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

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code : 01110)

**INTERIM RESULTS ANNOUNCEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2022**

**FINANCIAL HIGHLIGHTS**

	<b>Six months ended 30 June</b>		<b>% Changes Increase/ (Decrease)</b>
	<b>2022 (unaudited) RMB'000</b>	<b>2021 (unaudited) RMB'000</b>	
Revenue	<b>419,647</b>	415,300	1.0%
Cost of sales	<b>(285,951)</b>	(281,729)	1.5%
Gross profit	<b>133,696</b>	133,571	0.1%
Gross profit margin	<b>31.9%</b>	32.2%	(0.3)% points
Profit for the period	<b>35,103</b>	34,285	2.4%
Profit attributable to owners of the Company	<b>24,213</b>	19,482	24.3%
Basic earnings per share (RMB cents)	<b>3.99</b>	3.21	24.3%

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2022 - UNAUDITED**  
*(Expressed in Renminbi)*

	Note	<b>Six months ended 30 June</b>	
		<b>2022</b>	<b>2021</b>
		<b>(unaudited)</b>	<b>(unaudited)</b>
		<b>RMB'000</b>	<b>RMB'000</b>
<b>Revenue</b>	4	<b>419,647</b>	415,300
Cost of sales		<b>(285,951)</b>	(281,729)
<b>Gross profit</b>		<b>133,696</b>	133,571
Other revenue, income and other net loss	7	<b>14,540</b>	11,042
Selling and distribution costs		<b>(49,401)</b>	(47,734)
Administrative expenses		<b>(45,313)</b>	(43,544)
Amortisation of intangible assets		<b>(6,785)</b>	(6,785)
<b>Profit from operations</b>		<b>46,737</b>	46,550
Finance costs	8(a)	<b>(8,659)</b>	(7,689)
Share of profit of a joint venture		<b>4,113</b>	1,662
Share of profit of an associate		<b>38</b>	20
<b>Profit before taxation</b>	8	<b>42,229</b>	40,543
Income tax	9	<b>(7,126)</b>	(6,258)
<b>Profit for the period</b>		<b>35,103</b>	34,285
<b>Attributable to:</b>			
Owners of the Company		<b>24,213</b>	19,482
Non-controlling interests		<b>10,890</b>	14,803
Profit for the period		<b>35,103</b>	34,285
<b>Earnings per share</b>	11		
Basic (RMB cents)		<b>3.99</b>	3.21
Diluted (RMB cents)		<b>3.99</b>	3.21

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2022 - UNAUDITED

*(Expressed in Renminbi)*

	Six months ended 30 June	
	2022 (unaudited) RMB'000	2021 (unaudited) RMB'000
<b>Profit for the period</b>	<u>35,103</u>	<u>34,285</u>
<b>Other comprehensive income for the period</b>		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside the PRC	<u>(1,284)</u>	<u>5,814</u>
	<u>(1,284)</u>	<u>5,814</u>
<b>Total comprehensive income for the period (net of tax)</b>	<u><b>33,819</b></u>	<u><b>40,099</b></u>
<b>Attributable to:</b>		
Owners of the Company	<u>22,929</u>	<u>25,296</u>
Non-controlling interests	<u>10,890</u>	<u>14,803</u>
<b>Total comprehensive income for the period</b>	<u><b>33,819</b></u>	<u><b>40,099</b></u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2022 - UNAUDITED

(Expressed in Renminbi)

	Note	30 June 2022 (unaudited) RMB'000	31 December 2021 (audited) RMB'000
<b>Non-current assets</b>			
Right-of-use assets		106,676	107,896
Property, plant and equipment		140,860	102,039
Investment properties		121,800	121,800
Interest in a joint venture		89,810	85,697
Interest in an associate		8,433	8,395
Goodwill		90,693	90,693
Intangible assets		6,919	13,703
Financial assets at fair value through profit or loss		6,461	6,461
Financial assets at fair value through other comprehensive income		38,702	37,490
		<u>610,354</u>	<u>574,174</u>
<b>Current assets</b>			
Inventories		122,724	106,744
Trade and other receivables	12	293,812	334,506
Financial assets at fair value through profit or loss		16,119	10,480
Cash and cash equivalents		237,820	187,925
		<u>670,475</u>	<u>639,655</u>
<b>Current liabilities</b>			
Contract liabilities		63,962	71,730
Trade and other payables	13	187,811	152,490
Bank loans		236,591	229,922
Lease liabilities		8,257	7,584
Tax payable		10,591	11,897
		<u>507,212</u>	<u>473,623</u>
<b>Net current assets</b>		<u>163,263</u>	<u>166,032</u>
<b>Total assets less current liabilities</b>		<u>773,617</u>	<u>740,206</u>

	Note	<b>30 June 2022 (unaudited) RMB'000</b>	31 December 2021 (audited) RMB'000
<b>Non-current liabilities</b>			
Lease liabilities		1,569	1,450
Deferred tax liabilities		<u>17,595</u>	<u>18,122</u>
		<u>19,164</u>	<u>19,572</u>
<b>NET ASSETS</b>		<b><u>754,453</u></b>	<b><u>720,634</u></b>
<b>CAPITAL AND RESERVES</b>			
Share capital		53,468	53,468
Reserves		<u>586,358</u>	<u>563,429</u>
<b>TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>		<b>639,826</b>	616,897
<b>NON-CONTROLLING INTERESTS</b>		<u>114,627</u>	<u>103,737</u>
<b>TOTAL EQUITY</b>		<b><u>754,453</u></b>	<b><u>720,634</u></b>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2022 - UNAUDITED**  
*(Expressed in Renminbi unless otherwise indicated)*

**1. GENERAL INFORMATION**

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

**2. BASIS OF PREPARATION**

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

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

The unaudited interim results announcement contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of the events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2021 annual financial statements. The condensed consolidated financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which term collectively includes HKASs and Interpretations issued by the HKICPA.

The interim results announcement is unaudited, but has been reviewed by the Company’s audit committee.

**3. PRINCIPAL ACCOUNTING POLICIES**

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and financial assets at fair value through profit or loss are stated at fair value.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2021, except as described below.

The Group has applied the following amendments to HKFRSs issued by the HKICPA to this interim financial report for the current accounting period:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 – 2020 Cycle

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The application of the above amendments in the Reporting Period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

Save as disclosed in the annual report for the year ended 31 December 2021, the Directors of the Company anticipate that the application of the other new and revised standards and amendments issued but not yet effective will have no material impact on the results and financial position of the Group.

#### 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 Reporting Period.

	Six months ended 30 June	
	2022 (unaudited) RMB'000	2021 (unaudited) RMB'000
Sales of		
– pharmaceutical products	222,402	215,976
– healthcare products	57,856	57,001
– medical devices	139,389	142,323
	<u>419,647</u>	<u>415,300</u>
Timing of revenue recognition		
– A point in time	<u>419,647</u>	<u>415,300</u>

#### 5. SEGMENT INFORMATION

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

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

(a) **Segment results, assets and liabilities**

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

For the six months ended 30 June	Distribution sales of pharmaceutical and healthcare products				Manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices		Total	
	Hong Kong		PRC		PRC			
	2022 (unaudited) RMB'000	2021 (unaudited) RMB'000	2022 (unaudited) RMB'000	2021 (unaudited) RMB'000	2022 (unaudited) RMB'000	2021 (unaudited) RMB'000	2022 (unaudited) RMB'000	2021 (unaudited) RMB'000
Revenue from external customers	22,679	20,883	257,579	252,094	139,389	142,323	419,647	415,300
Inter-segment revenue	2,571	2,332	3,318	3,280	-	-	5,889	5,612
Reportable segment revenue	<u>25,250</u>	<u>23,215</u>	<u>260,897</u>	<u>255,374</u>	<u>139,389</u>	<u>142,323</u>	<u>425,536</u>	<u>420,912</u>
Reportable segment profit/(loss) (adjusted EBITDA)	<u>(3,011)</u>	<u>(3,514)</u>	<u>40,989</u>	<u>35,695</u>	<u>39,895</u>	<u>42,211</u>	<u>77,873</u>	<u>74,392</u>
	30 June 2022 (unaudited) RMB'000	31 December 2021 (audited) RMB'000	30 June 2022 (unaudited) RMB'000	31 December 2021 (audited) RMB'000	30 June 2022 (unaudited) RMB'000	31 December 2021 (audited) RMB'000	30 June 2022 (unaudited) RMB'000	31 December 2021 (audited) RMB'000
Reportable segment assets	34,039	33,602	630,976	594,324	439,656	409,742	1,104,671	1,037,668
Reportable segment liabilities	<u>6,110</u>	<u>6,026</u>	<u>290,885</u>	<u>268,246</u>	<u>89,739</u>	<u>85,341</u>	<u>386,734</u>	<u>359,613</u>

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

(b) **Reconciliations of reportable segment profit or loss**

	Six months ended 30 June	
	2022 (unaudited) RMB'000	2021 (unaudited) RMB'000
Reportable segment profit derived from the Group's external customers and joint venture	77,873	74,392
Depreciation and amortisation	(21,934)	(21,193)
Finance costs	(8,659)	(7,689)
Unallocated head office and corporate expenses	<u>(5,051)</u>	<u>(4,967)</u>
Consolidated profit before taxation	<u>42,229</u>	<u>40,543</u>



## 6. SEASONALITY OF OPERATIONS

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

## 7. OTHER REVENUE, INCOME AND OTHER NET LOSS

	Six months ended 30 June	
	2022 (unaudited) RMB'000	2021 (unaudited) RMB'000
<b>Other revenue:</b>		
Total interest income on financial assets not at fair value through profit or loss:		
Bank interest income	182	220
Interest income from financial assets at fair value through other comprehensive income	239	291
Gross rental income from investment properties	1,093	1,449
Promotional service income	3,486	3,009
	<u>5,000</u>	<u>4,969</u>
<b>Other income and other net loss:</b>		
Government grants (note below)	966	4,018
Change in fair value of financial assets at fair value through profit or loss	5,036	3,497
Exchange gain/(loss), net	3,603	(1,660)
Others	(65)	218
	<u>14,540</u>	<u>11,042</u>

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

## 8. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2022 (unaudited) RMB'000	2021 (unaudited) RMB'000
<b>a) Finance costs</b>		
Total interest expense on financial liabilities not at fair value through profit or loss:		
Interest on bank loans	8,155	7,207
Interest on lease liabilities	504	482
	<hr/>	<hr/>
Total finance costs	<b>8,659</b>	7,689
	<hr/> <hr/>	<hr/> <hr/>
<b>b) Other items</b>		
Amortisation of intangible assets	6,785	6,785
Cost of inventories	285,951	281,729
Staff costs	74,722	72,183
Depreciation of property, plant and equipment	5,972	5,582
Amortisation of right-of-use assets	5,023	6,073
Rental income from investment properties less direct outgoings of RMB169,000 (six months ended 30 June 2021: RMB172,000)	(924)	(1,277)
Research and development cost	8,084	6,208
Payment for share award scheme expense	687	–
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## 9. INCOME TAX

	Six months ended 30 June	
	2022 (unaudited) RMB'000	2021 (unaudited) RMB'000
Hong Kong Profits Tax		
Current period	(827)	(965)
PRC Enterprise Income Tax		
Current period	<u>7,953</u>	<u>7,223</u>
	<u>7,126</u>	<u>6,258</u>
Deferred tax		
Origination and reversal of temporary differences	<u>-</u>	<u>-</u>
	<u><u>7,126</u></u>	<u><u>6,258</u></u>

### Notes:

- i) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.
- ii) On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of assessable profits of qualifying corporations will be taxed at 8.25%, and assessable profits above HK\$2 million will be taxed at 16.5%. The assessable profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. The two-tiered profits tax rates regime is applicable to the Group for the six months ended 30 June 2022 and 2021.
- iii) The PRC Enterprise Income Tax charge of the Group during the six months ended 30 June 2022 and 2021 represented mainly the PRC Enterprise Income Tax charge on the Group’s PRC subsidiaries, Shenzhen Kingworld Medicine Company Limited, and Shenzhen Dong Di Xin Technology Company Limited (“Dong Di Xin”) are based on a statutory rate of 25% (six months ended 30 June 2021: 25%), except for Dong Di Xin, which is based on a preferential income tax rate of 15% (six months ended 30 June 2021: 15%).
- iv) Under the New EIT Law and its implementation rules, dividends receivable by non-PRC resident enterprises from PRC resident enterprises are subject to withholding tax at a rate of 10% unless reduced by tax treaties or agreements. Under the Agreement between the Mainland China and Hong Kong Special Administration Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion, or Mainland China/HKSAR DTA, Hong Kong corporate tax residents which hold 25% or more of a PRC enterprise are entitled to a reduced dividend withholding tax rate of 5%. Pursuant to CaiShui [2008] No. 1 Notice on Certain Preferential Enterprise Income Tax Policies, undistributed profits generated prior to 1 January 2008 are exempted from such withholding tax. Accordingly, dividends receivable by the Group’s investment holding company in Hong Kong from the PRC subsidiaries in respect of profits earned since 1 January 2008 will be subject to 5% withholding tax.

## 10. DIVIDENDS

- a) The Company's directors do not recommend the payment of an interim dividend for the six months ended 30 June 2022 and 2021.
- b) Dividends payable to owners of the Company attributable to the previous financial year, approved and paid during the Reporting Period:

	<b>Six months ended 30 June</b>	
	<b>2022</b>	2021
	<b>(unaudited)</b>	(unaudited)
	<b>RMB'000</b>	RMB'000
Final dividend in respect of the previous financial year ended, approved and paid during the Reporting Period, of HK2.39 cents (equivalent to approximately RMB1.95 cents) (2021: HK0.65 cents (equivalent to approximately RMB0.55 cents))	<b>12,138</b>	3,424

## 11. EARNINGS PER SHARE

### (a) *Basic earnings per share*

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

- i) *Profit attributable to owners of the Company*

	<b>Six months ended 30 June</b>	
	<b>2022</b>	2021
	<b>(unaudited)</b>	(unaudited)
	<b>RMB'000</b>	RMB'000
Profit for the period attributable to owners of the Company	<b>24,213</b>	19,482
Earnings for the purpose of basic earnings per share	<b>24,213</b>	19,482

- ii) *Weighted average number of ordinary shares*

	<b>Six months ended 30 June</b>	
	<b>2022</b>	2021
	<b>(unaudited)</b>	(unaudited)
Weighted average number of ordinary shares in issue	<b>622,500,000</b>	622,500,000
Weighted average effect of shares repurchased and held under share award scheme	<b>(14,957,503)</b>	(16,000,000)
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>607,542,497</b>	606,500,000

### (b) *Diluted earnings per share*

Diluted earnings per share for the six months ended 30 June 2022 and 2021 was the same as the basic earnings per share because that the exercise price of the share options granted was higher than the weighted average market price of the Company's shares during the six months ended 30 June 2022 and 2021. As the conversion or exercise of the share options would have an anti-dilutive effect on earnings per share, the calculation of diluted earnings per share does not assume conversion or exercise of potential ordinary shares of the share options.

## 12. TRADE AND OTHER RECEIVABLES

The Group generally granted credit terms ranging from 30 days to 120 days to its customers. As of the end of the Reporting Period, the ageing analysis of trade and bills receivables (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

	At 30 June 2022 (unaudited) RMB'000	At 31 December 2021 (audited) RMB'000
0-90 days	116,031	134,256
91-120 days	2,738	1,691
121-180 days	186	245
181-365 days	206	278
	<hr/>	<hr/>
Total trade receivables, net of allowance for doubtful debts	119,161	136,470
Bills receivables	73,216	101,361
Other receivables	44,259	37,599
Amounts due from related parties	–	286
Amounts due from an associate	1,451	4,378
Amounts due from a joint venture	–	2
	<hr/>	<hr/>
Financial assets at amortised cost	238,087	280,096
Prepayments	19,906	18,276
Trade and other deposits	7,375	5,805
Trade deposits to related parties	28,444	30,329
	<hr/>	<hr/>
	<b>293,812</b>	<b>334,506</b>
	<hr/> <hr/>	<hr/> <hr/>

## 13. TRADE AND OTHER PAYABLES

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

	At 30 June 2022 (unaudited) RMB'000	At 31 December 2021 (audited) RMB'000
0-90 days	112,654	105,924
91-180 days	3,568	174
	<hr/>	<hr/>
Total trade payables	116,222	106,098
Accruals	6,319	6,522
Amounts due to related parties	3,633	3,267
Other payables	57,760	32,252
	<hr/>	<hr/>
Financial liabilities measured at amortised cost	183,934	148,139
Value-added tax payable	3,877	4,351
	<hr/>	<hr/>
	<b>187,811</b>	<b>152,490</b>
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## MANAGEMENT DISCUSSION AND ANALYSIS

### MARKET AND INDUSTRY REVIEW

#### 1. A Chinese medicine market that shows favourable signs of recovery after the normalization of pandemic controls

With favourable related Chinese medicine policies and benefiting from the upgrading of domestic consumption, the enhancement of health awareness and refining of the fundamentals of Chinese medicinal pharmaceutical companies, the overall market of OTC Chinese medicine, which can be purchased or consumed by consumers, has experienced a significant growth in recent years. According to the 2021 Blueprint for Regulation on Chinese Medicine published under the guidelines released by National Medical Products Administration, there were 2,225 manufacturers of Chinese medicine products in China as at the end of 2021; the Chinese medicine industry in China saw a steady growth in 2021, with an operating income of RMB691.9 billion for the year, representing a year-on-year increase of 12.4% when compared to 2020. The rapid development of the overall market has also provided growth drivers for the Chinese medicine business. With higher public awareness on health issues resulting from the impact of novel coronavirus (COVID-19) (the “Pandemic”), there is growing attention on Chinese medicines, which is expected to make increasing contribution to our business results in the future.

In 2022, affected by the economic downward trend, medicine industry encountered a weak growth in general, Chinese medicine has provided a direction for the Group to succeed in the pharmaceutical retail market. Chinese medicine has been the focus of the Group for over 20 years, with a number of world-renowned proprietary Chinese medicine products that have a history of over 100 years and are well known to the industry players and consumers. Benefitting from related favourable policies, the Group is expected to achieve better development.

Since the outbreak of the Pandemic, certain local governments have imposed restrictions on four categories of drugs including cough, fever, antiviral drugs and antibiotics in certain areas, which have been implemented through a tiered system of managing and controlling mechanisms including real-name registration and sales ban. After the normalization of Pandemic controls, restrictions on these four categories of drugs have been slightly relaxed during the six months ended 30 June 2022 (the “Reporting Period”). Since late May 2022, the local governments in various provinces including Zhejiang, Henan, Guangdong and Shaanxi have issued notices, pursuant to which pharmacies are allowed to sell these four categories of drugs through online and offline channels without real-name registration. Nin Jiom Chuan Bei Pei Pa Koa, for which the Group as the distributor, has good efficacy of cough relieving and throat nourishing, and is effective in prevention of diseases. During the Pandemic, it is on the list of essential medicines for families. However, the sales performance of these four categories of drugs were adversely affected by the restrictions during the Pandemic. The lifting of the restrictions by the local governments means that the restrictions will be eased to a certain extent. Meanwhile, as the Pandemic control measures continue to bear fruit, economic development of various industries has shown a positive trend of recovery and growth. In light of the development, the Group has continued to keep pace with the trends and has rapidly expanded the approved business scope into medical devices including antigen test kits.

## **2. Slower population growth shows low fertility rate and population aging will become the norm**

Under the negative population growth, low fertility rate and population aging will become the norm. Firstly, the effect of negative population growth accumulated over a long period of time will be further unleashed, resulting in a significant slowdown in population growth and a negative growth during the “14th Five-Year Plan” period. Secondly, there is a continuous drop in the birth rate, with a total fertility rate fell below 1.3. Low fertility rate has become the most significant risk affecting the balanced development of the population in China. Thirdly, with an increase in the aging population, it is expected that China’s population aging will enter a serious stage around 2035 (over 30 percent of the total population will be over 60 years old). Fourthly, the trend of small family. The average number of family members decreased by 0.48 person from 2010 to 2.62 persons in 2020, resulting in diminished roles of elderly care and childcare. In response to this trend, the Group has adjusted its product mix by introducing healthcare products for adolescents and children including life’s DHA algae product series, as well as nutrient and healthcare products for adults and healthcare products for aging and chronic disease such as Enalapril Maleate and Folic Acid Tablets (“Enalapril”), which have achieved growth.

## **3. Online pharmaceutical retail and rapid development of e-commerce**

According to the Group’s industry analysis, “Online, OTC of prescription drugs, and autonomous consumption” have become the three keywords in the pharmaceutical retail industry in China. In the era of Internet+, pharmaceutical e-commerce has achieved rapid development with increasing online sales. The sales of online pharmaceutical market in the year of 2021 grew by 51.5% as compared to the year of 2020, with the lifting of restrictions on online sales of prescription drugs. Driven by effects of various factors such as post-Pandemic era and the availability of prescription drugs in online pharmacies, physical pharmacies have posted a decrease in in-store customers and drug sales, while online pharmacies have posted an increase in online purchases and drug sales.

The Pandemic has boosted the rapid growth of online shopping, and in particular a rapid growth of two product categories, daily necessities and healthcare products, during the first half of 2022. In terms of channels, physical pharmacies have recorded a lower growth in retail sales, while e-commerce pharmacies have recorded a higher growth in retail sales. During the first quarter of 2022, physical pharmacies have recorded a sales revenue of RMB73.15 billion, representing an increase of 3.8% as compared to the corresponding period of 2021, while e-commerce pharmacies have recorded a significant growth in sales revenue.

According to the data released by Sinohealth, the annual sales revenue from e-commerce pharmacies on business-to-consumer (B2C) market in China amounted to RMB125.9 billion in 2021, representing a year-on-year increase of 49.0% compared with 2020. The B2C market showed a “2+N” pattern, with both JD Health and Alibaba Health accounting for more than 70.0% of the market share. In terms of online-to-offline (O2O), the sales revenue from O2O in the first quarter of 2022 was approximately RMB 2.97 billion, representing a year-on-year increase of 69.1% compared with the corresponding period of 2021. The sales revenue from O2O accounted for 4.0% of the retail market of physical pharmacies, representing an increase of 2 percentage point compared with the corresponding period of 2021, and the market share doubled. Changes in the Pandemic situation have greatly affected the development of product category structure and led to further division of product categories. The emergence of new healthy consumption concepts, coupled with the continuous introduction of new products and services, has sparked a boom in online health product consumption. Taking advantage of the development trend of e-commerce, the Group has established cooperative relationships with domestic online pharmaceutical e-commerce companies and developed O2O channels. The Group’s investment in pharmaceutical e-commerce over the years has also achieved significant growth during the Reporting Period.



## BUSINESS REVIEW

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

Pharmaceutical products segment:	acting as an agent and distributor of high-quality and well-known pharmaceutical products in China and overseas, including the acclaimed Nin Jiom (京都念慈菴) product series and the Taiko Seirogan (喇叭牌正露丸), and Enalapril;
Healthcare products and beauty segment:	distributing high-quality and well-known healthcare products in China and overseas, including the flagship Culturelle (康萃樂) probiotics product series, Life's DHA Algae, the "CARMEX" lipstick series and product series of medicated oils for external use; and
Medical devices segment:	undertaking research and development (R&D), manufacturing and production of medical devices such as infrared thermometers and distributing medical supplies such as medical masks.

During the Reporting Period, revenue from the pharmaceutical products segment amounted to approximately RMB222,402,000, representing a period-on-period increase of 3.0% and accounting for 53.0% of the Group's total revenue; revenue from the healthcare products and beauty segment was approximately RMB57,856,000, representing a period-on-period increase of 1.5% and accounting for 13.8% of the Group's total revenue; and revenue from the medical devices segment amounted to approximately RMB139,389,000, representing a period-on-period decrease of 2.1% and accounting for 33.2% of the Group's total revenue.

### Highlights of pharmaceutical products segment

The Group has a comprehensive commercialisation system and has proven successful experience in market access, brand planning, retail management, new media promotion, government affairs, and business cooperation. It has created a professional brand image and a good sales record for many brands in China, Hong Kong and Macau markets, and has been recognised by domestic and overseas partners. 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, Enalapril and the Taiko Seriogan. With effect from 1 April 2022, Zhuhai City Jinming Medicine Company Limited, a subsidiary of the Company, was appointed by Eu Yan Sang Hong Kong as its exclusive distributor for the distribution and sales of Bao Ying Dan through mutually agreed offline and designated online channels in Guangdong and Fujian Provinces, China.

Despite the changing Pandemic conditions and the restrictions on four types of medicines for colds, coughs and fever in some areas in China, the Group's Nin Jiom Pei Pa Koa still achieved a year-on-year growth of 6.6%. During the Reporting Period, Enalapril, the national second-class innovative drug introduced by the Group, made a breakthrough in the market, and the sales for the first half of 2022 achieved remarkable results, with a year-on-year growth of three times when compared to same period of 2021. During the Reporting Period, the Group's pharmaceutical distribution closely followed the changes in the OTC market channels, and adopted different marketing strategies for various consumer groups and scenarios, including:

**1. *Deeply cultivate key markets, enter markets with development potentials and strengthen the development of channel network layout***

In 2021, the concentration of chain stores in the domestic pharmaceutical industry further increased, with chain stores accounting for 57.2%. Meanwhile, over-the-counter (OTC) growth in Tier 1 and Tier 2 cities was slower than growth in Tier 3 and Tier 4 markets. Therefore, the Group has continuously strengthened and deepened various cooperation models with pharmaceutical chain enterprises to jointly build a win-win partnership between industry and commerce. At the same time, relying on the resources of business partners and chain enterprises, as well as strengthening the expansion and investment of the Tier 3 and Tier 4 markets, the pipeline network has been further extended to increase the market penetration rate and sales volume of products. As of 30 June 2022, the number of pharmaceutical OTC customers of the Group were as follows: Tier 1 customers: 229; Tier 2 customers: 284; chain customers: 1,975; retail pharmacies (including chain and individual pharmacies): 147,275; primary medical institutions, clinics and hospitals: 36,369; cities covered: 416. Among them, the number of chain headquarters, chain pharmacies and individual pharmacies increased by nearly 10.0% year-on-year, and the number of primary medical institutions increased by 11.0% year-on-year.

In the Hong Kong and Macau markets, relying on a professional and efficient operation team, the Group continued to explore new markets, manage channels, strengthen publicity and promotion, maintain communication with retailers, timely understand and meet the needs of retailers, and improve service quality and satisfaction. After re-examining the layout and optimising the process, the Hong Kong Fat Chi marketing channel network has taken shape, and the in-depth cooperation with a chain retail store named CRcare, a subsidiary of China Resources Pharmaceutical Group, has upgraded the relationship and trust. The cooperation products between the two parties have gradually increased from two products to sixteen products. The number of pharmacies selling Hong Kong Fat Chi's products has increased from dozens to more than hundred, and sales have gradually achieved good results, increased by more than 15.0% year-on-year.

**2. *Actively explore new marketing models for prescription drugs in the OTC pipeline and gradually achieve success***

Enalapril is a chronic cardiovascular and cerebrovascular prescription drug introduced by the Group in recent years. This product is a class I innovative drug independently developed in China, and is a state-approved standard treatment drug for type H hypertension. This product is an individualised treatment drug for the diagnosis of common cardiovascular diseases in Chinese patients with a high incidence of stroke. According to large-scale clinical studies, Enalapril can significantly reduce the risk of stroke while taking anti-hypertension treatment.

After implementing the chronic disease prescription drug marketing model for more than a year, the Group has accumulated a set of effective marketing methods and identified partners through the Company's SMART information system analysis and customer evaluation system. The Group has conducted different training, healthcare education and practice for different customer groups, and raises consumers' awareness of the hazards of H-type hypertension through public welfare activities and new media (such as WeChat Official Accounts, Baidu, Zhihu, Xiaohongshu, etc.). The Group has also strengthened the dissemination of healthcare knowledge and value-added services for people with hypertension to enhance the reputation of its products.

In addition, the Group has repeatedly researched areas with high incidence of hypertension through big data, focused on developing the OTC market following the latest development of the prescription drug market, and cultivated “star” single stores. During the Reporting Period, the rapid sales growth of Enalapril prompted the Group to develop a new model for chronic disease health management. In the future, the Group will look for more high-quality prescription drug cooperation, further enrich the existing product portfolio, and enhance the sales scale and the efficiency of the marketing team.

### **3. *Integrate online and offline activities to build a good brand image***

The promotion of high-quality products also needs to follow changes in consumer behaviour, so that more consumers can understand and experience the products. In order to grasp the changing trends of consumption scenarios, consumption behaviours and consumption habits, the Group has not only established an internal data analysis SMART system, but also purchased various analysis data in the industry, strengthened cooperation with top domestic new media, and further enhanced brand awareness. During the Reporting Period, Nin Jiom cooperated with iQIYI to launch pop-up advertisements in its exclusive TV drama series “A Lifelong Journey (人世間)”, “Vacation of Love (假日暖洋洋)” and “Life Is A Long Quiet River (心居)”, and gained a group of young fans. In addition, the Group also used live broadcasts to lift geographical restrictions, and cooperated with chain pharmacies and JD.com to carry out scientific popularisation activities such as live broadcast of health lectures, and gradually increase the product awareness of the Group. The Group actively participated in activities such as product roadshows at the online cloud expo in the industry, which integrated various online resources and offline promotional activities to promote common development and was well received by various partners.

During the Pandemic, the number of offline shoppers decreased. Therefore, the Group cooperated with offline stores in various regions to provide consumers with interesting real life scenario-themed activities, which improved the brand image of the Group and its products, enhanced the emotional connection between the brand and consumers, and demonstrated the positive brand image. For example, on Women’s Day on 8 March, the Group cooperated with chain stores to hold flower arranging activities and 10.5° “sweet” (10.5°“甜”念膏) DIY cold drinks activities, which were extremely popular among pharmacies and consumers. As for the traditional Chinese Dragon Boat Festival, the Group cooperated with pharmacies and communities to carry out a unique activity of making rice dumplings, which not only promoted traditional culture, but also increased the interaction between consumers and chains and brands, brightening consumers’ daily routine. Some themed activities, such as the pop-up of Lung Care China Tour (養肺中國行), and the high blood pressure public welfare screening activities have become popular activities in the Group’s cooperation with chain stores. In addition, through WeChat sharing, TikTok and other forms, the Group also attracted more people to participate in such offline activities and set off interactive topics, which received enthusiastic responses.

During the Pandemic, pharmaceutical e-commerce developed rapidly. The Group is optimistic about the development potential of pharmaceutical e-commerce, and vigorously expands the depth and breadth of pharmaceutical e-commerce channels. With 2 (JD.com and Ali) as the core, the Group strengthens the cooperation with other pharmaceutical e-commerce companies (Jianke, Yuanxin Miaoshou (圓心妙手), 111,Inc. and other vertical pharmaceutical platforms), and at the same time strengthens short video live broadcast promotion to jointly build a positive brand image.

## Highlights of healthcare products and beauty segment

With the continuous improvement of living standards, people put forward higher requirements for a better life and a healthy life. Especially after the outbreak of the Pandemic, more and more people pay attention to physical health and improve immunity. Nutritional healthcare products and daily chemical products are another important business segment of the Group. In addition to pharmaceuticals, the Group also distributes well-known health care products and daily chemical products from all over the world, including Culturelle, the No. 1 selling probiotic in the United States, American Carmex lip balm series that sells 170 sticks per minute, as well as Life's DHA algal oil series and topical oil series and other products.

During the Reporting Period, the performance of Culturelle probiotic products for children was affected by factors such as the severe impact of the Pandemic and the decline in the birth rate in Hong Kong. However, the Group's Hong Kong team adjusted its strategies in a timely manner and kept up with the trend of adults' demand for improving immunity, strengthened the promotion, marketing and publicity of probiotic products for adult, and also launched new probiotic products for women in the market. As for market promotion, the Group not only increased the advertising in traditional media, such as subway station light box advertisements, newspaper advertisements and TV advertisements, but also strengthened the cooperation with local key opinion leader ("KOL") and key opinion customer ("KOC") in Hong Kong. Through the personal experience and influence of KOLs and KOCs, the Group has attracted the attention and interest of consumers, enhanced brand awareness and promoted application scenarios. During the Reporting Period, the sales of Culturelle products in the local market in Hong Kong increased by 7% as compared to the same period last year, still leading among similar products.

Affected by the continuous decline in fertility rate, the gradual decrease in the number of newborns, and the increasingly fierce competition in the maternal and infant consumer market in China, consumers pay more attention to product quality. The Group's newly introduced algal oil pioneer, Life's DHA, is a high-quality DHA extracted from seaweed. Life's DHA uses NASA space technology, and its algal oil varieties are widely used in more than 600 products around the world, with more than 200 human clinical studies, which are safe and secure. Long-term consumption of DHA can effectively promote the development of the brain, nervous system and retina of infants and young children, improve intelligence and vision, and help babies grow up healthily. With its excellent brand effect and product quality, the Group's Life's DHA achieved outstanding sales performance and quickly seized the market, which was well received by consumers. During the Reporting Period, sales of Life's DHA increased by 213.2% as compared to the same period last year.

The demand for external medicines for orthopaedic injury is rising due to the aging of society. The Group has further developed a series of related products for the elderly, and enhanced the popularity of its products by promoting application scenarios. The Group's Kingworld Imada Red Flower Oil product series continued to grow steadily, recording an increase of 23.9% as compared to the same period last year. During the Reporting Period, the Group focused on consumer needs and usage, and made full use of the internet to conduct various marketing activities based on product ingredients and efficacy.

**1. *Strictly control the quality of products to build up a professional image and protect public health***

The Group's products, including healthcare products, are international high-quality healthcare products with unique ingredients and remarkable efficacy. For example, a global study found that Culturelle probiotics contain the most LGG ingredients; Life's DHA uses algae to extract DHA, which is known as the algae oil with the highest content of algae; Kingworld Imada Red Flower Oil is a safflower oil rich in real safflower and dragon's blood. Due to the uniqueness, remarkable efficacy and high safety of product ingredients and raw materials, it is easier to be recognised and recommended by professionals. During the Reporting Period, the Group cooperated with professionals such as orthopedic surgeons and pediatricians to promote nutrition, health and health care knowledge to consumers, and also conducted scientific popularisation videos with professional doctors who are also internet celebrities on TikTok. The above professional endorsements have established a professional image for the Group's products and achieved satisfactory results. Among them, two videos about Red Flower Oil by doctor on TikTok received nearly one million views within a week.

**2. *Leverage platform traffic to create popular products***

During the Reporting Period, the Group continued to strengthen its business development on platforms such as Tmall, JD.com, DX Mama (丁香媽媽), Nico Mama, TikTok and Kuaishou, etc., and seized opportunities in the strong development trend of live broadcast business. The Group explored new marketing channels through short video and live broadcast platforms, thereby enhancing its marketing capabilities, including word-of-mouth of KOLs and KOCs, community marketing, information flow, etc., to help enhance brand awareness and create popular products. Life's DHA algal oil series achieved a total exposure of more than 10 million in the first half of the year by linking to the accounts of Nico Mama, DX Mama (丁香媽媽), TikTok and Kuaishou, endorsement by celebrities, and promotion by internet celebrities on Xiaohongshu and Weibo. By strengthening the pipeline operations of TikTok and Kuaishou, and cooperating with the top and midstream live broadcasters in live broadcast production, brand exposure and transactions have increased, thereby increasing sales and driving life's DHA to quickly seize market share.

### **3. *Actively develop new pipelines with favourable policies***

The Group is consumer-oriented and cooperates with partners to gradually establish a complete upstream and downstream supply chain system for the pharmaceutical and healthcare industry. Over the past 20 years, the Group has further expanded the market, and has established a pharmaceutical distribution network covering more than 200,000 stores across the country, as well as a pipeline of health care products and daily chemical products covering supermarkets, large department stores, mother and baby products stores and cosmetic stores. During the Reporting Period, according to the relevant plan of “Deepening the Reform of “Simplifying Procedures, Decentralizing Powers, Combining Decentralization with Appropriate Control, and Optimizing Services” and Optimizing the Business Environment Nationwide (《全國深化「放管服」改革優化營商環境》)” issued by General Office of the State Council, in order to support the development of convenient drug purchase services, many provinces and cities in China have approved setting up convenience medicine cabinets to sell Class B non-prescription drugs in chain convenience stores with 24-hour service capabilities and many branches. Seizing the opportunity, the Group continued to penetrate into the market and actively developed the new channel of convenience stores. The Group’s Kingworld Imada Red Flower Oil has been put on the shelves in the first batch of convenience stores with pharmaceutical management qualifications in Fujian and Jiangxi, providing consumers with more convenient services, further improving people’s quality of life, and making it easier for people to buy medicines. In the future, the Group will continue to strengthen cooperation with convenience stores.

### **4. *Actively expand e-commerce business to fully open up online and offline channels and chains***

With its excellent global supply chain network, understanding of consumer demand and product selection capabilities, the Group has established cross-border OTC flagship stores on mainstream e-commerce platforms such as Tmall Global, JD.com and Pinduoduo by gathering high-quality overseas pharmaceuticals and healthcare products. Through online cross-border sales, we can meet consumers’ demand for overseas high-quality OTC household medicines and healthcare products. Since the Group’s overseas flagship store of Home of Kingworld officially entered the overseas pharmaceutical category of Tmall Global in March 2021, it has reached cooperation with more than 40 internationally renowned brands on nearly 100 products, covering children’s nutrition, gastrointestinal health, rheumatism bone injury, cold and cough, antipyretic and analgesic, nourishing and health care, skin medicine, beauty and other major categories, among which key products such as Wood Lock Medicated Balm of Wong To Yick, Ricqles, Mopidick and Beauluck A Gastro-Resistant Tablets performed well. In the first half of 2022, the Tmall overseas flagship store of Home of Kingworld ranked 22nd in the international pharmaceutical category.

In order to establish a professional e-commerce team and better motivate the e-commerce team to increase the scale of sales and profit contribution, based on the rapid development of cross-border e-commerce business and planning for the future, the Group established a brand new operating mechanism – the quasi-department system, to support the cross-border business of Home of Kingworld Health, by providing independent operation rights within a certain extent to better operate the cross-border business, responding to market demand rapidly, and expanding into business-to-consumers and business-to-business comprehensively. In future, the Group will also extend the cross-border business of Home of Kingworld Health to major offline chain partners to further satisfy the needs for upgrading consumption and expanding the categories of chain products.

In addition to the operation of cross-border OTC flagship stores, the Group is also responsible for the operation of flagship stores for certain brands and self-operated stores. During the Reporting Period, the Group continued to expand its online platform distribution by leveraging on brand operation and promotion of its flagship stores, adopted a direct supply model for mainstream e-commerce platforms, and established a matrix of platform segments with TDI, Koala, Ali Health, Vipshop, and Nico Mama as core products, and opened up the “online + offline” full-channel and full-chain marketing promotions and channels, using big data to accurately locate target groups and their demand and preferences to promote the sales conversion rates, while reducing pipeline costs at the same time, enhancing interaction with consumers and improving the loyalty of customers.

## **Highlights of the medical devices segment**

With improvement in domestic medical and health awareness and intensification of the aging population, the domestic rehabilitation industry has favourable policies, Dong Di Xin, a non-wholly owned subsidiary of the Company, is determined to become the world's leading supplier of physical rehabilitation equipment.

### **1. *Production***

During the Reporting Period, Dong Di Xin continued to increase investment in the project of precision machining centre, carried out several optimizations of organizational processes, added more automated equipment, continued to carry out the semi-automation transformation of production, and improved production efficiency and cost savings. Therefore, in the first half of 2022, the product quality system, after-sales service system and risk control system were improved, laying a solid foundation for better serving global customers.

### **2. *Sales***

Impact of the Pandemic continued in the first half of 2022, sales of the Company's infrared thermometers declined year-on-year. However, the Company actively developed customers and conducted marketing through multiple channels and various methods, the series of professional desktop therapeutic apparatus products continued to grow rapidly year-on-year, which further improved the company's gross profit margin. Meanwhile, the Company increased investment in domestic market in China and marketing promotions, achieving greater progress. During the Reporting Period, our market coverage was more than 20 provinces and cities nationwide, and the Group's products have successfully entered more than 100 domestic first-class hospitals as well as numerous outpatient, rehabilitation and physiotherapy institutions through bidding.

### **3. *Research and development***

As of 30 June 2022, the Company owned a total of three valid invention patents, 24 valid utility model licenses, one valid design license, and 13 software copyrights. During the Reporting Period, the review of application for the status of national high-tech enterprises was completed, and approval would be expected in the second half of 2022.

In addition, the Group obtained the medical device business license issued by the Shenzhen Municipal Market Supervision and Administration Bureau in May 2022, in which the new business scope of "Diagnostic reagents which does not require low temperature refrigerated transportation and storage". Under the circumstances that mutation of the Pandemic was still continuing and uncertainties existed in the international and domestic situations, the antigen diagnostic kit was expected to become a routine test in future. Meanwhile, the Group predicted that with the development of technology and the public awareness of health, there would be broad development prospect in the home-use self-testing market, which was in line with the direction of the Group's commitment to be a provider of home healthcare products and services.



## MANAGEMENT REVIEW

### **1. Guided by the Fifth Five-Year Strategic Development Plan, steady and healthy development of the Group was driven**

During the Reporting Period, the Group is committed to becoming a world-class outstanding enterprise in the pharmaceutical and healthcare industry under the guidance of the Fifth Five-Year Strategic Development Plan. Adhering to the business philosophy of being proactive, sincere and altruistic, through continuous technological innovations, the Group provided safe and effective pharmaceutical and healthcare products and services to customers around the world, gained the trust of customers, continued to expand the market, and developed steadily and healthily, and assumed social responsibility.

Under the guidance of the Fifth Five-Year Strategic Development Plan, the Group focused on industry development trends and the evolution of consumer groups. Through industry analysis reports and accumulated experience of more than 20 years in the industry, the Group had determined the development direction and business theme. In the future, the Group would continue to cultivate in the healthcare industry in a long run and focus on four industrial clusters, namely the pharmaceutical industry, the medical industry, the health supplement industry and the health management service. During the Reporting Period, the Group continued to improve its overall profitability, build its core competitiveness, cultivate and develop its own brand, and create a good brand image by focusing on the development concept of its “prominent core business and diversified relevant businesses”.

### **2. Utilize the capital power of being a listed company, help to develop the Company’s principal business, and increase the return on capital**

The Group makes full use of the capital power of being a listed company to seek suitable investment targets, by firstly focusing on the upstream production enterprises in the industry, while making financial investments in non-related industries with bright future prospects. During the Reporting Period, the Group proceeded with the transfer of shares in Lanzhou Foci and became the second largest shareholder of Hong Kong Fat Chi. This will further enrich the Group’s product portfolio in Hong Kong, Macau and overseas markets and will enhance local sales and profit contribution. At the same time, the long-established Minshan brand products will show that the Company will further consolidate the sales network by building a base to attract more talents, and attract more high-quality products, strengthen the relationship with cooperative partners, enhancing the development of marketing scale of the Group’s principal businesses.

According to the guidance of the Fifth Five-Year Strategic Development Plan, the Group is committed to become a world-class outstanding enterprise in the pharmaceutical and healthcare industry. To this end, the Group has stepped up the merger and acquisition project with the French Innopharm, and all investment and merger work are expected to be completed in the second half of the year. Innopharm was founded in 1983 by Dr. Jacques Noury, a French doctor of medicine and one of the founders of the international drug in the CRO field. The merger and acquisition will facilitate the Group to acquire a timely understanding and analysis of the market trends in Europe, research and development and subsequent entry of products into the European market, laying the foundation for the Company to deal with and serve global customers.

Moreover, according to the documents of Shenzhen Stock Exchange, the review status of the Group's investment in IGBT BYD Semiconductor Company Limited has been changed to approval by the Listing Committee meeting, which will also bring considerable financial investment returns to the Group upon listed.

### **3. Enriching the product portfolio continuously and promoting sustainable development of the principal businesses**

During the Reporting Period, the Group continued to rely on the overseas pipeline resources accumulated over the years, as well as a mature product evaluation system and an efficient international supply chain system. The Group continued to strictly select global high-quality healthcare products with accurate efficacy and high quality according to high standards, and continued to enrich the product categories in online and offline businesses, currently stock keeping unit of operating products have reached nearly a hundred.

The Group conducts different channel layouts according to different product characteristics and different consumer profiles, focusing on pure sales in the local market. It actively grasps the upgraded demand for high-quality products in the mainland market, provides products online and offline, and enriches product portfolios and categories. At the same time, the Group pays equal attention to its own brands and imported products. While introducing high-quality products, it vigorously builds its own brands and independently pursues research and develops products that conform to consumer trends and consumption habits of young groups. Currently, derivative products of the Group's Kingworld Imada Red Flower Oil are under research and will be launched to the market soon. Several other self-developed products are also preparing for launching in market.

In addition, the Group's overseas original equipment manufacturer ("OEM") self-owned brands have also completed product formulation design and packaging design; product trademarks have also been registered and applied for registration in many countries, and are expected to be marketed soon to serve public health.

#### **4. Longde Health Industrial Park is about to be topped out, and Hong Kong medicine is making progress**

During the Reporting Period, the Group's Longde Health Industrial Park received inspection and guidance from various parties including the government, various associations and institutions, and its leading role in the Chinese medicine life and health industry sector in Longgang District, Shenzhen was fully affirmed. The goal is to build it into a highland of traditional Chinese medicine in the Guangdong-Hong Kong-Macao Greater Bay Area and a national-level demonstration platform for the incubation and transformation of life and health science and technology achievements in traditional Chinese medicine. Its completion will accelerate the innovation and transformation of life and health science and technology achievements in traditional Chinese medicine and will strengthen external interflow and cooperation in traditional Chinese medicine, and will help more Chinese medicines to "go global", launching high-quality Chinese patent medicines around the world and disseminating Chinese medicine culture and products. In addition, Longde Health Industrial Park has also entered into a letter of intent on strategic cooperation in relation to the application of nanocrystalline magnetic beads, intending to apply this latest scientific research technology in the detection technology of traditional Chinese medicine and improve the extraction standards and methods of traditional Chinese medicine.

Shenzhen is adjacent to Hong Kong and modern service industries such as technological innovation and finance are well-developed. The traditional Chinese medicines marketed in Hong Kong, Macau and Taiwan have high safety standards and the target customers are Chinese. Owing to complementary geographical advantages with the mainland, sharing the same origin and source of resources, the habits of drug usage and suitability for the population are highly consistent. During the Reporting Period, the Group made progress in the implementation of Hong Kong drugs: the research team of the Shenzhen Decision Advisory Committee on the Hong Kong Drug Implementation visited the Group for research and guidance, and successfully held the research and communication meeting on the topic of "Constructing the Shenzhen-Hong Kong Cooperation Pilot Demonstration Zone for Traditional Chinese Medicine". As a founding unit, the Group actively participated in the project of the implementation of Hong Kong medicine, and carried out plan presentation and in-depth discussion on the development direction and progress of traditional Chinese medicine in Shenzhen. Since 2016, the Group has been studying the implementation of Hong Kong medicines and vigorously developing the field of traditional Chinese medicine, keeping up with government policies, moving from offline sales to online cross-border e-commerce, and constantly striving to promote the century-old Hong Kong medicines expand to mainland China. Through the Longde Health Industry Complex, the Group will further provide more comprehensive hardware equipment and facilities for the Hong Kong Medicines Project. The Longde Health Industrial Park is expected to be topped out in the second half of the year. Upon completion, it will further enhance the Group's comprehensive strength and competitiveness and build a professional platform for the Group's strategic integration of industry, commerce and finance.

## **5. Reshaping corporate culture and stimulating talents via shares award scheme**

The Group's business concepts and philosophy are "being proactive, sincere and altruistic", advocating a positive and progressive fighting spirit, humanistic feelings of virtue and benevolence, and constantly fostering a positive and enterprising spirit, to motivate employees to strive for reaching higher goals continuously, thereby driving sustainable development of the Group.

During the Reporting Period, the Group strengthened training and development of existing talents, guided by the value of corporate cultural soft power and equity incentives, built an enterprise with values as the core, and reshaped the corporate culture system. In addition to keeping the existing talents close, the Group also attracted outstanding talents to join. To this end, at the beginning of the year, the Group granted a total of 1,556,000 awarded shares to 73 selected participants at zero consideration under the share award scheme. In March 2022, the Group increased the individual limit of the share award scheme by 10 times. In July 2022, the Board decided to further increase the limit of the scheme to 46,000,000 shares. These are the Group's actions to motivate key talents and attract outstanding external talents. More talents are included in the scope of equity incentives, so that every employee who grows with the Company becomes a partner, this will fully stimulate labour initiatives, strengthen the sense of ownership, encourage all employees to work hard, fully complete the Company's strategic business goals, and make more contributions to society together.

## **6. Participating in philanthropic activities and benefitting the world**

During the Reporting Period, the Group continued to uphold the corporate mission of "Serving community and benefitting the world (效力世人，潤澤蒼生)", actively fulfilled its social responsibilities, and strived to build a harmonious and beautiful life community. During the Reporting Period, the Group worked together to fight the Pandemic, and donated funds and anti-Pandemic medical supplies such as Kingworld disposable medical masks, Kingworld Imada Red Flower Oil and Pu Ji Kang Gan Granules (普濟抗感顆粒) to areas severely affected by the Pandemic, such as Shenzhen, Hong Kong, Yan'an City in Shaanxi Province, Baise City in Guangxi Province, and Inner Mongolia, totalling millions of dollars. When the Pandemic in Hong Kong was severe, the Group responded to the government's call and actively mobilised forces from all walks of life to support the fight against the Pandemic. The Group has cooperated with familiar organizations and associations such as the Friends of Hong Kong Association Ltd., the Hong Kong International Teochew Federation, Shenzhen Chaoshan Youth Association and the Shenzhen Golf Association (深圳市高爾夫協會) to make multiple donations, which have been praised and appreciated by the society. The Group also assisted iHealth (Hong Kong) Labs Limited to donate more than 200,000 new coronavirus rapid test kits, with a total value of HK\$14 million, to Hong Kong to support the anti-Pandemic action, and received a certificate of appreciation from the Friends of Hong Kong Association Ltd., which was awarded by President Henry Tang Ying-yen.

During the Reporting Period, upholding the spirit of poverty alleviation, the Group made a donation to the Jieyang University Student Development Foundation (揭陽市大學生發展基金會) with the aim of assisting the talent development of university students. The Group has continued to donate daily medicines during the monks' meditation period according to the custom of Vassa, so as to keep the monks and the audience healthy and pray for society. During the Reporting Period, the Group's Kingworld Healthcare Foundation was awarded the AAA-level social organization certificate.

## HONOURS

During the Reporting Period and up to the date of this announcement, the Group received the following honours and awards:

- In January 2022, Kingworld Medicines continued to be selected as a key logistics company of Shenzhen;
- In May 2022, the Group was awarded two honorary awards of “Fighting Pandemic-Love Contribution Award (抗擊疫情•愛心貢獻獎)” and “Outstanding Member” by Shenzhen Health Industry Promotion Association (深圳市健康產業促進會);
- In June 2022, Shenzhen Kingworld Healthcare Foundation was awarded the AAA-level social organization;
- In June 2022, Kingworld Medicines was authorised as the designated sponsor of topical oil by the 2nd Mind Sports Games in Zhejiang Province;
- In June 2022, Mr. Zhao Li Sheng, Chairman of the Board of the Group, was appointed as the Honorary Chairman of the 18th Committee of Shantou Overseas Chinese Federation (汕頭市僑聯第十八屆委員會);
- In July 2022, Nin Jiom has been included in several lists, such as “Chinese Medicine-Brand List (中國醫藥•品牌榜)”, “Top 100 Chinese Traditional Medicine Enterprises (中國中藥企業 TOP100)” and “The Most Valuable Items of Chinese Chain Pharmacies (中國連鎖藥店最具合作價值單品)”; and
- In July 2022, Mr. Zhao Kin Wai, Assistant to the chairman of the Group, as a representative of outstanding young people of Hong Kong’s Chinese medicine sector, was featured on CCTV International’s CGTN channel feature film “I am a post-90s youth, I speak for Chinese medicine” on the 25th anniversary of Hong Kong’s handover.

## FINANCIAL REVIEW

### 1. Revenue

Revenue of the Group for the six months ended 30 June 2022 amounted to approximately RMB419,647,000, representing an increase of approximately RMB4,347,000 or 1.0% compared to approximately RMB415,300,000 for the six months ended 30 June 2021. The increase was mainly due to the increase in the revenue from distribution of imported branded pharmaceutical and healthcare products in China for the Reporting Period as compared to the six months ended 30 June 2021 as a result of the market recovery from the outbreak of the Pandemic. Such increase was partially offset by the decrease in sales of medical devices, including infrared thermometer, manufactured by Dong Di Xin. The decrease was mainly due to the drop in sales of anti-Pandemic devices.

## **2. Cost of sales and gross profit margin**

For the six months ended 30 June 2022, cost of sales of the Group amounted to approximately RMB285,951,000, representing an increase of approximately RMB4,222,000 or 1.5% compared to approximately RMB281,729,000 for the six months ended 30 June 2021. The increase in cost of sales was mainly due to the increase in sales volume and the change of product mix. Gross profit margin decreased from 32.2% for the six months ended 30 June 2021 to 31.9% for the six months ended 30 June 2022 as a result of the decrease in proportion of revenue from products with relatively higher margin, in particular the medical device products from Dong Di Xin, during the Reporting Period. Besides, the gross profit margin of Dong Di Xin also decreased from 42.8% for the six months ended 30 June 2021 to 41.6% for the Reporting Period. The decrease was mainly due to the drop in unit selling price of the anti-Pandemic medical device as the demand declined due to the control of the Pandemic during the Reporting Period.

## **3. Other revenue, income and other net loss**

Other revenue, income and other net loss mainly included rental income, interest income, promotion service income, government grants, change in fair value of financial assets at fair value through profit or loss, investment gain and exchange gain. For the six months ended 30 June 2022, other revenue, income and other net gains amounted to approximately RMB14,540,000, representing an increase of approximately RMB3,498,000 or 31.7% compared to approximately RMB11,042,000 for the six months ended 30 June 2021. Such increase was mainly due to the increases in exchange gain and change in fair value of financial assets at fair value through profit or loss, and was partially off-set by the decrease in government grants during the Reporting Period. Details of other revenue, income and other net loss are set forth in Note (7) to the condensed consolidated financial statements.

## **4. Selling and distribution costs**

For the six months ended 30 June 2022, selling and distribution costs amounted to approximately RMB49,401,000, representing an increase of approximately RMB1,667,000 or 3.5% compared to approximately RMB47,734,000 for the six months ended 30 June 2021. This increase was mainly due to the increases in delivery expenses and storage fee as a result of the increase in sales volume for the Reporting Period.

## **5. Administrative expenses**

For the six months ended 30 June 2022, administrative expenses amounted to approximately RMB45,313,000, representing an increase of approximately RMB1,769,000 or 4.1% compared to approximately RMB43,544,000 for the six months ended 30 June 2021. This increase was mainly due to the increase in research and development cost during the Reporting Period.

## **6. Profit from operations**

For the six months ended 30 June 2022, profit from operations for the Group amounted to approximately RMB46,737,000, representing an increase of approximately RMB187,000 or 0.4% compared to approximately RMB46,550,000 for the six months ended 30 June 2021. The increase in profit from operations was mainly due to the increase in other revenue, income and other net loss, which were partially off-set by the increase in selling and distribution costs and administrative expenses during the Reporting Period.

## **7. Finance costs**

For the six months ended 30 June 2022, finance costs amounted to approximately RMB8,659,000, representing an increase of approximately RMB970,000 or 12.6% compared to approximately RMB7,689,000 for the six months ended 30 June 2021. The increase in finance costs was mainly due to the increase in interest charged on bank loans as a result of an increase in the average bank borrowings.

## **8. Profit before taxation**

For the six months ended 30 June 2022, profit before taxation for the Group amounted to approximately RMB42,229,000, representing an increase of approximately RMB1,686,000 or 4.2% compared to approximately RMB40,543,000 for the six months ended 30 June 2021. The increase in profit before taxation was mainly due to the increase in profit from operations and share of profit of a joint venture.

## **9. Income tax**

For the six months ended 30 June 2022, income tax for the Group amounted to approximately RMB7,126,000, representing an increase of approximately RMB868,000 or 13.9% compared to approximately RMB6,258,000 for the six months ended 30 June 2021. The effective tax rate during the Reporting Period was 16.9%, compared to 15.4% for the six months ended 30 June 2021. Details of income tax are set forth in Note (9) to the condensed consolidated financial statements.

## **10. Profit for the period**

As a result of the foregoing, for the six months ended 30 June 2022, profit for the period of the Group amounted to approximately RMB35,103,000, representing an increase of approximately RMB818,000 or 2.4% compared to approximately RMB34,285,000 for the six months ended 30 June 2021.

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

For the six months ended 30 June 2022, profit for the period attributable to owners of the Company amounted to approximately RMB24,213,000, representing an increase of approximately RMB4,731,000 or 24.3% compared to approximately RMB19,482,000 for the six months ended 30 June 2021. The increase was mainly due to the fact that profit for the period was mainly derived from operation belongs to owners of the Company.

## 12. Liquidity and capital resources

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

As at 30 June 2022, the Group had cash and cash equivalents of RMB237,820,000 (as at 31 December 2021: approximately RMB187,925,000) mainly generated from operations of the Group.

## 13. Cash flows

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

During the Reporting Period, the Group's cash and cash equivalents increased by approximately RMB49,895,000, which mainly comprised the net cash generated from operating activities with the amount of approximately RMB98,385,000, net cash used in investing activities with the amount of approximately RMB44,737,000, net cash used in financing activities with the amount of approximately RMB2,469,000, and the net negative effect of foreign exchange of approximately RMB1,284,000.

## 14. Capital structure

### *Indebtedness*

The total amount of the borrowings of the Group which will be due within one year as at 30 June 2022 was approximately RMB236,591,000. During the Reporting Period, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

### *Gearing ratio*

As at 30 June 2022, the Group's gearing ratio, calculated as the total interest-bearing bank borrowings, less cash and cash equivalents, divided by total equity multiplied by 100%, was (0.2)% (as at 31 December 2021: 5.8%). The decrease in gearing ratio was mainly due to the increase in cash and cash equivalents.



### ***Pledge of assets***

As at 30 June 2022, 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, RMB56,920,000, RMB18,801,000 and RMB95,200,000, respectively (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).

### ***Capital expenditure***

The capital expenditures of the Group primarily included purchase of property, plant and equipment. The Group's capital expenditures amounted to approximately RMB37,978,000 and RMB5,337,000 for the Reporting Period and the six months ended 30 June 2021, respectively.

### ***Foreign exchange risk***

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

## **15. Contingent liabilities, legal and potential proceedings**

As at 30 June 2022, 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, the 2020 Annual Report and 2021 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 Fifth Announcement for further details. In June 2022, the Company received notification that the plaintiff applied to High People's Court of Guangdong Province for re-trial. As at the date of this announcement, the case was at the stage of retrial filing and undergoing review by the High People's Court of Guangdong Province for re-trial.

## **16. Major acquisitions and disposals**

For the six months ended 30 June 2022, the Group did not make any material acquisition or disposal.

## **17. Going concern**

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

## **FUTURE OUTLOOK**

2022 is the first year of the Group’s Fifth Five-Year Strategic Plan. At this important turning point, the Group will continue to keep pace with the times, embark on the high-quality development of China’s economy, and firmly grasp the development opportunities brought by Shenzhen as a pioneering demonstration area for socialism and the growing need for health services due to an ageing population. In the second half of 2022, the Group will focus on the following work:

### **1. Consolidate and strengthen brand operation business to lay the foundation for development**

The Group will further strengthen market management, actively promote innovative forms of marketing, and create more star brands in various fields with different categories and strategies. The Group will continue to consolidate the key markets of major products such as Nin Jiom, Taiko Seirogan, Kingworld Imada Red Flower Oil and Culturelle Probiotics, to strengthen the market distribution rate and promote terminal sales. The Group will also develop potential products such as Life’s DHA, Enalapril, and Fat Chi (Hong Kong) series of Minshan Brand (岷山牌佛慈(香港)系列), and further increase market share by promoting market expansion, intensifying development efforts and strengthening brand promotion.

### **2. Strengthen and expand e-commerce business**

With a keen market sense and abundant resources of excellent foreign suppliers, the Group will further realise the diversification and innovative marketing model of e-commerce. In the second half of 2022, the Group will continue to expand its e-commerce sales, build a professional e-commerce operation team, respond quickly to market conditions, continue to strengthen the integration of its cross-border e-commerce system with its offline business and strive to achieve its operational strategic plan of rising in the overall ranking of the industry.

**3. Introduce more and better products and promote the development of the Group's own brands**

Relying on the overseas pipeline resources accumulated by its subsidiaries for many years, a mature product evaluation system and an efficient international supply chain system, the Group has the strength as the general agent of famous brands, and continues to introduce more high-quality brand products, optimise product portfolio and create popular products in order to provide safe and effective medical and healthcare products and services to customers worldwide. The Group will also accelerate the launch of extended self-branded products of Red Flower Oil and overseas OEM brand products in the market and promote the launch of other independent products to further provide professional guidance and services on consumers' health needs and safeguard consumers' health.

**4. Use more scientific methods to manage investment and financing to help enterprises achieve sustainable development**

The Group will further enhance its own financing capabilities, optimise the corporate capital structure, and strengthen the management of joint ventures and mergers and acquisitions such as Dong Di Xin Technology and Hong Kong Fat Chi. The Group will speed up its industrial layout, take advantage of Longde Health Industrial Park to establish an integrated and intelligent service platform for the pharmaceutical supply chain, and continuously improve and optimise the construction of the comprehensive health business system.

**5. Continue to strengthen risk control and build an efficient risk management system**

In the face of uncertain factors such as the fluctuating Pandemic situation and the turbulence in world politics, the Group will continue to adhere to the management idea of "saving costs and increasing efficiency", strengthen the management of accounts receivable, and enhance the Group's comprehensive capabilities of risk early warning, monitoring, prevention and control.

**6. Increase incentives to promote the Company's long-term development**

The Group will continue to consolidate its existing business position, develop independent research and development capabilities, and take the opportunity of Longde Health Industrial Park to realise the strategy of integrating industry, business and finance. The Group will establish a short-term, medium-term and long-term incentive mechanism to attract talents with a good career development environment, stabilise and develop the talent team, and continuously improve the talent development platform to promote the long-term stable development of the Company.

## **HUMAN RESOURCES AND TRAINING**

As at 30 June 2022, the Group had a total of 1,032 employees, of which 131 worked at the Group's headquarters in Shenzhen, and 391 were stationed in 34 other regions mainly responsible for sales and marketing, and 510 worked at Dong Di Xin. For the six months ended 30 June 2022, the Group's total remuneration paid to employees was approximately RMB74,722,000. The Group releases an annual sales guideline on a yearly basis, setting out the annual sales targets and formulating quarterly sales strategies, so as to provide sales and marketing guidelines for all representative offices and their staff to observe. The Group has a management team with extensive industry experience (including sales directors and product managers). They are responsible for coordinating front-line sales and marketing teams to meet the annual sales targets.

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

## **OTHER INFORMATION**

### **CAPITAL COMMITMENT**

As at 30 June 2022, the Group had capital commitment of approximately RMB275,109,000 (as at 31 December 2021: approximately RMB325,069,000).

### **PUBLIC FLOAT**

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

### **DIVIDENDS**

Pursuant to a resolution passed by the shareholders of the Company on 27 May 2022, the Company declared a final dividend for the year ended 31 December 2021 of HK\$2.39 cents per share, amounting to approximately HK\$14,878,000 (equivalent to approximately RMB12,138,000) to the shareholders of the Company. The dividend was fully paid on 29 June 2022 by the internal cash resources of the Company.

The Board resolved not to recommend the payment of any interim dividend for the six months ended 30 June 2022 (2021: nil).

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

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

## **CORPORATE GOVERNANCE PRACTICES**

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

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

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

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

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

## **AUDIT COMMITTEE**

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

The financial information in this interim results announcement has not been audited by the auditor of the Company. The Audit Committee has reviewed the unaudited condensed consolidated interim financial statements, this unaudited results announcement and the interim report of the Company for the six months ended 30 June 2022 with the management of the Group and agreed with the accounting treatments adopted by the Company, and was of the opinion that the preparation of the financial statements in this interim results announcement complies with the applicable accounting standards and the requirements under the Listing Rules and adequate disclosures have been made.

## **EVENTS AFTER THE REPORTING PERIOD**

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

## **DISCLOSURE OF INFORMATION**

The interim report for the six months ended 30 June 2022 will be duly dispatched to shareholders of the Company and published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.kingworld.com.cn>).

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

Hong Kong, 31 August 2022

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