--|
| Stage 1 | – | Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs |
| Stage 2 | – | Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs |
| Stage 3 | – | Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs |

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at the end of each reporting period. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Notes to the Consolidated Financial Statements

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Credit losses and impairment of assets (Continued)

i) Credit losses from financial instruments and contract assets (Continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 (as for distribution sales of pharmaceutical and healthcare products), or 120 (as for manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices) days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

Notes to the Consolidated Financial Statements

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Credit losses and impairment of assets (Continued)

i) Credit losses from financial instruments and contract assets (Continued)

Significant increases in credit risk (Continued)

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income recognised in accordance with note 2(t)(iv) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or past due event;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Notes to the Consolidated Financial Statements

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Credit losses and impairment of assets (Continued)

i) Credit losses from financial instruments and contract assets (Continued)

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- right-of-use assets;
- property, plant and equipment;
- intangible assets;
- interests in associates and a joint venture;
- goodwill; and
- investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit). A portion of the carrying amount of a corporate asset (for example, head office building) is allocated to an individual cash-generating unit if the allocation can be done on a reasonable and consistent basis, or to the smallest group of cash-generating units if otherwise.

Notes to the Consolidated Financial Statements

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Credit losses and impairment of assets (Continued)

ii) Impairment of other non-current assets (Continued)

- Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

- Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(j)(i) and (ii)).

Notes to the Consolidated Financial Statements

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 2(t)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(j)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 2(l)).

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 2(t)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2(l)).

For a single contract with the customer, either a net contract asset or a net liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 2(t)).

l) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 2(k)).

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are subsequently stated at amortised cost, using the effective interest method and including an allowance for credit losses (see note 2(j)(i)).

Insurance reimbursement is recognised and measured in accordance with note 2(q).

m) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at invoiced amounts.

Notes to the Consolidated Financial Statements

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) *Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expenses is recognised in accordance with the Group's accounting policy for borrowing costs (see note 2(r)).

o) *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(j)(i).

p) *Income tax*

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided that those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary differences or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

Notes to the Consolidated Financial Statements

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) Income tax (Continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(f), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

Notes to the Consolidated Financial Statements

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

q) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognised for any expected reimbursement that would be virtually certain. The amount recognised for the reimbursement is limited to the carrying amount of the provision.

r) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021
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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

s) Translation of foreign currencies (Continued)

The results of operations outside Mainland China are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On the disposal of an operation outside Mainland China, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

t) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

i) Sale of goods

Sales of goods are recognised as follows:

Revenue from sale of goods is recognised when the control of the goods has been transferred to the customer who has taken possession of and accepted the goods transferred by the Group.

Revenue excludes value-added tax or other sales taxes and is after deduction of any trade discounts.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021
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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

t) Revenue and other income (Continued)

ii) Rental income from operating leases

Rental income receivable under operating leases is recognised when the use rights of the leased assets are passed to a tenant and is credited to the profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

iii) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

iv) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 2(j)(i)).

v) Promotional income

Income from provision of promotional services is recognised when the promotional services are rendered.

vi) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

Notes to the Consolidated Financial Statements

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

u) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Company's directors, i.e., the chief operating decision-makers, for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

v) i) Business combinations or asset acquisitions

Optional concentration test

The Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

Asset acquisitions

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to investment properties which are subsequently measured under fair value model and financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Business combinations

Acquisitions of businesses, other than business combination under common control are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

Notes to the Consolidated Financial Statements

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

v) i) Business combinations or asset acquisitions (Continued)

Business combinations (Continued)

Except for certain recognition exemptions, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting* issued in October 2010).

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Incomes Taxes* and HKAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date;
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard; and
- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Notes to the Consolidated Financial Statements

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

v) i) Business combinations or asset acquisitions (Continued)

Business combinations (Continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates in with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are measured under HKFRS 9 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Notes to the Consolidated Financial Statements

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

v) ii) Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(j)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

w) Employee benefits

i) Short term employee benefits and contribution to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contribution to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

w) Employee benefits (Continued)

ii) Share-based payments (Continued)

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/ credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

iii) Share award scheme

The Company operates a share award scheme for the purpose of providing incentives and rewards to eligible participants. An employee share trust is established and administered by an independent trustee and is funded by the Group's cash contributions. The considerations paid including any related transaction costs by the Company to purchase shares of the Company for the Scheme are deducted from equity as an employee share trust. The administrator of the employee share trust purchases the Company's shares in the open market as award shares to employees upon vesting. Upon vesting of the awarded shares, the corresponding amount in the shares held under share award scheme will be transferred to the relevant employees.

iv) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

x) Related parties

- a) A person, or a close member of that person's family, is related to the Group if that person:
 - i) has control or joint control over the Group;
 - ii) has significant influence over the Group; or
 - iii) is a member of the key management personnel of the Group or the Group's parent.

Notes to the Consolidated Financial Statements

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

x) Related parties (Continued)

- b) An entity is related to the Group if any of the following conditions applies:
- i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - iii) Both entities are joint ventures of the same third party.
 - iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - vi) The entity is controlled or jointly controlled by a person identified in (a).
 - vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

y) Other intangible assets (other than goodwill)

Other intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

The following intangible assets with finite useful lives are amortised on a straight-line basis from the date of acquisition when they are available for use and over their estimated useful lives are as follows:

– Customer relationships	8 years
– Patents	5 years

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

y) Other intangible assets (other than goodwill) (Continued)

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

z) Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

aa) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period, the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

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.

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3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

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.

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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 RMB'000	2020 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

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

5. SEGMENT REPORTING

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

- Distribution sales of pharmaceutical and healthcare products: this segment distributes and sells branded imported pharmaceutical and healthcare products primarily in Hong Kong and the PRC.
- Manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices: this segment manufactures and sells electrotherapeutic and physiotherapeutic devices and general medical examination devices, which are carried out by Dong Di Xin as defined in Note 15 below. Currently, the Group's activities in this regard are primarily carried out in the PRC.

Notes to the Consolidated Financial Statements

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5. SEGMENT REPORTING (Continued)

a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's directors monitor the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of financial assets at fair value through other comprehensive income, trading securities, deferred tax assets and other corporate assets. Segment liabilities include provisions and trade and other payables attributable to the activities of the individual segments and borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Segment profit includes the Group's share of profit arising from the activities of the Group's joint venture. However, other than reporting inter-segment sales of electronic products, assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured. In particular, all research and development facilities and activities, patents and trademarks relating to the electronics division are allocated to the Hong Kong segment.

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

In addition to receiving segment information concerning adjusted EBITDA, directors are provided with segment information concerning revenue (including inter-segment sales), impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Notes to the Consolidated Financial Statements

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5. SEGMENT REPORTING (Continued)

a) Segment results, assets and liabilities (Continued)

Information regarding the Group's reportable segments as provided to the Group's directors for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2021 and 2020 is set out below.

	Distribution sales of pharmaceutical and healthcare products		Manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices		Total			
	Hong Kong		PRC		PRC		Total	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Revenue from external customers	41,488	43,915	560,340	415,665	319,962	370,265	921,790	829,845
Inter-segment revenue	4,518	2,570	2,777	3,901	-	-	7,295	6,471
Reportable segment revenue	46,006	46,485	563,117	419,566	319,962	370,265	929,085	836,316
Reportable segment profit (adjusted EBITDA)	(23,043)	(47,725)	55,407	5,806	79,940	123,913	112,304	81,994
Write down of inventories	7,458	28,547	(491)	1,805	-	3,210	6,967	33,562
Research and development costs	-	-	-	-	13,406	13,257	13,406	13,257
Reportable segment assets (including investment in joint venture)	33,602	44,509	594,324	608,510	409,742	391,124	1,037,668	1,044,143
Additions to non-current segment assets during the year	935	-	2,074	13,555	21,883	7,001	24,892	20,556
Reportable segment liabilities	6,026	6,715	268,246	301,765	85,341	113,297	359,613	421,777

Notes to the Consolidated Financial Statements

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5. SEGMENT REPORTING (Continued)

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

	2021 RMB'000	2020 RMB'000
Revenue		
Reportable segment revenue	929,085	836,316
Elimination of inter-segment revenue	(7,295)	(6,471)
Elimination of Group's share of revenue of joint venture	(74,404)	(84,462)
Consolidated revenue (note 4)	847,386	745,383

	2021 RMB'000	2020 RMB'000
Profit		
Reportable segment profit (adjusted EBITDA) derived from the Group's external customers and joint venture	112,304	81,994
Other income	17,604	55,504
Depreciation and amortisation	(34,785)	(34,537)
Finance costs	(11,782)	(15,161)
Unallocated head office and corporate expenses	(13,907)	(16,909)
Consolidated profit before taxation	69,434	70,891

Notes to the Consolidated Financial Statements

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

5. SEGMENT REPORTING (Continued)

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

	2021 RMB'000	2020 RMB'000
Assets		
Reportable segment assets	1,037,668	1,044,143
Elimination of inter-segment receivables	—	(752)
	1,037,668	1,043,391
Financial assets at fair value through other comprehensive income	37,490	40,056
Financial assets at fair value through profit or loss	6,461	16,809
Unallocated head office and corporate assets	132,210	155,116
Consolidated total assets	1,213,829	1,255,372
Liabilities		
Reportable segment liabilities	359,613	421,777
Elimination of inter-segment payables	—	(23,097)
	359,613	398,680
Current tax liabilities	11,897	6,623
Deferred tax liabilities	18,122	19,975
Unallocated head office and corporate liabilities	103,563	151,584
Consolidated total liabilities	493,195	576,862

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5. SEGMENT REPORTING (Continued)

c) Geographic Information

The following is an analysis of geographical location of (i) the Group's revenue from continuing operations from external customers and (ii) the Group's right-of-use assets, property, plant and equipment, investment properties, intangible assets, goodwill and interest in associate and a joint venture. The geographical location of customers is based on to the location at which the goods delivered. The geographical locations of right-of-use assets, property, plant and equipment and investment properties are based on the physical location of the asset under consideration. In the case of goodwill and other intangible assets, it is based on the location of the operation to which they are allocated. In the case of interests in associate and joint venture, it is the location of operations of such associate and joint venture.

	Revenues from external customers		Specified non-current assets	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
PRC (excluding Hong Kong)	514,205	349,734	516,399	492,747
Hong Kong	21,109	34,441	13,824	1,661
	535,314	384,175	530,223	494,408
Other countries outside the PRC:				
The United States of America	184,320	262,619	–	–
The United Kingdom	21,291	17,256	–	–
Germany	43,189	35,132	–	–
Italy	18,411	17,258	–	–
Spain	3,739	–	–	–
Mexico	3,076	–	–	–
Others	38,046	28,943	–	–
	312,072	361,208	–	–
	847,386	745,383	530,223	494,408

d) Information about major customers

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

	2021 RMB'000	2020 RMB'000
Customer A – revenue from manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices	112,137	77,972

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6. 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 (note 35(b))	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
	12,995	49,117
Other income and other net loss:		
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 conditions attached to these grants.

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7. 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) Staff costs (including directors' and chief executive's remuneration)		
Salaries and other benefits	134,833	146,614
Contributions to defined contribution retirement plan	10,259	6,160
	145,092	152,774
c) Other items		
Amortisation of other intangible assets (note 19)	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 (note (i))	583,788	465,229
– Write-down of inventories (note 21)	6,967	33,562
Depreciation of property, plant and equipment (note 13)	11,653	10,753
Amortisation of right-of-use assets (note 13)	9,562	10,215
Impairment losses on:		
– Trade receivables (note 22(c))	50	962
– Other receivables	–	369
Loss on disposal of property, plant and equipment	1,300	117
Rental income from investment properties less direct outgoings of RMB513,000 (2020: RMB481,000)	(2,135)	(1,724)
Research and development costs	13,406	13,257

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

a) 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 (note 29(b))		
– 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%).

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

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

- iv) Under the New EIT Law and its implementation rules, dividends receivable by non-PRC resident enterprises from PRC resident enterprises are subject to withholding tax at a rate of 10% unless reduced by tax treaties or agreements. Under the Agreement between the Mainland China and Hong Kong Special Administration Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion, or Mainland China/HKSAR DTA, Hong Kong corporate tax residents which hold 25% or more of a PRC enterprise are entitled to a reduced dividend withholding tax rate of 5%. Pursuant to CaiShui [2008] No. 1 Notice on Certain Preferential Enterprise Income Tax Policies, undistributed profits generated prior to 1 January 2008 are exempted from such withholding tax. Accordingly, dividends receivable by the Group's investment holding company in Hong Kong from the PRC subsidiaries in respect of profits earned since 1 January 2008 will be subject to 5% withholding tax.

b) Reconciliation between tax expense and accounting profit at the applicable tax rates:

	2021 RMB'000	2020 RMB'000
Profit before taxation	69,434	70,891
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdiction concerned	15,408	11,198
Tax effect of non-deductible expenses	1,023	10,501
Tax effect of non-taxable income	(848)	(6,162)
Tax effect of prior years' tax losses utilised	(3,148)	(4)
Tax effect of unrecognised temporary differences	(49)	453
Tax effect of unused tax losses not recognised	7,143	4,199
Over-provision in prior years	(1,306)	(165)
Tax concession	—	(18)
Actual tax expense	18,223	20,002

- c) As at 31 December 2021, the undistributed profits of the Company's PRC subsidiaries amounted to approximately RMB266,879,000 (2020: RMB240,270,000) for which the potential deferred tax liabilities of approximately RMB13,344,000 (2020: RMB12,014,000) have not been recognised in these consolidated financial statements because the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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9. DIVIDENDS

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

	2021 RMB'000	2020 RMB'000
Final dividend proposed after the end of the reporting period of HK2.39 cents (equivalent to RMB1.95 cents) (2020: HK0.65 cent (equivalent to RMB0.55 cent)) per ordinary share	12,138	3,424

The final dividend for the year ended 31 December 2021 proposed after the end of the reporting period is subject to approval by the Company's shareholders in its forthcoming annual general meeting. It has not been recognised as a liability at the end of the reporting period.

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

	2021 RMB'000	2020 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK0.65 cent (equivalent to approximately RMB0.53 cent) (2020: HK2.34 cents (equivalent to approximately RMB1.97 cents))	3,301	12,274

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10. EARNINGS PER SHARE

a) Basic earnings per share

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

	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.

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11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation and the chief executive's remuneration are as follows:

	Directors' Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	2021 Total RMB'000
Executive directors:					
Zhao Li Sheng (chief executive officer)	–	1,332	–	28	1,360
Chan Lok San	–	1,132	57	17	1,206
Zhou Xuhua	–	400	48	48	496
Independent non-executive directors:					
Duan Jidong	274	–	–	–	274
Wong Cheuk Lam	274	–	–	–	274
Zhang Jianbin	274	–	–	–	274
	822	2,864	105	93	3,884

	Directors' Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	2020 Total RMB'000
Executive directors:					
Zhao Li Sheng (chief executive officer)	–	1,419	–	18	1,437
Chan Lok San	–	1,205	–	16	1,221
Zhou Xuhua	–	400	232	38	670
Independent non-executive directors:					
Duan Jidong	284	–	–	–	284
Wong Cheuk Lam	284	–	–	–	284
Zhang Jianbin	284	–	–	–	284
	852	3,024	232	72	4,180

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11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

During the years ended 31 December 2021 and 2020, no amount was paid or payable to the directors or chief executive or any of the five highest paid individuals set out in note 12 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which any director or chief executive waived or agreed to waive any emolument during both years.

12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group include 3 directors (2020: 3 directors) during the year, whose emoluments are disclosed in note 11. The aggregate of the emoluments in respect of the remaining individuals are as follows:

	2021 RMB'000	2020 RMB'000
Salaries and other emoluments	1,308	1,010
Retirement scheme contributions	16	12
	1,324	1,022

The emoluments of individuals other than directors with the highest emoluments are within the following band:

	2021	2020
Nil to HK\$1,000,000	2	2

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13. RIGHT-OF-USE ASSETS/PROPERTY, PLANT AND EQUIPMENT

	Property, plant and equipment									
	Buildings held for own use	Leasehold land and building	Leasehold improvements	Furniture, fixtures and office equipment	Machineries	Motor vehicles	Construction-in-progress	Sub-total	Right-of-use assets (notes (a) and (b))	Total
	(notes (a) and (b)) RMB'000	(note (c)) RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost										
At 1 January 2020	24,259	-	16,638	27,587	25,888	11,375	-	105,747	129,557	235,304
Exchange adjustments	-	-	(7)	(5)	-	(319)	-	(331)	(231)	(562)
Additions	-	-	85	1,105	4,240	1,224	3,273	9,927	1,498	11,425
Disposals	-	-	-	(221)	(345)	(318)	-	(884)	-	(884)
At 31 December 2020	24,259	-	16,716	28,466	29,783	11,962	3,273	114,459	130,824	245,283
At 1 January 2021	24,259	-	16,716	28,466	29,783	11,962	3,273	114,459	130,824	245,283
Exchange adjustments	-	(115)	(12)	(2)	-	(165)	-	(294)	(82)	(376)
Additions	-	7,090	2,352	3,794	11,099	1,106	32,878	58,319	7,982	66,301
Disposals	-	-	(691)	(1,146)	(6,288)	-	-	(8,125)	(10,948)	(19,073)
At 31 December 2021	24,259	6,975	18,365	31,112	34,594	12,903	36,151	164,359	127,776	292,135
Accumulated depreciation										
At 1 January 2020	3,273	-	8,395	15,579	10,222	8,975	-	46,444	11,224	57,668
Exchange adjustments	-	-	(7)	(5)	-	(304)	-	(316)	(133)	(449)
Charge for the year	1,093	-	2,859	3,401	2,657	743	-	10,753	10,215	20,968
Disposals	-	-	-	(194)	(278)	(318)	-	(790)	-	(790)
At 31 December 2020	4,366	-	11,247	18,781	12,601	9,096	-	56,091	21,306	77,397
At 1 January 2021	4,366	-	11,247	18,781	12,601	9,096	-	56,091	21,306	77,397
Exchange adjustments	-	(2)	(1)	(2)	-	(161)	-	(166)	(40)	(206)
Charge for the year	1,092	106	2,837	3,936	2,780	902	-	11,653	9,562	21,215
Disposals	-	-	(576)	(998)	(3,684)	-	-	(5,258)	(10,948)	(16,206)
At 31 December 2021	5,458	104	13,507	21,717	11,697	9,837	-	62,320	19,880	82,200
Carrying amount										
At 31 December 2021	18,801	6,871	4,858	9,395	22,897	3,066	36,151	102,039	107,896	209,935
At 31 December 2020	19,893	-	5,469	9,685	17,182	2,866	3,273	58,368	109,518	167,886

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13. RIGHT-OF-USE ASSETS/PROPERTY, PLANT AND EQUIPMENT (Continued)

Note:

(a) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	Notes	2021 \$'000	2020 \$'000
Ownership interests in leasehold land and buildings held for own use in PRC, carried at depreciated cost, with remaining lease term of:			
– between 10 and 50 years	(i)	98,539	99,904
Other properties leased for own use, carried at depreciated cost	(ii)	9,357	9,614
		107,896	109,518

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2021 \$'000	2020 \$'000
Depreciation charge of right-of-use assets by class of underlying asset:		
– Ownership interests in leasehold land and buildings	1,365	1,365
– Other properties leased for own use	8,197	8,850
	9,562	10,215
Interest on lease liabilities (note 7(a))	799	793
COVID-19-related rent concessions allowed	–	142

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13. RIGHT-OF-USE ASSETS/PROPERTY, PLANT AND EQUIPMENT (Continued)

Note: (Continued)

(a) Right-of-use assets (Continued)

During the year, additions to right-of-use assets were RMB7,982,000. This amount primarily related to the capitalised lease payments payable under new tenancy agreements.

As disclosed in note 3, the Group has early adopted the Amendment to HKFRS 16, *Leases, Covid-19-Related Rent Concessions*, and applies the practical expedient introduced by the Amendment to all eligible rent concessions received by the Group during the period. Further details are disclosed in (ii) below.

(i) Ownership interests in leasehold land and buildings held for own use

The Group holds several commercial buildings for its office and the land use rights for a piece of land held for development. The Group is the registered owner of these property interests, including the whole or part of undivided share in the underlying land. Lump sum payments were made upfront to acquire these property interests from their previous registered owners, and there are no ongoing payments to be made under the terms of the land lease, other than payments based on rateable values set by the relevant government authorities. These payments vary from time to time and are payable to the relevant government authorities.

(ii) Other properties leased for own use

The Group has obtained the right to use other properties as its factories, offices and warehouses through tenancy agreements. The leases typically run for an initial period of two to three years. Lease payments are usually increased every two years to reflect market rentals.

(b) Included in right-of-use assets is the land use rights for a piece of land held for development situated in the PRC with a carrying amount of approximately RMB42,981,000 (2020: RMB42,981,000).

(c) The Group holds an office unit acquired during the year and held for own use in Hong Kong, carried at depreciated cost, with remaining lease term of 50 years.

(d) As at 31 December 2021, certain right-of-use assets and buildings held for own use with a total carrying amount of RMB74,359,000 (2020: RMB76,816,000) were pledged in favour of a bank for bank loans of the Group (note 27).

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14. INVESTMENT PROPERTIES

	RMB'000
Fair value	
At 1 January 2020	122,600
Fair value adjustment	(1,600)
At 31 December 2020 and 1 January 2021	121,000
Fair value adjustment	800
At 31 December 2021	121,800

- a) The Group's investment properties were revalued as at 31 December 2021 and 2020 on an open market value basis calculated by reference to (i) comparable market transactions in the relevant markets or (ii) net rental income allowing for reversionary income potential. The valuations were carried out by an independent firm of qualified valuers, Cushman & Wakefield Limited ("**Cushman & Wakefield**"), who amongst its staff have members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The Group's property manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results when the valuations are performed at each annual reporting date.
- b) The Group's investment properties are held under medium-term lease in the PRC.

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14. INVESTMENT PROPERTIES (Continued)

- c) At 31 December 2021, certain of the Group's investment properties with a total fair value of approximately RMB107,600,000 (2020: RMB107,000,000) were pledged in favour of the banks for the bank loans and banking facilities granted to the Group (note 27).

d) Fair value measurement of properties

(i) Fair value hierarchy

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

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

	Fair value measurements as at 31 December 2021 categorised into			
	Fair value at 31 December 2021 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Group Recurring fair value measurement				
Investment properties:				
– Commercial – PRC	121,800	–	–	121,800

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14. INVESTMENT PROPERTIES (Continued)

d) Fair value measurement of properties (Continued)

(i) Fair value hierarchy (Continued)

	Fair value measurements as at 31 December 2020 categorised into			
	Fair value at 31 December 2020 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
	Group			
Recurring fair value measurement				
Investment properties:				
– Commercial – PRC	121,000	–	–	121,000

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

(ii) Information about Level 3 fair value measurements

	Valuation techniques	Unobservable input	Range
Investment properties: – Commercial – PRC	(i) Direct comparison method	Sales evidence of comparable properties (adjusted for the difference in the quality and location of the properties)	RMB45,573 - RMB50,186 per square meter (2020: RMB41,892 - RMB45,984)
	(ii) Discounted cash flow	Risk-adjusted discount rate (i.e. market rental yield)	2.75%-4% (2020: 3.25%-4%)
		Expected market rental growth	2.75%-4% (2020: 3.25%-4%)
		Expected occupancy rate	100% (2020: 100%)

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14. INVESTMENT PROPERTIES (Continued)

d) Fair value measurement of properties (Continued)

(ii) Information about Level 3 fair value measurements (Continued)

The fair value of investment properties located in the Mainland China is determined by (i) direct comparison method with reference to the sales evidence of comparable properties (adjusted for difference in the quality and location of the properties) or where appropriate, (ii) discounting a projected cash flow forecast associated with the properties using risk-adjusted discount rate which is the market rental yield for the properties. The valuation takes into account expected market rental growth and occupancy rate of the respective properties. The discount rate used has been adjusted for the quality and location of the buildings and the tenant credit quality. The fair value measurement is positively correlated to the sales price of comparable properties, the expected market rental growth and the occupancy rate, and negatively correlated to the risk-adjusted discount rate.

The movements during the year in the balance of these Level 3 fair value measurements are as follows:

	2021 RMB'000	2020 RMB'000
Investment properties – Commercial – Mainland China		
At 1 January	121,000	122,600
Net gain/(loss) from fair value adjustment on investment properties recognised in profit or loss	800	(1,600)
At 31 December	121,800	121,000

- e) The Group leases out investment properties under operating leases. The leases run for a period for one to three years (2020: one to three years). None of the leases include contingent rentals.

Total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2021 RMB'000	2020 RMB'000
Within 1 year	2,878	3,138
After 1 year but within 5 years	2,811	5,480
	5,689	8,618

- f) All properties held under operating lease that would otherwise meet the definition of investment property are classified as investment property.

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15. SUBSIDIARIES

The following is a list of principal subsidiaries of the Group as at 31 December 2021.

Name	Place of incorporation/ operations	Proportion of ownership interest held by the Group at effective interest	Class of shares/ capital held	Particulars of issued and paid up capital	Principal activities
Kingworld Medicine and Healthcare Group Limited ("BVI Kingworld") (note (a))	The BVI/Hong Kong	100% (2019: 100%)	Ordinary shares	111 shares of US\$1 each (2019: 111 shares of US\$1 each)	Investment holding
Kingworld Medicine Healthcare Limited	Hong Kong	100% (2019: 100%)	Ordinary shares	195,546,680 shares (2019: 195,546,680 shares)	Investment holding and distribution sale of branded imported pharmaceutical and healthcare products in Hong Kong
金活(香港)控股有限公司 Kingworld (Hong Kong) Holdings Limited	Hong Kong	100% (2019: 100%)	Ordinary shares	1 share (2019: 1 share)	Investment holding
深圳市金活醫藥有限公司 SZ Kingworld Medicine Company Limited (note (b)) ("SZ Kingworld")	The PRC	100% (2019: 100%)	Registered capital	RMB180,900,000 (2019: 180,900,000)	Distribution sale of branded imported pharmaceutical and healthcare products in the PRC
深圳市東迪欣科技有限公司 Shenzhen Dong Di Xin Technology Company Limited (note (c)) ("Dong Di Xin")	The PRC	55% (2019: 55%)	Registered capital	RMB2,000,000 (2019: RMB2,000,000)	Manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices in the PRC
深圳市龍德健康有限公司 Shenzhen City Longde Jiankang Company Limited (note (c)) ("Longde")	The PRC	90% (2019: 90%)	Registered capital	RMB28,800,000 (2019: RMB28,800,000)	Property investment
深圳市舒心堂藝術文化傳播有限公司 (note (c)) ("舒心堂")	The PRC	41% (2019: 51%)	Registered capital	RMB3,000,000 (2019: RMB1,000,000)	Distribution sales of artwork and organization of art exhibition
深圳市金活中醫藥科技發展有限公司 (note (c))	The PRC	85% (2019: Nil)	Registered capital	RMB5,000,000 (2019: Nil)	Distribution sales of Chinese medicine and technology transfer

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15. SUBSIDIARIES (Continued)

Notes:

- a) Except for BVI Kingworld which is directly owned by the Company, all other principal subsidiaries are indirectly owned by the Company.
- b) Wholly-foreign owned enterprise established in the PRC.
- c) Limited liability company established in the PRC. 舒心堂 is regarded as an indirect non-wholly subsidiary of the Company since the Company can control the majority of votes of its board of director.
- d) The English names of the above PRC subsidiaries are for identification purpose only.
- e) The following table lists out the information relating to Dong Di Xin and Longde, being subsidiaries of the Group which have material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

	Longde		Dong Di Xin*	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
NCI Percentage	10%	10%	45%	45%
Current assets	4,045	1,262	260,331	245,528
Non-current assets	79,132	46,254	45,015	34,952
Current liabilities	(57,223)	(20,148)	(92,013)	(120,072)
Non-current liabilities	–	–	(1,203)	(1,185)
Net assets	25,954	27,368	212,130	159,223
Carrying amount of NCI	2,595	2,736	101,351	84,023
Revenue	–	–	319,962	370,264
Profit/(loss) for the year	(1,413)	(896)	57,472	95,196
Total comprehensive income/(loss)	(1,413)	(896)	57,601	93,665
Profit/(loss) allocated to NCI	(141)	(90)	21,249	39,637
Total comprehensive income/(loss) allocated to NCI	(141)	(90)	21,307	38,948
Dividend paid to NCI (note f)	–	–	3,920	24,534
Cash flows from operating activities	32,755	3,428	35,207	113,241
Cash flows from investing activities	(32,878)	(3,273)	(20,883)	(3,617)
Cash flows from financing activities	–	–	(3,920)	(54,150)

* These also include amounts attributable to the NCI of Shenzhen Zhilong Jinggong Technology Company Limited, a subsidiary of Dong Di Xin which is 51% owned by Dong Di Xin.

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15. SUBSIDIARIES (Continued)

Notes: (Continued)

- f) Distributions declared and approved, paid or payable to the non-controlling shareholders of Dong Di Xin, and the non-controlling shareholders of a subsidiary of Dong Di Xin during the year

	2021 RMB'000	2020 RMB'000
Dividends declared and approved during the financial year:		
To non-controlling shareholders of Dong Di Xin		
– paid during the year	–	22,500
To non-controlling shareholders of a subsidiary of Dong Di Xin		
– paid during the year	3,920	2,034
	3,920	24,534

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16. GOODWILL

	RMB'000
Cost	
At 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021	90,693
Accumulated impairment losses	
At 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021	–
Carrying amount	
At 31 December 2021	90,693
At 31 December 2020	90,693

The goodwill arose from acquisition of Dong Di Xin during the year ended 31 December 2015. The goodwill represented the expected future profitability of Dong Di Xin as an established business at the acquisition date. The reportable segment adjusted EBITDA of Dong Di Xin was approximately RMB79,940,000 (2020: RMB123,913,000) for the year (Note 5(a)).

Impairment testing on Dong Di Xin

The recoverable amount of Dong Di Xin as the identified cash-generating unit (“CGU”) has been determined based on a value in use calculations. At 31 December 2021, the recoverable amount of the CGU, to which goodwill and other intangible assets (Note 19) are allocated, is determined taking into account the valuation performed by Hong Kong Appraisal Advisory Limited, an independent firm of qualified valuers not connected to the Group and with qualification and experiences in valuing similar assets, based on the cash flows forecasts derived from the most recent financial budgets for the next 5 years (2020: 5 years) approved by the management using the pre-tax discount rate of 17.5% (2020: 18.7%) per annum which reflects current market assessments of the time value of money and the risks specific to the CGU. Other key assumptions for the value in use calculations are the budgeted growth rate of -10% to 4% (2020: -32% to 5%) for the next 5 years and budgeted gross margin of 40% (2020: 45%), which are determined based on past performance, management’s expectations for the market development and market growth forecasts.

Based on the results of the valuation, the recoverable amount of the CGU has been assessed as being higher than its carrying amount. Accordingly, no impairment (2020: Nil) on goodwill and other intangible assets (Note 19) was considered necessary at the both reporting period ends.

The management believes that any reasonably possible change in the key assumptions would not cause the carrying amount of the goodwill and other intangible assets (Note 19) to exceed its recoverable amount.

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17. INTEREST IN ASSOCIATES

	2021 RMB'000	2020 RMB'000
Share of net assets	5,900	2,588
Goodwill, net of impairment losses	2,495	–
Carrying amount of the Group's interests in associates	8,395	2,588

The following list contains only the particulars of associates, which are unlisted corporate entities whose quoted market prices are not available:

Name of associate	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital/ Registered capital	Proportion of ownership interest held by a subsidiary of the Group at effective interest	Principal activity
佛慈藥廠有限公司 Fat Chi Medicine Company Limited (“ Fat Chi Medicine ”)	Limited liability company	Hong Kong	HKD320,000	45.3125% (2020: Nil)	Trading of medical products
深圳至元健康科技創新中心 Shenzhen Zhiyuan Healthcare Technology Innovation Center (“ Shenzhen Zhiyuan ”)	Limited liability company	The PRC	RMB22,220,000 (2020: RMB20,500,000)	45% (2020: 48.78%)	Marketing and promotion of healthcare and technology
Ming VitaMed Enterprise III Limited	Limited liability company	The BVI	USD1,000	24% (2020: 24%)	Inactive

The associates are accounted for using the equity method in the consolidated financial statements.

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17. INTEREST IN ASSOCIATES (Continued)

Summarised financial information of the material associates, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

Fat Chi Medicine

	31/12/2021	Acquisition date
	RMB'000	19/4/2021
		RMB'000
Gross amounts of the associate		
Current assets	4,593	5,382
Non-current assets	4,323	4,533
Current liabilities	(2,540)	(3,904)
Non-current liabilities	(670)	(712)
Equity	5,706	5,299

	From 19/4/2021	
	to 31/12/2021	
	RMB'000	
Revenue	3,130	
Profit for the year	585	
Other comprehensive loss	(178)	
Total comprehensive loss	407	
Dividend received from the associate	-	

	31/12/2021	Acquisition date
	RMB'000	19/4/2021
		RMB'000
Reconciled to the Group's interest in the associate		
Gross amounts of net assets of the associate	5,706	5,299
Group's effective interest	45.3125%	45.3125%
Group's share of net assets of the associate	2,585	2,401
Goodwill	2,495	2,577
Carrying amount in the consolidated financial statements	5,080	4,978

	From 19/4/2021	
	to 31/12/2021	
	RMB'000	
Profit shared by the Group	265	
Other comprehensive loss shared by the Group	(81)	
Total comprehensive income shared by the Group	184	

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17. INTEREST IN ASSOCIATES (Continued)

Shenzhen Zhiyuan

	2021 RMB'000	2020 RMB'000
Gross amounts of the associate		
Current assets	8,568	6,602
Non-current assets	–	–
Current liabilities	(1,206)	(1,300)
Non-current liabilities	–	–
Equity	7,362	5,302
Revenue	–	–
(Loss)/profit for the year	(5)	44
Other comprehensive income	–	–
Total comprehensive (loss)/income	(5)	44
Dividend received from the associate	–	–
Reconciled to the Group's interest in the associate		
Gross amounts of net assets of the associate	7,362	5,302
Group's effective interest	45%	48.78%
Group's share of net assets of the associate	3,314	2,587
Carrying amount in the consolidated financial statements	3,314	2,587
(Loss)/profit shared by the Group	(2)	22
Gain from dilution of interest in an associate	729	–

Aggregate information of an associate that is individually not material:

	2021 RMB'000	2020 RMB'000
Aggregate carrying amount of individually immaterial associate in the consolidated financial statements	1	1
Aggregate amounts of the Group's share of the associate's		
Profit from continuing operations	–	–
Other comprehensive income	–	–
Total comprehensive income	–	–

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18. INTEREST IN A JOINT VENTURE

	2021 RMB'000	2020 RMB'000
Share of net assets	85,697	84,969

Details of the Group's interest in a joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

Name of entity	Form of business structure	Place of incorporation and operation	Class of capital held	Particulars of issued and paid up capital	Proportion of ownership interest held by a subsidiary of the Group at effective interest	Principal activities
珠海市金明醫藥有限公司 Zhuhai City Jinming Medicine Company Limited ("Zhuhai Jinming")	Limited liability company	The PRC	Registered capital	RMB5,000,000	50%	Distribution sale of branded imported pharmaceutical and healthcare products in the PRC

Notes:

- Zhuhai Jinming was established by a wholly-owned subsidiary of the Company with a pharmaceutical and healthcare product distributor in the Mainland China, the other investor to this joint venture, to carry out the Group's distribution sales of pharmaceutical and healthcare products in the Guangdong province in the PRC.
- The English name of the above PRC joint venture is for identification purpose only.

Zhuhai Jinming, the only joint venture in which the Group participates, is an unlisted corporate entity whose quoted market price is not available.

The Group shares control with the joint venture partner over the operating and financial decision-making of the joint venture which has been accounted for using equity method in the consolidated financial statements.

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18. INTEREST IN A JOINT VENTURE (Continued)

Summarised financial information of Zhuhai Jinming and a reconciliation to the carrying amount in the consolidated financial statements, are disclosed below:

	2021 RMB'000	2020 RMB'000
Gross amounts of Zhuhai Jinming		
Current assets	85,907	68,576
Non-current assets	187,007	183,114
Current liabilities	(69,264)	(52,533)
Non-current liabilities	(32,255)	(29,218)
Equity	171,395	169,939
Included in the above assets and liabilities:		
Cash and cash equivalents	34,401	16,470
Current financial liabilities (excluding trade and other payables)	(8,814)	(10,026)
Non-current financial liabilities (excluding deferred tax liabilities)	(2,250)	–
Revenue	148,807	168,923
Profit from continuing operations	17,456	24,763
Other comprehensive income	–	–
Total comprehensive income	17,456	24,763
Included in the above profit:		
Valuation gain on investment property	3,149	13,360
Depreciation	(2,946)	(2,483)
Interest income	17	93
Interest expense	(293)	(1,191)
Income tax expense	(5,653)	(5,716)
Reconciled to the Group's interest in Zhuhai Jinming		
Gross amounts of Zhuhai Jinming's net assets	171,395	169,939
Group's effective interest	50%	50%
Carrying amount in the consolidated financial statements	85,697	84,969
Profit shared by the Group	8,728	12,381
Other comprehensive income shared by the Group	–	–
Total comprehensive income shared by the Group	8,728	12,381

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18. INTEREST IN A JOINT VENTURE (Continued)

The fair value of Zhuhai Jinming's investment properties as at 31 December 2021 and 2020 were determined on an open market value basis calculated by reference to net rental income allowing for reversionary income potential, which is categorised under Level 3 fair value measurements. The valuations at 31 December 2021 and 2020 were carried out by an independent firm of qualified valuers, Cushman & Wakefield, who amongst their staff have members of the Hong Kong Institute of Surveyors with recent experience in the location and category of properties being valued.

Information about Level 3 fair value measurements is as follows:

	Valuation techniques	Unobservable input	Range
Investment properties: – Commercial – PRC	Discounted cash flow	Risk-adjusted discount rate (i.e. market rental yield)	5.8% (2020: 5.8%)
		Expected market rental growth	5.8% (2020: 5.8%)
		Expected occupancy rate	100% (2020: 100%)

The fair value of investment properties of Zhuhai Jinming is determined by discounting a projected cash flow forecast associated with the properties using risk-adjusted discount rate which is the market rental yield for the properties. The valuation takes into account expected market rental growth and occupancy rate of the respective properties. The discount rates used have been adjusted for the quality and location of the buildings and the tenant credit quality. The fair value measurement is positively correlated to the expected market rental growth and the occupancy rate, and negatively correlated to the risk-adjusted discount rate.

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19. OTHER INTANGIBLE ASSETS

	Customer relationships (note a) RMB'000	Patents (note b) RMB'000	Total RMB'000
Cost			
At 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021	104,727	28,700	133,427
Accumulated amortisation and impairment losses			
At 1 January 2020	64,364	28,222	92,586
Charge for the year	13,091	478	13,569
At 31 December 2020	77,455	28,700	106,155
At 1 January 2021	77,455	28,700	106,155
Charge for the year	13,569	–	13,569
At 31 December 2021	91,024	28,700	119,724
Carrying amount			
At 31 December 2021	13,703	–	13,703
At 31 December 2020	27,272	–	27,272

Notes:

- (a) The customer relationships have a finite useful life and are amortised on a straight-line basis over 8 years.
- (b) The patents represent the patent rights and know-how of the Group in relation to the manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices which are amortised on a straight-line basis over 5 years.

Impairment test on the impairment of other intangible assets are disclosed in Note 16. Based on the results of the assessment, the recoverable amount of the CGU, to which these other intangible assets are allocated, has been assessed as being higher than its carrying amount. Accordingly, no impairment on the other intangible assets was considered necessary at 31 December 2021 (2020: Nil).

The management believes that any reasonably possible change in the key assumptions would not cause the carrying amounts of the other intangible assets to exceeds their recoverable amounts.

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20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Note	2021 RMB'000	2020 RMB'000
Financial assets at fair value through other comprehensive income (non-recycling)			
– Unlisted Equity Investments, at fair value			
Non-current	(a) and (b)	37,490	39,962
Current	(b)(ii)	–	94

Notes:

- (a) The Group does not intend to dispose these unlisted equity investments in the near future.
- (b) Included in unlisted equity investments measured at fair value at 31 December 2021 and 2020 are:
- (i) Investment in 5.99% interest in Sinopharm Healthcare Fund L. P. (the "Fund") which are designated as financial assets at fair value through other comprehensive income (non-recycling) and has no fixed maturity date or coupon rate. Pursuant to a partnership agreement signed on 24 June 2015, the Group has committed to invest US\$5,000,000 (equivalent to approximately RMB33,930,000) to subscribe approximately 5.52% of the aggregate initial limited partners' interest of the Fund. The Fund holds approximately 9.99% of the total issued share capital of the Company. The fair value of the Group's interest in the Fund is determined taken into account the valuation performed by Hong Kong Appraisal Advisory Limited, an independent valuer not connected to the Group, based on the quoted prices of equity instruments for which the Fund invested in. During the year ended 31 December 2021, the decrease in fair value amounting to RMB1,562,000 has been recognised to other comprehensive income. As at 31 December 2021, the fair value of the investment is approximately HK\$32,024,000 (equivalent to RMB26,126,000) (2020: HK\$33,939,000 (equivalent to RMB28,598,000)). The Group does not intend to dispose it in the near future.
 - (ii) Investment in 15% interest in Dong Hua Tong Investments Limited as at 31 December 2020 which was designated as financial asset at fair value through other comprehensive income (non-recycling) and had no fixed maturity date or coupon rate. The fair value of the investment was also determined with reference to valuation performed by Hong Kong Appraisal Advisory Limited based on market value of Dong Hua Tong Investments Limited's asset and liabilities. As at 31 December 2020, the fair value of the investment was approximately HK\$112,000 (equivalent to RMB94,000). During the year ended 31 December 2021, the Group disposed of the investment.

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20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Continued)

- (iii) Investment in an unlisted equity security which is designated as fair value through other comprehensive income and has no fixed maturity date or coupon rate. At the reporting period end, the directors of the Company assessed and determined its fair value to be approximately RMB300,000 (2020: RMB300,000) by reference to its entitlement to the net assets of the investee.
- (iv) Investment in 88.5% interest in 深圳國新南方三號投資合夥企業(有限合夥) which are designated as financial assets at fair value through other comprehensive income (non-recycling) and has no fixed maturity date or coupon rate. The fair value of the investment was also determined with reference to valuation performed by Hong Kong Appraisal Advisory Limited based on the median of the market multiples of market comparable companies. As at 31 December 2021, the fair value of the investment is approximately RMB11,064,000 (2020: RMB11,064,000). The Group does not intend to dispose it in the near future. The Group is not the controlling entity nor the management of the Fund. The investment in the Fund is classified as financial assets at fair value through other comprehensive income.

21. INVENTORIES

	2021 RMB'000	2020 RMB'000
Raw materials	16,940	20,920
Work in progress	5,228	7,249
Finished goods	84,576	102,052
	106,744	130,221

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2021 RMB'000	2020 RMB'000
Carrying amount of inventories sold (note 7(c))	583,788	465,229
Write-down of inventories (note 7(c))	6,967	33,562

During the year ended 31 December 2021, write-down on those slow moving inventories of approximately RMB6,967,000 (2020: RMB33,562,000) were recognised, taking into account their remaining valid period due to expire shortly after the reporting period end.

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22. 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) below)	(6,185)	(6,367)
	136,470	172,848
Bills receivables (note (e) below & 31(a))	101,361	73,343
Other receivables (note 31(a))	37,599	46,154
Amounts due from related parties (note (f) below & note 35(b))	286	295
Amounts due from associates (note (f) below & note 35(b))	4,378	4,244
Amount due from a joint venture (note (f) below & note 35(b))	2	2
Financial assets at amortised cost	280,096	296,886
Prepayments	18,276	18,224
Trade and other deposits	5,805	5,395
Trade deposits to related parties (note 35(b))	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 and bills receivables (net of allowance for lifetime expected credit losses) with the following ageing analysis based on invoice date, as of the end of the reporting period:

	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. Further details on the Group's credit policy are set out in note 31(a).

The Group does not hold any collateral over these balances.

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22. TRADE AND OTHER RECEIVABLES (Continued)

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 and bills receivables directly.

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

	2021 RMB'000	2020 RMB'000
At 1 January	6,367	5,405
Impairment losses recognised during the year (note 7(c))	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, as further detailed in Note 31(a).

- 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) (note 27).
- e) Bills receivables represent the irrevocable bills with maturity within one year issued by the banks with high credit rating. The directors of the Company considered the default risk of these bank bills to be insignificant and no impairment was necessary at the reporting period end.
- f) The balances with related parties, an associate and a joint venture are 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.

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23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Note	2021 RMB'000	2020 RMB'000
Non-current			
Unlisted Equity Investments, at fair value	(a)	6,461	6,257
Current			
Listed securities			
– Chuangmei Pharmaceutical Co., Ltd. (“Chuangmei”)	(b)	10,480	10,552

The above financial assets at 31 December 2021 and 2020 were upon initial recognition, designated by the Company at fair value through profit or loss.

- (a) The Group have invested in 10% interest in Shenzhen Qianhai Industry Internet Co., Ltd.. The fair value of the investment was determined with reference to valuation performed by Hong Kong Appraisal Advisory Limited based on the median of the market multiples of market comparable companies after adjusting for lack of marketability and control discount. As at 31 December 2021, the fair value of the investment is approximately RMB6.5 million (2020: RMB6.3 million). The Group does not intend to dispose it in the near future.
- (b) Chuangmei was incorporated in the PRC and the shares of which are listed on the Main Board of the Stock Exchange of Hong Kong Limited. As at 31 December 2021 and 2020, a total of 2,302,000 ordinary shares of Chuangmei were held by the Company, representing 2.13% of Chuangmei’s total issued ordinary shares. As at 31 December 2021 and 2020, the fair value of investment in Chuangmei ordinary shares was determined with reference to the closing market price of its shares on that date.

24. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	2021 RMB'000	2020 RMB'000
Bank balances	187,702	250,581
Cash on hand	223	237
Cash and cash equivalents in the consolidated statement of cash flows and consolidated statement of financial position	187,925	250,818

Cash at bank earns interest at floating rates based on daily bank deposit rates.

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24. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS (Continued)

Reconciliation of liabilities arising from financing activities

	Dividend payable to NCI RMB'000	Accrued interest RMB'000	Lease liabilities RMB'000	Bank loans RMB'000	Total liabilities from financing activities RMB'000
At 1 January 2021	-	-	9,239	296,538	305,777
Interest recognised in profit or loss	-	10,983	799	-	11,782
Dividends declared and approved to non-controlling interests	3,920	-	-	-	3,920
Changes from financing cash flows					
– Proceeds from new bank loans	-	-	-	124,680	124,680
– Repayment of bank loans	-	-	-	(187,182)	(187,182)
– Capital element of lease rentals paid	-	-	(8,152)	-	(8,187)
– Dividends paid to non-controlling interests	(3,920)	-	-	-	(3,920)
Finance costs paid	-	(10,983)	(799)	-	(11,782)
Increase in lease liabilities from entering into new leases during the period	-	-	7,982	-	7,982
Exchange adjustments	-	-	(35)	(4,114)	(4,149)
At 31 December 2021	-	-	9,034	229,922	238,956
At 1 January 2020	-	271	17,489	214,327	232,087
Interest recognised in profit or loss	-	14,368	793	-	15,161
Dividends declared and payable to non-controlling interests	24,534	-	-	-	24,534
Changes from financing cash flows					
– Proceeds from new bank loans	-	-	-	421,867	421,867
– Repayment of bank loans	-	-	-	(330,902)	(330,902)
– Capital element of lease rental paid	-	-	(9,578)	-	(9,578)
– Dividends paid to non-controlling interests	(24,534)	-	-	-	(24,534)
Finance costs paid	-	(14,639)	(793)	-	(15,432)
Increase in lease liabilities from entering into a new lease during the period	-	-	1,498	-	1,498
COVID-19 related rent concessions received (note 13)	-	-	(142)	-	(142)
Exchange adjustments	-	-	(28)	(8,754)	(8,782)
At 31 December 2020	-	-	9,239	296,538	305,777

Note: (a) Major non-cash transactions

During the year ended 31 December 2021, the Group entered into lease arrangements with a total present value of future lease payments at the inception of the leases of approximately RMB7,982,000 (2020: RMB1,498,000), which were included in the right-of-use assets.

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25. CONTRACT LIABILITIES

	2021 RMB'000	2020 RMB'000
Trade deposits received from customers:		
– Security deposits received	38,391	33,915
– Receipts in advance	33,339	22,581
	71,730	56,496

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

	2021 RMB'000	2020 RMB'000
Movements in contract liabilities		
Balance at 1 January	56,496	72,342
Increase in contract liabilities as a result of receiving deposits from the customers during the year	64,838	56,247
Decrease in contract liabilities as a result of recognising revenue during the year that was included in contract liabilities at the beginning of the year	(49,584)	(72,043)
Exchange difference	(20)	(50)
Balance at 31 December	71,730	56,496

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26. 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) and 35(b))	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 are unsecured, interest free and repayable on demand.

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27. BANK LOANS

At 31 December 2021, the bank loans were repayable as follows:

	2021 RMB'000	2020 RMB'000
Within 1 year or on demand	229,922	296,538

At 31 December 2021, the bank loans were as follows:

	2021 RMB'000	2020 RMB'000
Bank loans		
– secured (note c)	229,922	296,538
Total bank loans	229,922	296,538

- a) All of the bank loans are carried at amortised cost.
- b) The range of effective interest rates on the Group's bank loans are as follows:

	2021	2020
Effective interest rates:		
Fixed rate loans	2.16%–5.20%	2.16%–6.23%

- c) The bank loans were secured by the following assets of the Group.

	2021 RMB'000	2020 RMB'000
Investment properties (note 14)	107,600	107,000
Property, plant and equipment (note 13)	18,801	19,893
Right-of-use assets (note 13)	55,558	56,923
Trade receivables (note 22)	85,130	123,629

The Group's bank loans amounted to RMB79,679,000 as at 31 December 2021 (2020: RMB96,550,000) were secured by Group's investment property. The Group's bank loans amounted to RMB105,243,000 as at 31 December 2021 (2020: RMB149,988,000) were secured by Group's right-of-use assets and property, plant and equipment and/or guarantee by Mr. Zhao Li Sheng, the ultimate controlling party and director of the Group, and Ms. Chan Lok San, the director of the Group. The Group's bank loan amounted to RMB45,000,000 as at 31 December 2021 (2020: RMB50,000,000) was secured by Group's trade receivables.

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28. LEASE LIABILITIES

At 31 December 2021, the lease liabilities were payable as follows:

	2021 RMB'000	2020 RMB'000
Within 1 year	7,584	8,003
After 1 year but within 2 years	1,421	1,236
After 2 years but within 5 years	29	–
	1,450	1,236
	9,034	9,239

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29. CURRENT AND DEFERRED TAX

a) Current taxation in the consolidated statement of financial position represents:

	2021 RMB'000	2020 RMB'000
At 1 January	6,623	7,173
Provision for the year		
– Hong Kong Profits Tax	166	300
– PRC Enterprise Income Tax	19,910	22,160
	20,076	22,460
Paid during the year	(14,802)	(23,010)
At 31 December	11,897	6,623

b) Deferred tax liabilities recognised

The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Amortisation of intangible assets RMB'000	Revaluation of investment properties RMB'000	Total RMB'000
At 1 January 2020	6,129	16,304	22,433
Credited to consolidated statement of profit or loss (note 8(a))	(2,038)	(420)	(2,458)
At 31 December 2020	4,091	15,884	19,975
At 1 January 2021	4,091	15,884	19,975
Credited to consolidated statement of profit or loss (note 8(a))	(2,035)	182	(1,853)
At 31 December 2021	2,056	16,066	18,122

c) Deferred tax assets and liabilities not recognised

Save as disclosed in note 8(c), there were no significant unrecognised deferred tax assets and liabilities of the Group and the Company as at 31 December 2021 and 2020.

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30. SHARE CAPITAL AND RESERVES

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of the equity between the beginning and the end of the year are set out below:

	Share capital RMB'000 (note a)	Share premium RMB'000 (note b)	Exchange reserve RMB'000 (note e)	Capital reserve RMB'000 (note f)	Retained profits/ (accumulated loss) RMB'000	Total RMB'000
At 1 January 2021	53,468	152,700	(4,723)	(12,555)	(21,871)	167,019
Change in equity:						
Loss for the year	-	-	-	-	(14,861)	(14,861)
Other comprehensive income for the year	-	-	2,298	-	-	2,298
Total comprehensive income/ (loss) for the year	-	-	2,298	-	(14,861)	(12,563)
Dividends (note 9)	-	-	-	-	(3,301)	(3,301)
At 31 December 2021	53,468	152,700	(2,425)	(12,555)	(40,033)	151,155
At 1 January 2020	53,468	152,700	6,894	(5,530)	5,077	212,609
Change in equity:						
Loss for the year	-	-	-	-	(14,674)	(14,674)
Other comprehensive income for the year	-	-	(11,617)	-	-	(11,617)
Total comprehensive (loss)/ income for the year	-	-	(11,617)	-	(14,674)	(26,291)
Share repurchased for the share award scheme	-	-	-	(7,025)	-	(7,025)
Dividends (note 9)	-	-	-	-	(12,274)	(12,274)
At 31 December 2020	53,468	152,700	(4,723)	(12,555)	(21,871)	167,019

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30. SHARE CAPITAL AND RESERVES (Continued)

a) Share Capital

	Number of shares '000	Amount HK\$'000	Amount equivalent to RMB\$'000
Authorised:			
Ordinary shares of HK\$0.1 each			
At beginning and end of the year	10,000,000	1,000,000	877,900
Issued and fully paid:			
Ordinary shares of HK\$0.1 each			
At beginning and end of the year	622,500	62,250	53,468

b) Share premium

The application of the share premium account of the Company is governed by the Companies Law of the Cayman Islands.

c) Statutory and discretionary reserves

The Group's PRC subsidiaries are required to transfer 10% of their net profits as determined in accordance with the PRC regulations to the statutory reserve until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders.

The transfer of net profits to the discretionary reserve of the Group's PRC subsidiaries is determined by the shareholders in general meetings in accordance with the articles of association and the PRC regulations.

The statutory and discretionary reserves are non-distributable. They can be used to reduce previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

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30. SHARE CAPITAL AND RESERVES (Continued)

d) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of equity investment designated at FVOCI under HKFRS 9 that are held at the end of the reporting period and is dealt with in accordance with the accounting policies in note 2(e).

e) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of the Group's operations outside the Mainland China. The reserve is dealt with in accordance with the accounting policies set out in note 2(s).

f) Capital reserve

The portion of the grant date fair value of unexercised share options granted to employees of the Company that has been recognised in accordance with the accounting policies adopted for share-based payments in note 2(w) (ii), and costs of the Company's shares purchased for the share award scheme (note 37) less the fair value of share-based payments in respect of any of shares awarded to the employees which are vested at award date and recognised in accordance with the accounting policy as set out in note 2(w) (iii).

g) Distributable reserves of the Company

- i) Under the Companies Law of the Cayman Islands, the funds in the share premium account and contributed surplus account of the Company are distributable to the owners of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.
- ii) At 31 December 2021, the aggregate amount of reserves available for distribution to owners of the Company was RMB112,667,000 (2020: RMB130,829,000). After the end of the reporting period, the directors proposed a final dividend of HK2.39 cents (equivalent to RMB1.95 cents) (2020: HK0.65 cent (equivalent to RMB0.55 cent)) per share amounting to RMB12,138,000 (2020: RMB3,424,000) (note 9(a)). The proposed final dividend has not been recognised as a liability at the end of the reporting period.

h) Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while structure regularly. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt.

The Group monitors its capital structure on the basis of net debt to equity ratio. The Group defines net debt as interest-bearing bank loans, less pledged bank deposits and cash and cash equivalents. Equity comprises all components of equity.

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30. SHARE CAPITAL AND RESERVES (Continued)

i) Capital management (Continued)

The Group's net debt to equity ratio at 31 December 2021 and 2020 were as follows:

	31 December 2021 (Note) RMB'000	31 December 2020 (Note) RMB'000
Current liabilities		
Bank loans	229,922	296,538
Lease liabilities	7,584	8,003
Non-current liabilities		
Lease liabilities	1,450	1,236
Total debt	238,956	305,777
Less: Cash and bank balances (including pledged bank deposits)	(187,925)	(250,818)
Adjusted net debt	51,031	54,959
Total equity	720,634	678,510
Net debt to equity ratio	7.08%	8.10%

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements in either the current or prior years.

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31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

The Group's major financial instruments include cash and cash equivalents, financial assets at fair value through other comprehensive income, trade and other receivables and payables, financial assets at fair value through profit or loss, pledged bank deposits, other financial asset and liabilities, and bank loans. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, interest rate risk, currency risk and business risk. The policies on how to mitigate these risks are set out as below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Financial instruments by categories

Financial assets at the end of the reporting period are as follows:

	2021 RMB'000	2020 RMB'000
Trade receivables	136,470	172,848
Bills receivables	101,361	73,343
Other loan and other receivables (excluding deposits and prepayments and value added tax receivables)	37,599	46,154
Amounts due from related parties	286	295
Amounts due from associates	4,378	4,244
Amount due from a joint venture	2	2
Cash and cash equivalents	187,925	250,818
Financial assets at amortised cost	468,021	547,704
Financial assets at fair value through profit or loss	16,941	16,809
Financial assets at fair value through other comprehensive income	37,490	40,056
Financial assets at fair value	54,431	56,865

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31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Financial instruments by categories (Continued)

Financial liabilities at the end of the reporting period are as follows:

	2021 RMB'000	2020 RMB'000
Bank loans	229,922	296,538
Trade and bill payables	106,098	101,537
Accruals and other payables (excluding value-added-tax payables, receipts in advance and warranty provision)	38,774	55,039
Amounts due to related parties	3,267	22,243
Lease liabilities	9,034	9,239
Financial liabilities at amortised cost	387,095	484,596

a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group.

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31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

(Continued)

a) Credit risk (Continued)

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on year-end staging classification. The amounts presented are net carrying amounts after provision for ECLs for financial assets.

Maximum exposure and year-end staging as at 31 December 2021

	2021					
	12-month	Lifetime ECLs				
	ECLs				Simplified	Total
	Stage 1	Stage 2	Stage 3	approach		
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Trade receivables (note (i))	–	–	–	136,470	136,470	
Bills receivables (note (iii))	101,361	–	–	–	101,361	
Other receivables (note (ii))	37,599	–	–	–	37,599	
Amounts due from related parties (note (ii))	286	–	–	–	286	
Amounts due from associates (note (ii))	4,378	–	–	–	4,378	
Amount due from a joint venture	2	–	–	–	2	
Cash and cash equivalents (note (iii))	187,925	–	–	–	187,925	
	331,551	–	–	136,470	468,021	

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31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

a) Credit risk (Continued)

Maximum exposure and year-end staging as at 31 December 2020

	2020				
	12-month ECLs	Lifetime ECLs			Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	
Trade receivables (note (i))	–	–	–	172,848	172,848
Bills receivables (note (iii))	73,343	–	–	–	73,343
Other receivables (note (ii))	46,154	–	–	–	46,154
Amounts due from related parties (note (ii))	295	–	–	–	295
Amount due from an associate (note (ii))	4,244	–	–	–	4,244
Amount due from a joint venture (note (ii))	2	–	–	–	2
Cash and cash equivalents (note (iii))	250,818	–	–	–	250,818
	301,513	–	–	246,191	547,704

(i) Trade receivables

The Group has established a credit risk management policy under which individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 120 days from the date of billing. Debtors with balances that are more than 4 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group has no significant concentration of credit risk in industries or countries in which the customers operate. Significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 19.2% (2020: 11.9%) and 44.1% (2020: 43.3%) of the total trade receivables were due from the Group's largest debtor and the five largest debtors respectively.

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31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

(Continued)

a) Credit risk (Continued)

(i) Trade receivables (Continued)

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

For trade receivables, the Group applies the simplified approach for measuring the lifetime ECLs on individual basis if the amounts are significant, or collective basis using the provision matrix, as disclosed below.

The ageing analysis of trade receivables (net of allowance for doubtful debts) that are neither individually nor collectively considered to be impaired is as follows:

	As at 31 December 2021				
	Lifetime ECL %	Gross carrying amount RMB'000	Lifetime ECL RMB'000	Net carrying amount RMB'000	Credit impaired Yes/NO
	Not past due	0.33%	120,276	(400)	119,876
Past due:					
0-90 days	1.22%	16,420	(200)	16,220	No
91-180 days	12.21%	246	(30)	216	No
181-365 days	50.46%	318	(160)	158	No
Over 365 days	100%	5,395	(5,395)	–	Yes
		142,655	(6,185)	136,470	

	As at 31 December 2020				
	Lifetime ECL %	Gross carrying amount RMB'000	Lifetime ECL RMB'000	Net carrying amount RMB'000	Credit impaired Yes/No
	Not past due	0.04%	137,057	(49)	137,008
Past due:					
0-90 days	0.04%	26,128	(10)	26,118	No
91-180 days	0.64%	4,039	(26)	4,013	No
181-365 days	14.12%	6,648	(939)	5,709	No
Over 365 days	100%	5,343	(5,343)	–	Yes
		179,215	(6,367)	172,848	

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31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

a) Credit risk (Continued)

(i) Trade receivables (Continued)

Expected loss rates are based on actual loss experience over the past 4 years as adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, patterns of settlement history of the customers, current conditions at the reporting period and the forward looking information such as forecast future economic conditions over the expected lives of the receivables.

Trade receivables that were neither past due nor impaired relate to a wide range of customers for which there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of individual customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the carrying balances are still considered fully recoverable. The Group does not hold any collateral over these carrying balances.

(ii) In respect of other receivables, amounts due from related parties, amounts due from associates and amount due from a joint venture, for which there was no significant increase in credit risk as at 31 December 2021 and 2020 by reference to the information available on the financial position of the respective debtors, past payment history, current conditions and other forward looking factors. No allowance for ECLs of these receivables was required as at 31 December 2021 and 2020, as the probability of default for these receivables is considered as low.

(iii) The Group's cash and cash equivalents are placed with and bills receivables with maturity within one year are issued by creditworthy banks with high credit ratings and the Group has limited exposure to any of these banks and no allowance for ECLs on them at the reporting period end.

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31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

(Continued)

b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to board approval. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following liquidity risk tables set out the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current rates at the end of the reporting period) and the earliest date the Group is required to pay:

	Within 1 year or on demand RMB'000	After 1 year but within 2 years RMB'000	After 2 years but within 5 years RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amount RMB'000
2021					
Non-derivative financial liabilities					
Trade and bills payables	106,098	–	–	106,098	106,098
Accruals	6,522	–	–	6,522	6,522
Other payables (excluding value-added-tax payables)	32,252	–	–	32,252	32,252
Amounts due to related parties	3,267	–	–	3,267	3,267
Bank loans	239,983	–	–	239,983	229,922
Lease liabilities	7,881	1,538	32	9,451	9,034
	396,003	1,538	32	397,573	387,095
2020					
Non-derivative financial liabilities					
Trade and bills payables	101,537	–	–	101,537	101,537
Accruals	6,763	–	–	6,763	6,763
Other payables (excluding value-added-tax payables)	48,276	–	–	48,276	48,276
Amounts due to related parties	22,243	–	–	22,243	22,243
Bank loans	320,589	–	–	320,589	296,538
Lease liabilities	8,240	1,342	–	9,582	9,239
	507,648	1,342	–	508,990	484,596

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31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

c) Interest rate risk

The Group's interest rate risk arises primarily from borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts.

i) Interest rate risk profile

The following table, as reported to the management of the Group, details the interest rate risk profile of the Group's lease liabilities, bank loans, bank balances and deposits at the end of the reporting period:

	2021		2020	
	Effective interest rates %	RMB'000	Effective interest rates %	RMB'000
Fixed rate borrowings:				
Lease liabilities	4.30%-6.00%	9,034	4.30%-6.00%	9,239
Bank loans	2.16%-5.20%	229,922	2.16%-6.23%	296,538
Total borrowings		238,956		305,777
Net fixed rate borrowings as a percentage of total borrowings		100%		100%
Variable rate bank balances		187,702		250,818

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31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

(Continued)

c) Interest rate risk (Continued)

ii) Sensitivity analysis

All bank loans and pledged deposits of the Group which are fixed rate instruments are insensitive to any change in interest rates. A change in interest rates at the end of the reporting period would not affect profit or loss.

At 31 December 2021, it is estimated that a general increase/decrease of 100 basis points in interest rates for bank balances, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately RMB1,877,000 (2020: RMB2,508,000). Other components of consolidated equity would not change in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until end of next annual reporting period. The analysis is performed on the same basis for the 2020.

d) Currency risk

The Group is exposed to currency risk primarily through purchases which give rise to trade and other payables, cash and cash equivalents, trade and other receivables and bank loans. The carrying values of these financial assets and liabilities are denominated in foreign currencies other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily US\$, HK\$ and Euro and RMB to the extent that they are not the functional currency of the operations to which the transactions and balances related. The management monitors foreign exchange exposure by closely reviewing the movement of the foreign currency rate and consider hedging significant foreign currency exposure should the need arise.

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31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

d) Currency risk (Continued)

i) Exposure to currency risk

	2021 RMB'000	2020 RMB'000
Assets/(liabilities)		
Cash and cash equivalents		
US\$	122,151	123,245
HK\$	12,206	97
RMB	381	373
Euro	16,653	3,850
Trade and other receivables		
US\$	44,666	42,011
Trade and other payables		
US\$	(5,272)	(1,024)
HK\$	(78,027)	(69,167)
NOK	(1,339)	–
Contract liabilities		
US\$	(25,913)	(15,615)
Bank loans		
HK\$	(59,680)	(36,550)
Total assets		
US\$	166,817	165,256
HK\$	12,206	97
RMB	381	373
Euro	16,653	3,850
Total liabilities		
US\$	(31,185)	(16,639)
HK\$	(137,707)	(105,717)
NOK	(1,339)	–

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31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

(Continued)

d) Currency risk (Continued)

ii) Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of the reporting period.

	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
At 31 December 2021			
US\$	5%	6,782	–
	(5%)	(6,782)	–
HK\$	5%	(6,275)	–
	(5%)	6,275	–
RMB	5%	19	–
	(5%)	(19)	–
Euro	5%	833	–
	(5%)	(833)	–
NOK	5%	(67)	–
	(5%)	67	–
At 31 December 2020			
US\$	5%	7,431	–
	(5%)	(7,431)	–
HK\$	5%	(5,281)	–
	(5%)	5,281	–
RMB	5%	19	–
	(5%)	(19)	–
Euro	5%	193	–
	(5%)	(193)	–

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31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

(Continued)

d) Currency risk (Continued)

ii) Sensitivity analysis (Continued)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the group entities' profit or loss after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

e) Business risk

The Group has a certain concentration of business risk as 41.3% (2020: 24.4%) of its total turnover during the year from a principal product, Nin Jiom Pei Pa Koa (京都念慈庵蜜煉川貝枇杷膏), which was purchased from a sole supplier that is the designated distributor of the manufacturer of Nin Jiom Pei Pa Koa. In November 2013, the Group entered into a four-year period distribution agreement with the manufacturer and the supplier of Nin Jiom Pei Pa Koa, pursuant to which the Group is entitled the non-exclusive distribution right to sell Nin Jiom Pei Pa Koa in certain provinces in the PRC and is granted the credit terms of 60 days. The distribution agreement was renewed in April 2017 for four-year period. If there is any change in consumer taste and demand of the product, or the supplier does not further renew the purchase agreement, the Group's turnover and profitability will be adversely affected.

f) Fair value

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

Fair value hierarchy

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

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

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31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

(Continued)

f) Fair value (Continued)

Fair value hierarchy (Continued)

The Group uses independent valuers to perform valuations of financial instruments which are categorised into Level 2 and Level 3 of the fair value hierarchy. Valuation reports with analysis of changes in fair value measurement are prepared by the independent valuer at each interim and annual reporting date, and are reviewed and approved by the financial controller. Discussion of the valuation process and results with the financial controller is held twice a year to coincide with the reporting dates.

	Fair value measurements as at 31 December 2021 categorised into				Fair value measurements as at 31 December 2020 categorised into			
	Fair value at 31 December 2021	Level 1	Level 2	Level 3	Fair value at 31 December 2020	Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurements								
Assets:								
Financial assets at fair value through other comprehensive income (non-recycling)								
– Unlisted equity investments	37,490	–	26,126	11,364	40,056	–	28,598	11,458
Financial assets at fair value through profit or loss								
– Unlisted equity investments	6,461	–	–	6,461	6,257	–	–	6,257
– Listed securities	10,480	10,480	–	–	10,552	10,552	–	–

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

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31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

f) Fair value (Continued)

Fair value hierarchy (Continued)

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

Note:

- The valuation techniques and key inputs used of unlisted equity investments for level 3 fair value measurement at the end of the reporting period are as follows:

2021	Valuation technique	Significant unobservable inputs	Range
Financial assets at fair value through other comprehensive income	Net asset value	N/A	N/A
– unlisted equity investment	Asset-based Approach	Industry growth rate	14.42%
Financial assets at fair value through profit or loss			
– unlisted equity investment	Asset-based Approach	Discount for lack of control Discount for lack of marketability	21.26% 20.20%
2020	Valuation technique	Significant unobservable inputs	Range
Financial assets at fair value through other comprehensive income	Net asset value	N/A	N/A
– unlisted equity investment	Asset-based Approach	Industry growth rate	14.42%
Financial assets at fair value through profit or loss			
– unlisted equity investment	Asset-based Approach	Discount for lack of control Discount for lack of marketability	21.22% 20.20%

The increase in discount for lack of control and discount for lack of marketability would result in decrease in fair value measurement of unlisted equity investments. No sensitivity analysis is disclosed for the impact of changes in discount for lack of control and discount for lack of marketability as the exposure is insignificant to the Group.

- The valuation techniques and key inputs used of unlisted equity investments for level 2 fair value measurement are as follows:

The fair value of unlisted equity investments is assessed to approximate the share of net asset values of the investees, which take into consideration the fair value of the assets held by the investees.

- For fair value of other financial instruments for level 2 and level 3, the valuation techniques and key inputs used included discount for lack of marketability and change in share price of comparable companies. No sensitivity analysis is disclosed for the impact of changes as the management considers that the exposure is insignificant to the Group.

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31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

(Continued)

f) Fair value (Continued)

Fair value hierarchy (Continued)

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

The following table presents the changes in level 3 instruments for the years ended 31 December 2021 and 31 December 2020.

	Financial assets at fair value through other comprehensive income Unlisted equity investments RMB'000	Financial assets at fair value through profit or loss Unlisted equity investments RMB'000	Total RMB'000
At 1 January 2020	1,929	5,739	7,668
Addition	10,000	–	10,000
Fair value gain recognised in profit or loss	–	518	518
Fair value loss recognised in other comprehensive income	(457)	–	(457)
Exchange difference	(14)	–	(14)
At 31 December 2020	11,458	6,257	17,715
At 1 January 2021	11,458	6,257	17,715
Fair value gain recognised in profit or loss	–	204	204
Fair value gain recognised in other comprehensive income	–	–	–
Disposal of investment	(94)	–	–
At 31 December 2021	11,364	6,461	17,525

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32. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set forth in note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

a) *Depreciation and amortisation*

Property, plant and equipment and right-of-use assets are depreciated or amortised on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. Intangible assets are amortised on a straight-line basis over the estimated useful lives. Both the period and method of amortisation are reviewed annually. The depreciation and amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

b) *Impairment of assets*

If circumstances indicate that carrying value of the Group's property, plant and equipment, deposit paid for property, plant and equipment, right-of-use assets, goodwill (also see (i) below) and other intangible assets may not be recoverable, the assets may be considered impaired, and an impairment loss may be recognised in profit or loss. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs of disposal and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volumes, sales revenue and amount of operating costs.

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32. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

c) *Valuation of investment properties*

Investment properties are included in the consolidated statement of financial position at their open market value, which is assessed annually by independent qualified valuers, after taking into consideration on an open market value basis calculated by reference to recent market transactions in comparable properties or the net rental income allowing for reversionary income potential.

The assumptions adopted in the property valuations are based on the market conditions existing at the end of the reporting period, with reference to current market sales prices and the appropriate capitalisation rate.

d) *Provision for ECLs on trade receivables*

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of the Group's customers.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with current conditions at the reporting period and forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 22 to the consolidated financial statements.

e) *Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the historical experience of selling merchandise of similar nature. It could change significantly as a result of changes in customer taste or competitor actions. The Group reassesses these estimates at the end of the reporting period.

f) *PRC corporate income tax*

The Group is subject to corporate income taxes in Mainland China. Due to the fact that certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimation and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision for income taxes to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the income tax and tax provision in the period in which the differences realise. Further details are given in notes 8 and 29 to the consolidated financial statements.

Notes to the Consolidated Financial Statements

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32. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

g) Investments in subsidiaries

Investments in subsidiaries are carried at cost less any impairment. Judgement is required when determining whether an impairment existed. In making this judgement, historical data and factors such as industry, sector performance and financial information regarding the subsidiaries are taken into account.

h) Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

i) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2021 was RMB90,693,000 (2020: RMB90,693,000). Further details of impairment testing of goodwill are disclosed in note 16 to the financial statements.

j) Share-based payments

Share options granted during the year were measured at fair value on the date of grant (note 37). In assessing the fair values of the share options, the generally accepted option pricing models were used to calculate the fair values of the share options. The option pricing models require the input of subjective assumptions, including the expected volatility and expected life of options. Any changes in these assumptions can significantly affect the estimate of the fair values of the share options.

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32. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

k) Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate (“**IBR**”) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group “would have to pay”, which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary’s functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary’s stand-alone credit rating).

l) Functional currency of the Company

The Company is carrying out its operating activities and making management decisions in Hong Kong dollar, amongst others, on raising finance in Hong Kong dollars and has a significant degree of autonomy from its subsidiaries in the Mainland China in the way its business is managed. Hong Kong dollar is the currency of the transactions and events of the Company for which the Company primarily receives and expends. In the opinion of the Directors of the Company, its functional currency is Hong Kong dollar.

m) Impact of COVID-19

With continuously increasing in the new infections of COVID-19 globally and recent outbreak of Omicron variant of COVID-19 in the PRC after 31 December 2021 which have led to a series of precautionary and control measures, including but not limited to temporary lockdown, implemented across several cities of the PRC, these inevitably have an impact on travel restrictions and the Company’s business. Taking into account the possible derail of recovery due to unfavorable macro environment and the pandemic impact, the Group will continue assessing the impacts of COVID-19 on the financial performance of the Group and will react proactively to the evolving market conditions. However, due to the inherent unpredictable nature and rapid development of COVID-19, the Group is not able to quantify the potential impacts. As of the date of approval of the consolidated financial statements, the management of the Group is not aware of any material uncertainty which could cast a doubt on the Group’s ability to continue as a going concern.

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33. COMMITMENTS

Capital Commitments

Capital commitments of the Group at the end of the reporting period are as follows:

	2021 RMB'000	2020 RMB'000
Property, plant and equipment:		
Contracted but not provided	–	593
Authorised but not contracted for	325,069	357,354
	325,069	357,947

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

34. EMPLOYEE RETIREMENT BENEFITS

The Group participates in a state-managed scheme. The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

Defined contribution retirement plan

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$30,000 (2020: HK\$30,000). Contributions to the plan vest immediately.

The total expense recognised in profit or loss of RMB10,259,000 (2020: RMB6,160,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

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35. RELATED PARTY TRANSACTIONS

- a) During the year, the directors are of the opinion that the following companies and parties are related parties of the Group:

Name of related parties	Relationship
Mr. Zhao Li Sheng (“ Mr. Zhao ”)	The Company’s director and the ultimate controlling party of the Group. Mr. Zhao is the sole shareholder of the ultimate holding company of the Company.
Ms. Chan Lok San (“ Ms. Chan ”)	The Company’s director and the wife of Mr. Zhao
Morning Gold Medicine Company Limited (“ Morning Gold ”)	Wholly owned by both Mr. Zhao and Ms. Chan
Yuen Tai Pharmaceuticals Limited (“ Yuen Tai ”) 深圳金活利生藥業有限公司	Subsidiary of Morning Gold Subsidiary of Morning Gold
Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited (“ SZ Kingworld Lifeshine ”) 深圳市金活實業有限公司	Indirectly wholly owned by both Mr. Zhao and Ms. Chan
Shenzhen Kingworld Industry Company Limited (“ SZ Industry ”)	
Golden Morning International Limited	Shareholder of Kingworld Medicines Group Limited
Golden Land International Limited	Shareholder of Kingworld Medicines Group Limited
Kingworld Bright Future Limited	Common director of Kingworld Medicines Group Limited
Kingkok International Enterprises Limited	Wholly owned by both Mr. Zhao and Ms. Chan
Ming VitaMed Enterprise III Limited (“ Ming VitaMed ”)	Associate of the Group
佛慈藥廠有限公司 Fat Chi Medicine Company Limited (“ Fat Chi ”)	Associate of the Group
珠海市金明醫藥有限公司 Zhuhai City Jinming Medicine Company Limited (“ Zhuhai Jinming ”)	Joint venture of the Group

Notes:

- i) The English names of the above PRC incorporated entities are for identification purpose only.

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35. RELATED PARTY TRANSACTIONS (Continued)

b) Related party transactions and balances

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Note	2021 RMB'000	2020 RMB'000
Purchases of goods			
SZ Kingworld Lifeshine	(i)	28,999	20,285
Yuen Tai	(i)	—	1,661
Zhuhai Jinming	(i)	—	1,298
		28,999	23,244
Rental expenses			
SZ Industry	(i)	235	266
		235	266
Advertising expenses			
SZ Industry	(i)	138	138
		138	138
Interest income from a shareholder loan			
Ming VitaMed (note 6)	(iv)	(108)	(128)
		(108)	(128)
	Note	2021 RMB'000	2020 RMB'000
Trade deposits included in trade and other receivables			
SZ Kingworld Lifeshine (note 22)		30,300	—
Yuen Tai (note 22)	(ii)	29	2,555
		30,329	2,555
Amount due from/(to) related parties			
Kingkok International Enterprises Limited (note 22)	(iii)	286	295
Golden Morning International Limited (note 26)	(iii)	(593)	(613)
Golden Land International Limited (note 26)	(iii)	(2,674)	(2,761)
SZ Kingworld Lifeshine (note 26)	(iii)	—	(18,869)
Amounts due from associates (note 22)			
Ming VitaMed	(iv)	4,215	4,244
Fat Chi	(iii)	163	—
Amount due from a joint venture (note 22)	(iii)	2	2

Notes to the Consolidated Financial Statements

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35. RELATED PARTY TRANSACTIONS (Continued)

b) Related party transactions and balances (Continued)

Notes:

- i) The transactions were based on the terms mutually agreed between the Group and the respective related parties. In the opinion of the Company's directors, these related parties transactions were conducted in the ordinary course of business.
- ii) The amounts are unsecured and interest-free and will be set-off against the Group's purchases from the respective related parties in next twelve months after the end of the reporting period.
- iii) The amount is unsecured, interest-free and repayable on demand.
- iv) The amount includes shareholders' loan of US\$600,000 (equivalent to RMB3.8 million) (2020: US\$600,000 (equivalent to RMB4.0 million)) to Ming VitaMed Enterprise III Limited in which the Group held 24% interest as further detailed in note 17 and loan interest receivables. The loan is interest bearing with 2.75% per annum. The amount is unsecured and repayable on demand. The directors of the Company considered that no impairment on the amount is necessary, taking into account of the financial position of Ming VitaMed Enterprise III Limited as at 31 December 2021.

c) Key management personnel remuneration:

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 11, certain of the highest paid employees as disclosed in note 12, and the senior management of the Group is as follows:

	2021 RMB'000	2020 RMB'000
Short-term employee benefits	6,102	5,893
Post employment benefits	137	100
	6,239	5,993

36. IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

The directors consider the immediate holding company of the Group as at 31 December 2021 to be Golden Land International Limited, a company incorporated in the BVI which does not produce financial statements available for public use, and the ultimate controlling party of the Group as at 31 December 2021 to be Zhao Li Sheng, an executive director of the Company.

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37. EQUITY-SETTLED SHARE-BASED TRANSACTIONS

Share option schemes

The Company has a share option scheme which was adopted on 5 November 2010 whereby the directors of the Company are authorised, at their discretion, to grant options to subscribe for shares in the Company to eligible participants (“**Eligible Participants**”), including directors, eligible employees, consultants, suppliers, customers, and shareholders of any member of the Group or associated company or any of their respective associates, who contributed to the success of the Group. The share option scheme shall be valid and effective for a period of ten years ending on 4 November 2021, after which no further options will be granted.

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

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

(a) The terms and conditions of the outstanding grants at 31 December 2021 and 2020 are as follows:

	Number of instruments 2021	Number of instruments 2020	Vesting conditions	Contractual life of options
Options granted to directors: – on 23 April 2018	–	1,691,200	One to three years from the date of grant provided that the prescribed profit levels are achieved	6 years
Options granted to employees: – on 23 April 2018	–	9,612,400	One to three years from the date of grant provided that the prescribed profit levels are achieved	6 years
Total share options granted	–	11,303,600		

Notes to the Consolidated Financial Statements

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37. EQUITY-SETTLED SHARE-BASED TRANSACTIONS (Continued)

Share option schemes (Continued)

(b) The number and weighted average exercise prices of share options are as follows:

	2021		2020	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the period	HK\$1.26	11,303,600	HK\$1.26	18,368,000
Granted during the period	–	–	–	–
Lapsed during the period	HK\$1.26	(11,303,600)	HK\$1.26	(7,064,400)
Outstanding at the end of the period	–	–	HK\$1.26	11,303,600
Exercisable at the end of the period	–	–	–	–

The share options outstanding at 31 December 2020 had an exercise price of HK\$1.26 and a weighted average remaining contractual life of 0.9 years. All the share options were lapsed and cancelled during the year ended 31 December 2021.

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37. EQUITY-SETTLED SHARE-BASED TRANSACTIONS (Continued)

Share option schemes (Continued)

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured by reference to valuations performed by Hong Kong Appraisal Advisory Limited, independent professional valuer not connected to the Group, based on the Binomial Option Pricing Model. The contractual life of the share option is used as an input into this model.

Fair value of share options and assumptions

	On 23 April 2018		
Fair value at measurement date	HK\$0.506	HK\$0.453	HK\$0.425
Share price	HK\$1.190	HK\$1.190	HK\$1.190
Exercise price	HK\$1.260	HK\$1.260	HK\$1.260
Risk-free interest rate	2.023%	2.023%	2.023%
(based on Exchange Fund Notes)			
Expected Life:	4 years	5 years	6 years
Expected volatility	59.86%	59.86%	59.86%
Expected dividends Yield:	3.73%	3.73%	3.73%
Early Exercise Behavior:	280%	280%	220%
Valuation method used	Binomial Option Pricing Model	Binomial Option Pricing Model	Binomial Option Pricing Model

The expected volatility of the underlying security of the Share Options was determined with reference to the historical volatility of the Company, as extracted from Bloomberg Terminal; The expected dividend yields of the underlying security of the Share Options was determined by the historical dividend yield of the underlying security of the Company, as extracted from Bloomberg Terminal. Changes in the subjective input assumptions could materially affect the fair value estimate.

The fair value of the share options granted to the consultants are measured at fair values of options granted as these participants are providing services that are similar to those rendered by employees.

Share award scheme

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

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

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38. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	2021 RMB'000	2020 RMB'000
Non-current assets		
Investments in subsidiaries	231,733	231,733
Property, plant and equipment	7,547	–
Right-of-use assets	417	689
	239,697	232,422
Current assets		
Other receivables	2,205	3,140
Amount due from subsidiaries	278,258	345,507
Cash and cash equivalents	2,302	5,963
	282,765	354,610
Current liabilities		
Other payables	1,356	1,421
Amounts due to subsidiaries	264,316	267,920
Bank loans	105,243	149,988
Lease liabilities	244	684
	371,159	420,013
Net current liabilities	(88,394)	(65,403)
Total assets less current liabilities	151,303	167,019
Non-current liabilities		
Lease liabilities	148	–
NET ASSETS	151,155	167,019
CAPITAL AND RESERVES		
Share capital	53,468	53,468
Reserves	97,687	113,551
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	151,155	167,019

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39. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2021

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, Insurance contracts, which are not yet effective for the year ended 31 December 2021 and which have not been adopted in these consolidated financial statements. These developments include the following which may be relevant to the Group.

HKFRS 17	Insurance contracts and the related Amendments ²
Amendments to HKFRS 3	Reference to the Conceptual Framework ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint venture ³
Amendments to HKAS 1	Classification of Liabilities as current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ²
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ²
Amendments to HKAS 8	Definition of Accounting Estimates ²
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ²
Amendments to HKAS 16	Property, Plant and Equipment - Proceeds before Intended use ¹
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020 ¹

¹ Effective for annual periods beginning on or after 1 January 2022

² Effective for annual periods beginning on or after 1 January 2023

³ Effective for annual periods beginning on or after a date to be determined

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

40. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation.

Financial Summary

The following table summarises the consolidated results of the Group for the five years ended 31 December:

	For the year ended 31 December				
	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Results					
Revenue	847,386	745,383	977,928	1,078,843	1,031,488
Profit before taxation	69,434	70,891	69,809	70,380	83,327
Income tax	(18,223)	(20,002)	(19,538)	(18,621)	(16,795)
Profit for the year	51,211	50,889	50,271	51,759	66,532
Attributable to:					
Owners of the Company	30,319	11,716	43,427	41,005	51,060
	As at 31 December				
	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Asset and Liabilities					
Total assets	1,213,829	1,255,372	1,280,366	1,296,715	1,332,398
Total liabilities	493,195	576,862	607,176	658,485	690,763
Equity attributable to owners of the Company	616,897	591,803	603,343	565,792	553,094
Non-controlling interests	103,737	86,707	69,847	72,438	88,541

Particulars of Key Properties

Address	Use	Lease Term	Approximate gross floor area	Group's interest
Unit 801-804 and 901-904, Block A, Majialong Innovation Building, Daxin Road, Nanshan District, Shenzhen, Guangdong Province, the PRC	Commercial	Medium-term lease	5,631sqm	100%
A parcel of land, No. 6 Cuilong Road, Baolong Industrial City, Longgang District, Shenzhen, Guangdong Province, the PRC	Commercial	Medium-term lease	10,000sqm	90%
Part of the basement of Kingworld Department Store, Jiefang Road, Luohu District, Shenzhen, Guangdong Province, the PRC	Retail	Medium-term lease	956sqm	100%
Unit B on Level 9 West, Yong Xing Office Building, No. 22, Lane 376 Yan'an Road West, Jing'an District, Shanghai, the PRC	Commercial	Medium-term lease	204sqm	100%
Flat F on Level 21 and Flat E on Level 7, Weifu Building, Tai Bai Road, Luohu District, Shenzhen, Guangdong Province, the PRC	Residential	Medium-term lease	73sqm/ 100sqm	55%
The building erected on Lot No. 3-1-2, Qianshan Industrial Zone, Xiangzhou District, Zhuhai, Guangdong Province, the PRC	Commercial	Medium-term lease	26,197sqm	50%
Unit 613, 6th Floor Goodluck Industrial Centre 808 Lai Chi Kok Road Kowloon Hong Kong	Industrial	Long-term lease	149sqm	100%