KINGWORLD MEDICINES GROUP LIMITED

金活醫藥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 01110)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

RESULTS HIGHLIGHTS

- Revenue increased by 13.0% to approximately RMB957,701,000 (2021: RMB847,386,000).
- Gross profit increased by 5.3% to approximately RMB277,627,000 (2021: RMB263,598,000).
- Gross profit margin decreased by 2.1% points to 29.0% (2021: 31.1%).
- Profit before exchange loss, valuation loss on investment properties and taxation increased by 12.5% to approximately RMB80,692,000 (2021: RMB71,723,000).
- Profit before taxation decreased by 2.7% to approximately RMB67,584,000 (2021: RMB69,434,000).
- Profit for the year ended 31 December 2022 decreased by 15.0% to approximately RMB43,542,000 (2021: RM51,211,000).
- Profit attributable to owners of the Company decreased by 25.0% to approximately RMB22,741,000 (2021: RMB30,319,000).
- Basic earnings per share decreased by 25.0% to approximately RMB3.75 cents (2021: RMB5.00 cents).
- The Board recommended the distribution of a final dividend of HK2.47 cents per share for the year ended 31 December 2022 (2021: HK2.39 cents), subject to the approval of the shareholders of the Company (the "**Shareholders**") at the forthcoming annual general meeting to be held on Monday, 29 May 2023.

The board (the "**Board**") of directors (the "**Directors**") of Kingworld Medicines Group Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2022 (the "**Year Under Review**") and selected explanatory notes, together with the comparative figures of the corresponding year in 2021 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

	Note	**2022** **RMB'000**	2021 RMB'000
Revenue	4	**957,701**	847,386
Cost of sales		**(680,074)**	(583,788)
Gross profit		**277,627**	263,598
Other revenue, income and other net loss	5	**21,545**	17,604
Selling expenses		**(100,452)**	(99,514)
Administrative expenses		**(104,573)**	(96,644)
Amortisation of intangible assets		**(13,569)**	(13,569)
Valuation (loss)/gain on investment properties		**(7,300)**	800
Impairment losses on financial assets, net		**(1,043)**	(50)
Profit from operations		**72,235**	72,225
Finance costs	6(a)	**(12,292)**	(11,782)
Share of profit of a joint venture		**7,673**	8,728
Share of (loss)/profits of associates		**(32)**	263
Profit before taxation	6	**67,584**	69,434
Income tax	7	**(24,042)**	(18,223)
Profit for the year		**43,542**	51,211
Attributable to:			
Owners of the Company		**22,741**	30,319
Non-controlling interests		**20,801**	20,892
Profit for the year		**43,542**	51,211
Earnings per share	8		
Basic (RMB cents)		**3.75**	5.00
Diluted (RMB cents)		**3.75**	5.00

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2022

	2022	2021
	RMB'000	RMB'000
Profit for the year	**43,542**	51,211
Other comprehensive loss for the year (net of tax)		
Items that will not be reclassified to profit or loss:		
Fair value loss on financial assets	**(7,578)**	(1,562)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside the PRC	**1,115**	(2,760)
	(6,463)	(4,322)
Total comprehensive income for the year (net of tax)	**37,079**	46,889
Attributable to:		
Owners of the Company	**16,278**	25,939
Non-controlling interests	**20,801**	20,950
Total comprehensive income for the year	**37,079**	46,889

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Note	**2022** **RMB'000**	2021 RMB'000
Non-current assets			
Right-of-use assets		**117,370**	107,896
Property, plant and equipment		**182,524**	102,039
Investment properties		**114,500**	121,800
Interest in a joint venture		**83,370**	85,697
Interest in associates		**8,584**	8,395
Goodwill		**90,693**	90,693
Other intangible assets		**134**	13,703
Financial assets at fair value through profit or loss		**6,792**	6,461
Financial assets at fair value through other comprehensive income		**35,076**	37,490
		639,043	574,174
Current assets			
Inventories		**84,764**	106,744
Trade and other receivables	9	**283,389**	334,506
Financial assets at fair value through profit or loss		**14,012**	10,480
Cash and cash equivalents		**242,155**	187,925
		624,320	639,655
Current liabilities			
Contract liabilities		**57,538**	71,730
Trade and other payables	10	**188,405**	152,490
Bank loans		**271,285**	229,922
Lease liabilities		**8,006**	7,584
Income tax payable		**16,507**	11,897
		541,741	473,623
Net current assets		**82,579**	166,032
Total assets less current liabilities		**721,622**	740,206

	2022 RMB'000	2021 RMB'000
Non-current liabilities		
Lease liabilities	**11,385**	1,450
Deferred income – capital	**600**	–
Deferred tax liabilities	**15,422**	18,122
	27,407	19,572
NET ASSETS	**694,215**	720,634
CAPITAL AND RESERVES		
Share capital	**53,468**	53,468
Reserves	**562,109**	563,429
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	**615,577**	616,897
NON-CONTROLLING INTERESTS	**78,638**	103,737
TOTAL EQUITY	**694,215**	720,634

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022
(Expressed in Renminbi)

1. GENERAL INFORMATION

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

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

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

b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2022 comprise the Company and its subsidiaries and the Group's interests in a joint venture and associates.

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

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

– investment properties;

– derivative financial instruments;

– financial instruments classified as financial assets at fair value through other comprehensive income; and

– financial assets at fair value through profit or loss.

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

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

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

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKFRS 16	Covid-19-related rent concessions beyond 30 June 2021
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

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. The application of these amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

4. REVENUE

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

	2022 RMB'000	2021 RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products		
– pharmaceutical products	**593,606**	438,864
– healthcare products	**95,053**	88,560
– medical devices	**269,042**	319,962
	957,701	847,386
Timing of revenue recognition		
A point in time	**957,701**	847,386

5. OTHER REVENUE, INCOME AND OTHER NET LOSS

	2022 RMB'000	2021 RMB'000
Other revenue:		
Total interest income on financial assets not at fair value through profit or loss:		
Bank interest income	**1,347**	458
Interest income from a shareholder loan to an associate	**110**	108
Interest income from financial assets at fair value through other comprehensive income	**–**	620
	1,457	1,186
Gross rental income from investment properties	**947**	2,648
Dividend income from financial assets at fair value through other comprehensive income and through profit or loss	**295**	1,615
Promotional service income	**15,656**	7,546
	18,355	12,995
Other income and other net loss:		
Government grants		
– HK (note i)	**357**	–
– PRC (note ii)	**3,759**	5,059
Change in fair value of financial assets at fair value through profit or loss	**2,894**	471
Exchange loss, net	**(5,808)**	(3,088)
Others	**1,988**	2,167
	21,545	17,604

Note:

(i) In 2022, the Group successfully applied for funding support from the Employment Support Scheme under the Anti-epidemic Fund, set up by the Hong Kong Government. The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the grant, the Group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees.

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

6. PROFIT BEFORE TAXATION

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

		2022	2021
		RMB'000	RMB'000
a)	**Finance costs**		
	Total interest expense on financial liabilities not at fair value through profit or loss:		
	– Interest on bank loans	**11,477**	10,983
	– Interest on lease liabilities	**815**	799
		12,292	11,782
b)	**Other items**		
	Amortisation of other intangible assets	**13,569**	13,569
	Auditor's remuneration		
	– audit service	**1,416**	1,375
	– non-audit services	**221**	191
	Costs of inventories recognised as expense:		
	– Cost of inventories sold	**680,074**	583,788
	– Write-down of inventories	**514**	6,967
	Impairment losses on:		
	– Trade receivables	**1,043**	50
	Research and development costs	**15,519**	13,406
	Share award expenses	**731**	–

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

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

	2022	2021
	RMB'000	RMB'000
Hong Kong Profits Tax (note (ii))		
– Current year	**440**	166
– Under-provision in prior year	**242**	–
PRC Enterprise Income Tax ("**EIT**") (note (iii))		
– Current year	**23,544**	21,216
– Under/(over)-provision in prior years	**2,516**	(1,306)
Deferred tax		
– Origination and reversal of temporary differences	**(2,700)**	(1,853)
	24,042	18,223

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

ii) The provision for Hong Kong Profits Tax for 2022 is calculated at 16.5% (2021: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first HK$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2021.

The provision for Hong Kong Profits Tax for 2022 takes into account a reduction granted by the Hong Kong SAR Government of 100% of the tax payable for the year of assessment 2022/23 subject to a maximum reduction of HK$6,000 for each business (2021: a maximum reduction of HK$10,000 was granted for the year of assessment 2021/22).

iii) The PRC Enterprise Income Tax charge of the Group during the years ended 31 December 2022 and 2021 represented mainly the PRC Enterprise Income Tax charge from the Group's PRC subsidiaries, Shenzhen Kingworld Medicine Company Limited ("**SZ Kingworld**"), Shenzhen Dong Di Xin Technology Company Limited ("**Dong Di Xin**") and are based on a statutory rate of 25% (2021: 25%), except for Dong Di Xin, which is chargeable at a preferential income tax rate of 15% (2021: 15%).

8. EARNINGS PER SHARE

a) Basic earnings per share

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

	2022	2021
	RMB'000	RMB'000
Earnings		
Profit for the year attributable to owners of the Company	**22,741**	30,319
Earnings for the purpose of basic earnings per share	**22,741**	30,319

	2022	2021
	'000	'000
Number of shares		
Weighted average number of ordinary shares in issue	**622,500**	622,500
Effect of shares repurchased and held under share award scheme	**(15,784)**	(16,000)
Weighted average number of ordinary shares for the purpose of basic earnings per share	**606,716**	606,500

b) Diluted earnings per share

Diluted earnings per share for the years ended 31 December 2022 and 2021 was the same as the basic earnings per share because of the exercise price of the share options granted was higher than the weighted average market price of the Company's shares during the years ended 31 December 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.

9. TRADE AND OTHER RECEIVABLES

	2022 RMB'000	2021 RMB'000
Trade receivables	**79,818**	142,655
Less: Allowance for lifetime expected credit losses (note (c))	**(6,922)**	(6,185)
	72,896	136,470
Bills receivables (note (e))	**110,279**	101,361
Other receivables	**48,214**	37,599
Amounts due from related parties (note (e))	**398**	286
Amounts due from associates (note (e))	**4,855**	4,378
Amount due from a joint venture (note (e))	**2**	2
Financial assets at amortised cost	**236,644**	280,096
Prepayments	**13,801**	18,276
Trade and other deposits	**8,127**	5,805
Trade deposits to related parties	**24,817**	30,329
	283,389	334,506

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

b) **Ageing analysis**

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

	2022 RMB'000	2021 RMB'000
0-90 days	**65,774**	134,256
91-120 days	**5,108**	1,691
121-180 days	**1,881**	245
181-365 days	**133**	278
	72,896	136,470

The Group generally granted credit terms ranging from 30 days to 120 days to its customers. The Group does not hold any collateral over these balances.

c) **Impairment of trade receivables**

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

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

	2022	2021
	RMB'000	RMB'000
At 1 January	**6,185**	6,367
Impairment losses recognised during the year (note 6 (b))	**1,043**	50
Bad debt written off during the year	**(306)**	(232)
At 31 December	**6,922**	6,185

As at 31 December 2022, allowance for lifetime expected credit losses on trade receivables amounting to RMB6,922,000 (2021: RMB6,185,000) were determined according to the expected credit loss rates.

d) As at 31 December 2022, the trade receivables amounted to RMB32,610,000 (2021: RMB85,130,000) were pledged for a short-term bank loan of the Group amounted to RMB45,000,000 (2021: RMB45,000,000).

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

10. TRADE AND OTHER PAYABLES

	2022	2021
	RMB'000	RMB'000
Trade payables (note (b))	**138,787**	106,098
Accruals	**6,652**	6,522
Other payables	**38,624**	32,252
Amounts due to related parties (note (c))	**3,536**	3,267
Financial liabilities measured at amortised cost	**187,599**	148,139
Value–added tax payable	**806**	4,351
	188,405	152,490

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

b) Ageing analysis

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

	2022	2021
	RMB'000	RMB'000
0–90 days	**134,188**	105,924
91–180 days	**4,599**	174
	138,787	106,098

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

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

11. DIVIDEND

The Board recommended the distribution of a final dividend of HK2.47 cents per share for the year ended 31 December 2022 (2021: HK2.39 cents), subject to the approval of the Shareholders of the Company at the forthcoming annual general meeting to be held on Monday, 29 May 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET AND INDUSTRY REVIEW

1. The year of 2022 coincided with major changes unseen in a century. The global landscape was undergoing profound changes and the international situation entered a new period of turbulent changes. It was explained in the report of the 20th National Congress of the Communist Party of China that "the world was once again standing at the crossroads of history", and put forward the goal of "building a powerful, all-round, socialist and modern nation to achieve the second centenary goals and emphasising on "pushing ahead the construction of a healthy China", "inheritance and innovation of traditional Chinese medicine", "ageing population", "support for childbirths" and other policies, giving a clear direction for the future development of the healthcare industry and embracing greater development.

   As of 31 January 2023, all 31 provinces (municipalities and autonomous regions) in China issued the Government Work Reports for 2023, in which the areas of medical and health, national medical centres and regional medical treatment centres, construction of key clinical specialist studies, mass procurement of pharmaceuticals and consumables, reform of medical insurance payment methods, upgrade of primary healthcare services, management of chronic diseases, support for childbirths, elderly care industry, inheritance and innovation of traditional Chinese medicine were frequently mentioned, and were conducive to accelerate the development of the health industry.

2. Starting from the end of 2022, the Pandemic prevention policy underwent a major change. From "20 Measures" to "10 New Measures" and then "Type B Management for Category B", nearly 80% to 90% of the population in China contacted COVID-19 and built up a short-term natural immune barrier, according to the estimation by experts from Chinese Center for Disease Control and Prevention. Traditional Chinese medicines related to prevention of the Pandemic, small molecular drugs for anti-coronavirus, and drugs of antipyretic, cough preventive and expectorant nature were in short supply, including, among others, the famous branded drugs, such as Nin Jiom Pei Pa Koa Cough Syrup distributed by the Group. The Pandemic experience of more than three years proved that traditional Chinese medicine had the inherent advantages of combining prevention and treatment in combating the Pandemic. In the post-Pandemic prevention and control era, traditional Chinese medicine will certainly play a more important role.

   Top eight traditional Chinese medicine for relieving cough, eliminating phlegm, soothing asthma and curing influenza available at retail pharmacies in China in 2021

Name of product	Sales revenue RMB'billion	Growth rate
Ganmao Ling Granules (感冒靈顆粒)	2.1+	1.2%
Nin Jiom Pei Pa Koa (京都念慈庵蜜煉川貝枇杷膏)	1.2+	9.6%
Lianhua Qingwen Capsules (蓮花清瘟膠囊)	1.0+	-32.4%
Xiaochaihu Granules (小柴胡顆粒)	0.6+	2.5%
Shuang Huang Lian oral solution (雙黃蓮口服液)	0.6+	-43.0%
Lungs tonic pills (補肺丸)	0.6+	4.2%
Antiviral oral liquid (抗病毒口服液)	0.5+	25.6%
Compound Ganmaoling Granules (複方感冒靈顆粒)	0.4+	-2.0%

2021 Top 13 Proprietary Chinese Medicine Branded Products which Relieve Cough and Eliminate phlegm and Asthma and are Available in Physical Stores in Urban Areas in China

Ranking	**Product name**	**Enterprise Short Name**	**Sales (RMB100 million)**	**Growth**
1	Nin Jiom Pei Pa Koa (京都念慈庵蜜煉川貝枇杷膏)	Nin Jiom Medicine Manufactory	12.52	9.60%
2	Tiepi Fengdou Granules (鐵皮楓斗顆粒)	Zhejiang Tianhuang Pharmaceutical	7.21	25.07%
3	Lungs tonic pills (補肺丸)	UCRI	5.45	-4.71%
4	Acute Bronchitis Syrup (急支糖漿)	Taiji Group Chongqing Fuling Pharmaceutical	3.44	-38.82%
5	Suhuang Cough Capsules (蘇黃止咳膠囊)	Yangzijiang Pharmaceutical Group Beijing Haiyan Pharmaceutical	2.94	15.59%
6	Cough Relief Tablets (止咳寶片)	Teyi Pharmaceutical Group	2.39	74.28%
7	Fei Li Cough Mixture (肺力咳合劑)	Guizhou Jianxing Pharmaceutical	2.25	16.04%
8	Feining Granules (肺寧顆粒)	Liuhe Changlong Pharmaceutical	2.24	-13.70%
9	Chuanbei Pear Syrup (川貝雪梨糖漿)	Li Shizhen Pharmaceutical Group	2.07	-30.91%
10	Honeyed Chuanbei Pei Pa Koa (蜜煉川貝枇杷膏)	Baiyunshan Pan Gaoshou Pharmaceutical	1.71	22.24%
11	Nourishing Yin Qingfei Oral Liquid (養陰清肺口服液)	Hulunbuir Songlu Pharmacy	1.64	28.57%
12	Qingfei Anti-inflammatory Pills (清肺消炎丸)	Tianjin Pharmaceutical Da Ren Tang Group	1.16	0.57%
13	Cordyceps Qingfei Capsules (蟲草清肺膠囊)	Qinghai Pulan Special Medicine (青海普蘭特藥)	1.08	7.99%

3. According to the industry data monitoring and model forecast of Zhongkang CMH, the sales of the national retail pharmacy market would reach RMB542.1 billion in 2022, representing a year-on-year increase of 10.2%, the highest increase in the past five years. Among them, driven by the Pandemic prevention-related drugs and supplies, the retail pharmacy market in December 2022 showed an explosive growth, with the monthly sales revenue exceeding RMB80 billion, representing a year-on-year increase of 82% for the same month, compared with that in November 2022 before de-regulation of the Pandemic. The month-on-month growth rate was also as high as 79%. If the impact of deregulation of the Pandemic in December 2022 on the industry was excluded, from January to November 2022, the retail market would only grow by 3.1% year-on-year, with new stores accounting for 2%, and comparable stores would only grow by 1.1%. Dual-channel products (DTP) (雙通道品種), newly introduced categories such as target foreign brands of chronic disease drugs and Pandemic antigens for centralised procurement through tenders have become the main engines driving market growth. The Group will benefit from the dividends of the growth trends of the retail pharmacy market, and will seize the opportunity of expansion of the chronic disease drug market in the future to further enrich its product portfolio.

4. At press conferences on the Joint Prevention and Control Mechanism of the State Council, in response to the pandemic prevention concerns, the officials said that, in generally speaking, as the new coronavirus continued to mutate in the past three years, its infectiousness and immune escape ability have increased, but its pathogenicity has been weakened; and with the optimization of domestic epidemic prevention and control strategies and measures, the epidemic may reoccur intermittently in certain local areas and population groups for a period of time in the future, but the possibility of a large-scale epidemic in a short period of time nationwide is relatively small.

   From the perspective of demand, "prevention" is well-established. The capacity expansion and timely replenishment and renewal of household medicine cabinets will continue to occur over a period of time. The four types of drugs and related anti-epidemic supplies are still hotspots for family drug reserves. Due to the shortage of hospital resources in the first wave of infections, the explosive growth of online consultations and drug purchases, and the change in patient behaviours will accelerate the outflow of common chronic disease prescription drugs in the future. Outpatient channels such as retail, Business to Consumers (B2C), Online to Offline (O2O) and DTP may reap benefits and will usher in sustained and rapid growth in 2023. The Group will deploy and optimise the existing marketing strategies in advance based on these trends to promote better development of the Group.

BUSINESS REVIEW

During the Year Under Review, in the face of the external environment of high and turbulent situation, the Group took the 5th Five-Year Strategic Plan as the guideline, on the one hand, the Group seized the opportunities of market recovery, focused on the development of the Company's main business, controlled risks and enhanced the Company's strength. On the other hand, it was scientific and reasonable in planning the layout of new business developments by "deploying forces in proper arrays" to sow the seeds for future development. With the concerted efforts of all employees and the collective efforts of reducing costs and increasing efficiency, the business of the Group was steadily improving and achieved greater growth as compared with the previous year.

I. Highlights of pharmaceutical products segment

The Group actively improved its business development layout to meet the needs of consumers. Over the years, we have been acting as an agent of famous brand drugs, such as Nin Jiom (京都念慈菴) product series, Taiko Seirogan (喇叭牌正露丸) and Kingworld Imada Red Flower Oil. Due to the difficulties in restricting the sales of four types of drugs for cough prevention and fever under the anti-Pandemic policies, the Group has overcome difficult times and made rapid progress by seizing the short-term sales opportunities during each stable situation of the Pandemic. In particular, after the relaxation of the Pandemic prevention policy in December 2022, the demand for these four types of drugs increased sharply. The Group kept stock of the products in advance and quickly delivered products to meet the needs of end consumers. Nin Jiom Pei Pa Koa Cough Syrup recorded a year-on-year increase of 30%, Nin Jiom Pei Pa Candy recorded a year-on-year increase of 25%, Taiko Seirogan (喇叭牌正露丸) recorded a year-on-year increase of 64%, Kingworld Imada Red Flower Oil recorded a year-on-year decrease of 13%, Enalapril recorded a year-on-year increase of 175%, and Foci Series recorded a year-on-year increase of 34%. During the Year Under Review, the Group's pharmaceutical distribution mainly adopted the following marketing strategies:

1. Intensive cultivation and optimisation of pipelines and promotion of customers' dynamic sales

Over the past thirty years, the Group has established a distribution network covering over 200,000 offline pharmacies across China. During the Year under Review, the Group intensively cultivated pipelines with increasing customers adhesiveness and loyalty. Relying on the existing distribution network to increase the dynamic sales of customers through the SMART system of the Company, the Group created a win-win situation with its customers. During the Year Under Review, the Group's number of customers increased by 13%, of which, over 110,000 are chain pharmacies, representing a year-on-year increase of 25%, while the year-on-year increase of primary medical institutions was over 10%, showing that a dense network is able to help prompting the products to reach consumers at a faster pace.

Besides, understanding the efficiency of the Pareto Principle, a major account management system led by the senior marketing management has been built to establish direct relationship with major customers and face market issues together. The system adopts measures tailored to local conditions and achieved good results, with favourable improvement in contribution percentage from major customers compared with the same period last year. With continuous advancement of urbanisation and improvement of living standards, the county market has grown rapidly in recent years. The Group took advantage of the trend and formulated strategies and plans for the lower-tier markets. Like the Kingworld Imada Red Flower Oil market in the lower-tier counties, presence does not only cover all the centric cities but development has been made in more than 200 non-centric cities to capture the market, representing a year-on-year increase of 30% in dynamic sales while the year-on-year increase in dynamic sales of Enalapril Maleate and Folic Acid Tablets reached 280%.

During the Year Under Review, with committed cultivation, Fat Chi, a joint venture of the Group, cooperated with chain stores such as Hong Kong CRcare and Yue Hwa Chinese Products in Hong Kong, and 33 products of the series were launched in full with popularity and sales volume further increase. According to the announcement of the Hong Kong Government, the Mainland Chinese medicine expert group of the Central Authorities recommended the Xiangsha Liujun Pill (香砂六君丸) and Buzhong Yiqi Pill (補中益氣丸), which can relieve asthenia of pulmonosplenic qi, in the CM anti-epidemic plans for clinical application. The CM anti-epidemic plans for clinical application has further enhanced the awareness of proprietary Chinese medicines in Hong Kong market and can give a boost of the sales of the Fat Chi series, especially "Minshan" Brand products, in the market.

2. *Emphasis on brand cultivation, both online and offline*

During the Year Under Review, the Group continued to attach importance to product brand cultivation and enhanced product awareness and reputation through both online and offline efforts. For online efforts, Nin Jiom of the Group launched advertisements for popular variety shows and TV series, such as "Thank You Doctor", "New Life Begins" and "Wild Bloom", especially "The Knockout", which was launched in early 2023, stirred up a frenzy of viewership; online promotion by means of Baidu Questions (百度問答), Experts' Recommendations (達人種草), Doctor Science (醫生科普) and recruitment and launching of short video stories for products, such as Taiko Seirogan, Kingworld Imada Red Flower Oil and Enalapril, as well as live streaming together with chain pharmacies. Different means of media promotion further enhances brand awareness, while establishing brand image in the consumers' mind and promoting sales.

For offline efforts, Nin Jiom, Taiko Seirogan, and Red Flower Oil launched promotions by ways of subway advertisements, public transport advertisements, outdoor advertisements and architecture videos in over ten cities, making it easier and more direct to promote the functions and practical scenario of the products, shortening the distance with consumers, and expanding the promotion efforts. Nin Jiom carried out flash activities, lung nourishment carnival, AK48 fans meeting, and cooperated with senior education colleges to carry out youth and sunset filial piety activities. Taiko Seirogan celebrated its 120th anniversary in 2022 and hosted a series of 120th anniversary activities formally. A series of online and offline branding activities were launched to increase the brand exposure and influence of Taiko Seirogan to end users. Kingworld Imada Red Flower Oil sponsored events such as Luohu Outing Health Run, Zhejiang Intellectual Games, Longgang Orienteering, Hangzhou Xiaoshan Half Marathon, Buick Running League and other events, and continued to consolidate the product's influence among sports and target groups. In offline pharmacies, the Group cooperated with pharmacies to carry out consumer activities such as Women's Day, the Dragon Boat Festival, the Mid-Autumn Festival and Hypertension Day, which boosted the popularity of pharmacies, enriched the content of consumers' lives, and enhanced the brand awareness and reputation of products. During the Year Under Review, the number of promotional activities of the Group's key products, Imada and Enalapril, increased, which contributed to the growth of the Group's products. Among them, the Group carried out a large-scale national promotion campaign of "Kingworld People, One Heart, Fighting Together" ("金活人　一條心　一起拼"), providing more than 4,000 training sessions to shop assistants of pharmacies, and nearly 1,000 public welfare activities and cleansing activities. The topic "your pain I know" ("你的痛我懂") was launched through Tik Tok with nearly one thousand videos and more than 2 million times of broadcasting volume, the topic was highly popular, which further enhanced the brand awareness.

The Group also seized various marketing opportunities during and after the Pandemic period, and continuously disseminated knowledge of lung nourishment, cough relieving and epidemic preventive information for personal protection. Attention was placed on procurement of government reserve materials for expansion, during the Year Under Review, the sales of the Group's products, such as Nin Jiom Pei Pa Koa Cough Syrup, increased significantly.

3. *Continue to expand pharmaceutical e-commerce*

The Group noticed the rapid development of pharmaceutical e-commerce Business to Business (B2B), B2C and O2O in the past three years under the impact of COVID-19, e-commerce platforms and take-away platforms were more convenient, and many consumers formed the habit of buying drugs online. Therefore, the Group took advantage of the trend to actively expand pharmaceutical e-commerce, focusing on large-traffic platforms, such as JD Health self-operated platform and Alibaba Health self-operated platform, strengthened cooperation with professional pharmaceutical e-commerce B2C malls, and established cooperation relationship with Jianke.com (健客網), miaoshou.net(妙手醫生), etc. Patient education live broadcast, search for keywords, short videos and other refined operations were carried out through professional pharmacists, supplemented by one store one policy, one product one policy. Through the linkage of brand promotions and in-depth internal and external cooperation of large-traffic platforms, the Company expanded brand and product promotions, product sales were increased rapidly, business growth was boosted and achieved performance indicators.

II. Highlights of healthcare products and beauty segment

In the Pandemic and post-Pandemic era, the concept of "prevention before occurrence" has become more popular, and the Group's healthcare and daily chemical segment business will be further developed and expanded, including the No. 1 best seller of probiotics in the United States, Culturelle, recorded a year-on-year growth of 14%. Sales of Life's DHA, an algae oil pioneer, increased by 2,078% year-on-year. During the Year Under Review, the Group's healthcare products and beauty segment has mainly adopted the following strategies:

1. Diversification and specialisation of brand promotion

During the Year Under Review, the Group strengthened the promotions of healthcare daily chemical products on key platforms such as JD International, Tmall Global and Tik Tok flagship stores, and improved the conversion rate through data analysis. Seizing the opportunities arising from live broadcasting promotions, we commenced Taobao live broadcasting/Kuaishou live broadcasting/Tik Tok live broadcasting, and established professional brand promotion strategies, and formulating various promotion methods such as Weibo KOL promotion, Dingxiang Doctor, Nicomama, Xiaohongshu, we-media brand account operations, and Tik Tok live broadcasting, etc. Among them, Nicomama published 9 push scripts with a total reading volume of 340,000 reader-times and GMV 190W+; life's DHA brand account operations (Xiaohongshu, Shuangwei platform) published a total of 105 content pages, with estimated number of readers reaching 18W+; the Xiaohongshu platform had a total exposure of over 5 million reader-times, the vertical coverage of Taobao contents included mother and child groups 500W+. Moreover, during the Year Under Review, the Group further developed new channel networks, many stores including those of JD.com, Tmall and Tik Tok reached new high levels in sales and GMV.

2. Specialisation of cross-border e-commerce and independent pilot operation

In order to better operate cross-border business, comprehensively expand B2C and B2B business, and cultivate professional e-commerce operation teams, during the Year Under Review, the Group implemented a practical operation plan for cross-border business of Home of Kingworld Health's quasi-business department system, to stimulate team initiatives, this model will give full play to the characteristics of the business department's operational flexibility, independent accounting and self-financing, will improve operational efficiency, as well as facilitating cross-border business to strengthen and expand. At the same time, the flexibility and stability of the "quasi-department system" is also more convenient for the Group to control its performance and risks.

After more than half a year of trial operation, the quasi-business department is operating well. At present, the stores are selling nearly 50 brands and more than 100 (Stock Keeping Units (SKUs). The Home of Kingworld Health's international flagship store at Tmall has front rankings (65th) in Class 2 category of international pharmaceuticals, the sales of our products gradually increased, and the peak season sales volume and POP sales volume of traffic products, such as the Mopidick product series, also ranked 2nd in the industry.

3. Actively acquire and develop new health products

During the Year Under Review, the Group actively developed and researched new products in response to the needs of consumers in the big health era, including completion of the acquisition of equity interest in Innopharm, founded in 1983 by a French medical doctor and JACQUES NOURY, one of the pioneers in the field of international pharmaceutical CRO (contract-based R&D outsourcing) at that time, and was one of the earliest private CRO companies in France, dedicated to research and development and clinical trials in the fields of medicine and general health. The acquisition of Innopharm helped the Group to deeply understand the development trend of big health products, quickly understand and analyse the status, scale and prospects of big health products in the forefront of the European market, and helped the Group to plan the future layout of big health products, accelerated the introduction of European high-quality big health products and pharmaceuticals and healthcare supplements, and was able to explore more other investment opportunities to facilitate the development of global business. During the Year Under Review, the Company's research on product series, packaging design and category planning were completed. The product categories of fish oil, grape seed and lutein, and sleep aid products, are expected to be launched in 2023. The completion of the acquisition of 60% of the equity interest in Innopharm took place on 13 October 2022. For details, please refer to the announcement of the Company dated 14 October 2022.

In addition, the sales of Life's DHA, a new blockbuster new product of the year, under the Group's agency, grew by leaps and bounds. During the Year Under Review, the sales of Life's DHA increased by 2,078% as compared to the same period of last year.

III. Highlights of medical devices segment

With the goal of "relieving human pain", Dong Di Xin, a non-wholly owned subsidiary of the Company, focuses on the medical device business and is determined to become the world's leading supplier of physical rehabilitation equipment. With excellent product quality, good after-sales service and perfect product quality certification system, our products were exported to many countries and regions around the world and were highly recognised by many customers. During the Year Under Review, the Group's medical device segment performed well with mild business growth.

1. Strictly control product quality and promote intelligence

During the Year Under Review, Dong Di Xin of the Group continued to firmly promote the 6S management model of "Lean Production", continued to increase investment in precision machining centre projects, further strengthened the optimisation of organisational processes, and added more automated and semi-automated equipment, it has greatly improved production efficiency and cost savings. SMT intelligent manufacturing system was introduced to start the digital production process, laying a solid foundation for the enterprise to become a first-class rehabilitation intelligent manufacturing plant. During the Year Under Review, the Company continued to deepen and improve the product quality system, after-sales service system and risk control system, which laid a solid cornerstone for better serving global customers.

2. *Actively develop customers, strengthen marketing, and enhance reputation*

During the Year Under Review, the Group actively developed its customers and carried out marketing through multiple channels and various methods. We participated in Medica in Germany, an international medical equipment exhibition, and signed a number of international sales orders. We carried on with the cultivation of potential product varieties, and the series of professional desktop therapeutic apparatus products continued to grow rapidly year-on-year, which further improved the company's gross profit margin.

During the Year Under Review, Dong Di Xin medical professional desktop computer was awarded the Excellence Award among tens of thousands of suppliers in the US Market. In Europe, two types of Dong Di Xin's infrared thermometers were recommended by well-known French journals, which was a further recognition of the excellent international quality of the Group's products and greatly enhanced the Company's international reputation.

In addition, Dong Di Xin increased the investment and marketing promotion of its own brand (NU-TEK) in domestic market in China, achieving greater progress. By the end of 2022, the market coverage was more than 20 provinces and cities nationwide, and the Group's products have successfully entered more than 120 Grade A hospitals as well as numerous outpatient and rehabilitation physiotherapy institutions in China through bidding.

3. *Increasing research and development and constant product iteration*

During the Year Under Review, Dong Di Xin increased its scientific research efforts and investment, and achieved positive results. Dong Di Xin owned a total of 3 valid invention patents, 25 valid utility model licenses, 1 valid design license, and 13 software copyrights. The review of application of Dong Di Xin for the status of national high-tech enterprises was approved, and the key research and development projects were also approved by the Shenzhen Science and Technology Innovation Commission for Innovation and Entrepreneurship Plan Technology Public Relations Key Project (創新創業計劃技術公關重點項目) Approval.

The fruitful scientific and technological achievements promoted the continuous iteration of Dong Di Xin products and enhanced the core competitiveness, thus gaining more partners and consumers around the world.

MANAGEMENT REVIEW

1. Fifth Five-Year Strategic lined up for a good start

2022 was the first year of the Group's Fifth Five-Year Strategic Plan. The board of directors attached great importance to scientific layout, insisted on the simultaneous development of independent products and agency products, actively penetrated the vast rural county market, improved product coverage, and continued to tap the growth potential of mature products. At the same time, through the upgrading of the organisational structure, we strengthened the ability to introduce new products, continuously enriched the product group and expanded the category boundary through various methods such as agency, self-research and cooperation, and adhered to the core brand and built a core product matrix. By focusing on the main business of pharmaceutical and health care for industrial layout, we strived to build an operation platform for the integration of industry, education, research, investment, finance and commerce with the Longde Health Industrial Park as the core, giving full play to the Group's commercialisation advantages, providing value-added services and adding value to our partners, and continuously providing consumers with safe and effective health products and services.

2. Longde Health Industrial Park was successfully topped out, a major progress in the layout of health industry

During the Year Under Review, the Group's Longde Health Industrial Park was successfully topped out. Currently, the park has been selected as a transition park of the Shenzhen Longgang District Baolong Biopharmaceutical Development Pilot Zone (深圳市龍崗區寶龍生物醫藥發展先導區), a life and health professional park of Longgang Youth Science Research Institute (龍崗青年科學研究院), and a medical device professional park of Shenzhen Advanced Manufacturing Federation (深圳市先進製造聯合會). According to the plan, Longde Health Industrial Park planned to introduce biopharmaceutical pilot research and development and production teams, and enterprises engaged in key biological reagents technology, research and development in the fields of technology, medical devices and big health consumption, drug molecule screening and design research and development platforms, fermentation and purification technology project research and development service platform. While providing enterprises with a space integrating research and development, production and office, it also provides professional financing, listing, policy, legal and other corporate services to accelerate the incubation of pharmaceutical projects and brand cultivation with the help of the Group's advantages.

3. **Enhancing sense of belonging and motivating talents**

Employees are the driving force for the development of an enterprise. The sustainable and healthy development of an enterprise can only be achieved by continuously enhancing the cohesion of employees and promoting the common development of employees and the enterprise. During the Year Under Review, the Group announced in January 2022 that a total of 1,556,000 incentive shares were granted to 73 selected participants at nil consideration under the share award scheme, and in March 2022 it announced that in order to provide further incentives to participants, it resolved to increase the individual limit of the share award scheme by 10 times, and in July 2022 it announced a further increase in the scheme limit to 46,000,000 shares (representing approximately 7.39% of the issued share capital of the Company as at the date of the announcement). The Company's share award scheme and the granting of share awards are positive initiatives of the Group to encourage all employees at all levels, and stimulate individual potential and initiative, and help the Group to build up a competent, motivated and ideal backbone team, and establish a good atmosphere for making progress and making concerted efforts to promote the sustainable development of the Group.

During the Year Under Review, the Group has trained nearly 2,000 participants, enriching and promoting the learning and growth of employees.

4. **Continuously enrich product categories and increase sales**

The Group always upholds the philosophy of being proactive for products, and has continuously enriched and improved the variety and quality of its products. In addition to the existing of excellent health products such as Nin Jiom Chuan Bei Pei Pa Koa (京都念慈庵蜜煉川貝枇杷膏), Taiko Seirogan (喇叭牌正露丸), Kingworld Imada Red Flower Oil (金活依馬打正紅花油), Culturelle (康萃樂) probiotics product series, Zhuhai Jinming, a subsidiary of the Group, obtained the sales agency right of Bao Ying Dan products in Hong Kong during the Year Under Review; in terms of cross-border e-commerce products, the Group has nearly 50 brands on sale and over 100 SKUs, and has deepened its cooperation with partners, including Hong Kong Fortune Pharma. While introducing more quality products, the Group continued to enhance its independent research and development capabilities. The launch of its own brands, such as Kingworld Gen-seng Capsule (金活洋參膠囊), Kingworld Zhuang Yao Jian Shen Wan (金活壯腰健腎片) and Kingworld Red Flower Ointment (金活紅花膏) is in full swing and is expected to serve consumers as soon as possible.

5. **Optimising investment and focusing on development**

The Group values the rights and interests of its investors and considers the demands of multiple stakeholders in the process of adapting to the changing market environment and creating commercial value for sustainable corporate development. The Group strives to establish a systematic, long-term and dynamic mechanism to protect the interests of shareholders. Therefore, the Group continuously optimises its investment direction and post-investment management system, enriches financing channels and reduces financing costs. During the Year Under Review, the Group's investment in Dong Di Xin generated good returns, while the joint venture, Fat Chi Medicine Company Limited, operated smoothly and sales volume continued to grow. All of the above investments have steadily improved the returns of investors, providing the Group with a long-term and broader scope of development and enhancing corporate value and shareholders' equity.

6. **Strengthening management of informatisation and risk management**

During the Year Under Review, the Group developed a marketing management system using modern information technology and introduced advanced technology and management concepts into the management process, effectively reduced costs, improved operational efficiency, and increased management modernisation and competitiveness. During the Year Under Review, the SMART system of the Group developed nearly 100 reports on sales management, customer management and team management. We have also added the development and application of marketing activities and expense matching, as well as the e-commerce data and data management centre, so as to further explore market opportunities, scientific management, optimise the process, carry out real-time process management and timely supervision of work orientation, effectively build team synergy and ensure the entire team's goal focus and effort in one place.

In terms of risk management control, the Group continued to strengthen basic management and risk control, and formulate an efficient risk management system; strengthened the regular management of internal control and risk control to enhance the Group's comprehensive capabilities in risk early warning, monitoring, and prevention and control.

7. **Serving community and benefiting the world**

Under the guidance of the corporate mission of "Serving community and benefiting the world (效力世人, 潤澤蒼生)", the Group continued to contribute to the community and fulfill its social responsibility with its Shenzhen Kingworld Healthcare Foundation. During the Year Under Review, a total of more than RMB7 million was donated mainly for fighting the Pandemic, caring for and helping each other, supporting environmental protection, poverty alleviation and disaster relief, such as:

Facing the changing domestic Pandemic prevention and control in 2022, the Group donated funds and anti-Pandemic medical supplies amounted to nearly RMB1 million such as Kingworld disposable medical masks, Pu Ji Kang Gan Granules (普濟抗感顆粒), Kingworld Imada Red Flower Oil, Nin Jiom Chuan Bei Pei Pa Koa, etc. to Shenzhen, Hong Kong, Yan'an, Guangdong, Guangxi, Yunnan and other areas. In particular, the Pandemic in Shenzhen and Hong Kong was severe in February and March 2022. Under the guidance and support of Shenzhen Overseas Friendship Association (深圳海外聯誼會), Shenzhen Municipal Committee of the Chinese People's Political Consultative Conference (深圳市政協) and other units, Kingworld has cooperated with friendly organisations such as Friends of Hong Kong Association Ltd. (香港友好協進會), Federation of Hong Kong Chiu Chow Community Organisations (香港潮屬社團總會), Shenzhen Chaoshan Youth Association (深圳潮青會) and Shenzhen Golf Association (深圳高爾夫協會) to make multiple donations of funds and materials to Shenzhen and Hong Kong, among which, with the assistance of the Group, iHealth (Hong Kong) Labs Limited donated COVID-19 Rapid Test for Antigen of more than RMB10 million to Hong Kong. Mr Tang Yingnian, President of Friends of Hong Kong Association Ltd., attended the donation ceremony and presented a certificate of appreciation to the Group.

During the Year Under Review, the Group actively helped the poor and students by donating RMB108,000 to the Jieyang University Student Development Foundation (揭陽市大學生發展基金會) for helping students with their studies, and donating RMB100,000 to Chidu Village, Yujiao Town, Jiedong District, Jiedong City for the construction of the Party Culture Park and Chidu Village Committee and the Party General Branch also presented a pennant to the Group's foundation to express their gratitude.

During the Year Under Review, the Group, with the support of the Shenzhen Veterans Affairs Bureau (深圳市退役軍人事務局), organised the "Caring for Veterans – Shenzhen Tuohuangniu Health Care Season" campaign ("關愛老兵紅動鵬城"之深圳市拓荒牛健康關愛季活動) in collaboration with the Shenzhen Caring Action Charity Foundation (深圳市關愛行動公益基金). The event consisted of 8 ancillary activities, which paid tribute to the veterans who built a better Shenzhen and provided health care for the pioneer cattle and veterans by forming volunteer teams, disseminating health concepts, and giving health care gift packages. The event was also selected as one of the "Top Ten Caring Activities for the Elderly" in the Chongyang Festival of Elderly Care in Shenzhen.

During the Year Under Review, as a member of the Greater China Council of The Nature Conservancy (TNC 大自然協會) and a member of the Paradise Foundation (桃花源基金會), the Group continued to participate in environmental protection support with many well-known enterprises. To build beautiful nature and protect green mountains and rivers together, we participated in environmental protection projects such as donating to the construction of sponge cities and protecting the most beautiful habitat in East China (Jiulong Peak).

During the Year Under Review, in the "2021 Shenzhen Charity Donation Ranking" issued by the Shenzhen Civil Affairs Bureau, SZ Kingworld Medicine Company Limited, a subsidiary of the Group, ranked 52nd in the donation enterprise ranking with RMB5.03 million. Meanwhile, Kingworld Health Care Foundation of the Group ranked 92nd in the social organisation donation ranking with RMB7.53 million.

HONOURS

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

- In May 2022, Kingworld Medicines was awarded two honorary awards of "Fighting Pandemic-Love Contribution Award (抗擊疫情愛心貢獻獎)" and "Outstanding Member (傑出會員)";
- In May 2022, the Group's Shenzhen Kingworld Healthcare Foundation (深圳市金活關愛健康基金會) was awarded "Tax-free Eligibility of Non-profit Organisations (2021-2025) (非營利組織免稅資格)";
- In June 2022, Shenzhen Kingworld Healthcare Foundation was awarded the 3A-level social organisation;
- In June 2022, the Group's Imada Red Flower Oil has become the official designated external use medicated oil of Mind Sports Games in Zhejiang Province;
- In June 2022, Mr. Zhao Li Sheng (趙利生), Chairman of the Board of Directors of the Company, 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, Mr. Zhao Kin Wai (趙鍵瑋), Assistant to the Chairman of the Company, as a representative of outstanding young people of Inheritance of Chinese Medicine (優秀中醫藥傳承青年代表), was featured on CCTV's CGTN channel feature film "I speak for Chinese medicine (《我為中藥代言》)";
- In July 2022, the Group was awarded a plaque written "Key Logistics Company of Shenzhen" promulgated by the Transport Bureau of Shenzhen Municipality (深圳市交通運輸局);
- In July 2022, Nin Jiom has been included in 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)";
- In August 2022, Mr. Zhao Li Sheng, Chairman of the Board of Directors of the Company, was awarded a commemorative medal by the Paradise International Foundation;

- In August 2022, Shenzhen Kingworld Medicine Company Limited was awarded the Most Valuable Core Supplier Award of Jointown Pharmaceutical Group (九州通醫藥集團核心供應商最具價值獎);

- In August 2022, Culturelle probiotics was on the list again after 2021 and continue to win "the Grand Prize of the Most Popular Brand Among Pharmacies in Hong Kong (《最受香港藥房歡迎品牌大獎》)";

- In September 2022, categorised as a gastrointestinal drug, Taiko Seriogan was awarded "Top Brands of China's Household Medicine";

- In November 2022, in "2021 Shenzhen Charitable Donation Ranking (《2021 年度深圳慈善捐贈榜》)" announcement issued by the Shenzhen Municipality Bureau, the Group's Shenzhen Kingworld Medicine Company Limited ranked 52nd in the donation enterprise ranking with RMB5.0278 million. Meanwhile, the Group's Kingworld Health Care Foundation ranked 92nd in the social organisation donation ranking with RMB7.5303 million;

- In November 2022, Nin Jiom has ranked first in the Healthcare Industry Brand List of Cipu Society (西普會健康產業品牌榜) for 14 consecutive years, and ranked 21st in the 2022 Healthcare Industry Brand Value List (2022 年健康產業品牌價值榜); and

- In December 2022, Kingworld Medicines passed the review of "Shenzhen Time-Honored Brand Corporation (深圳老字型大小企業)", which is effective till December 2025.

FINANCIAL REVIEW

1. Revenue

Revenue of the Group for the Year Under Review was approximately RMB957,701,000, representing an increase of approximately RMB110,315,000 or 13.0% from approximately RMB847,386,000 for the year ended 31 December 2021. The increase was mainly a result of the increase in revenue from the sales of Nin Jiom Chuan Bei Pei Pa Koa. The increase was mainly due to the gradual recovery of market demand due to the infection control and better understanding of the Pandemic during the Year Under Review as compared to the year ended 31 December 2021. Such increase was partially off-set by the decrease in sales of medical devices, including infrared thermometer, manufactured by Dong Di Xin. These Pandemic preventive products were in great demand during the year ended 31 December 2021.

2. Cost of sales and gross profit

For the Year Under Review, cost of sales for the Group amounted to approximately RMB680,074,000, representing an increase of approximately RMB96,286,000 or 16.5% from approximately RMB583,788,000 for the year ended 31 December 2021. The increase in cost of sales was in line with the increase in sales volume. Gross profit for the Year Under Review was approximately RMB277,627,000 representing an increase of approximately RMB14,029,000 or 5.3% from approximately RMB263,598,000 for the year ended 31 December 2021. Gross profit margin decreased from 31.1% for the year ended 31 December 2021 to 29.0% for the year ended 31 December 2022. Such decrease is a result of the decrease in proportion of revenue from products with relatively higher gross profit margin to total revenue, in particular the medical device products from Dong Di Xin, during the Year Under Review.

3. Other revenue, income and other net loss

Other revenue, income and other net loss mainly included exchange difference, promotional service income, rental income, government grants, interest income and dividend income. For the Year Under Review, other revenue, income and other net loss amounted to approximately RMB21,545,000, representing an increase of approximately RMB3,941,000 or 22.4% from approximately RMB17,604,000 for the year ended 31 December 2021. The increase was mainly due to the increase in promotional service income.

4. Selling and distribution costs

For the Year Under Review, selling and distribution costs amounted to approximately RMB100,452,000, representing an increase of approximately RMB938,000 or 0.9% from approximately RMB99,514,000 for the year ended 31 December 2021. This increase was primarily attributable to the increase in staff costs, bonus, storage fee and travelling expense.

5. Administrative expenses

For the Year Under Review, administrative expenses amounted to approximately RMB104,573,000, representing an increase of approximately RMB7,929,000 or 8.2% from approximately RMB96,644,000 for the year ended 31 December 2021. This increase was mainly due to the increase in staff costs and professional fees.

6. **Profit before exchange loss, valuation loss on investment properties and taxation**

For the Year Under Review, profit before exchange loss, valuation loss on investment properties and taxation for the Group amounted to approximately RMB80,692,000, representing an increase of approximately RMB8,969,000 or 12.5% from approximately RMB71,723,000 for the year ended 31 December 2021. The increase was mainly due to the increase in gross profit for the Year Under Review.

7. **Finance costs**

For the Year Under Review, finance costs amounted to approximately RMB12,292,000, representing an increase of approximately RMB510,000 or 4.3% from approximately RMB11,782,000 for the year ended 31 December 2021. The increase was mainly due to the increase in interest charged on bank loans as a result of the increase in average borrowing.

8. **Profit before taxation**

For the Year Under Review, profit before taxation for the Group amounted to approximately RMB67,584,000, representing a decrease of approximately RMB1,850,000 or 2.7% from approximately RMB69,434,000 for the year ended 31 December 2021. The decrease in profit before taxation was mainly due to the increase in exchange loss and valuation loss on investment properties.

9. **Income tax**

For the Year Under Review, income tax expenses for the Group amounted to approximately RMB24,042,000, representing an increase of approximately RMB5,819,000 or 31.9% from approximately RMB18,223,000 for the year ended 31 December 2021. The increase was mainly due to the increase in dividends withholding tax related to the distribution of dividends from the Group's subsidiaries in the PRC to the holding company in Hong Kong. The effective tax rate for the Year Under Review was 35.6%, compared to 26.2% for the year ended 31 December 2021. The details are set out in Note 7 to the consolidated financial statements in this announcement.

10. **Profit for the year**

As a result of the foregoing, the Group recorded a net profit for the Year Under Review of approximately RMB43,542,000, representing a decrease of approximately RMB7,669,000 or 15.0% when compared to approximately RMB51,211,000 for the year ended 31 December 2021.

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

For the Year Under Review, profit for the year attributable to owners of the Company amounted to approximately RMB22,741,000, representing a decrease of approximately RMB7,578,000 or 25.0% from approximately RMB30,319,000 for the year ended 31 December 2021. The decrease in profit for the year attributable to owners of the Company was mainly due to the decrease in profit for the year.

ANALYSIS OF MAJOR BALANCE SHEET ITEMS

1. Trade and other receivables

Trade receivables of the Group include credit sales to the Group's distributors. Other receivables of the Group include prepayments, deposits and other receivables. Trade and other receivables of the Group as at 31 December 2022 amounted to approximately RMB283,389,000, representing a decrease of approximately RMB51,117,000 or 15.3% from approximately RMB334,506,000 as at 31 December 2021. The decrease was mainly due to the increase in cash received from our customer during the Year Under Review.

2. Inventories

As at 31 December 2022, inventories owned by the Group amounted to approximately RMB84,764,000, representing a decrease of approximately RMB21,980,000 or 20.6% when compared to that of RMB106,744,000 as at 31 December 2021. The main reason for the decrease in inventories was the decrease in finished goods.

3. Right-of-use assets

As at 31 December 2022, right-of-use assets amounted to approximately RMB117,370,000. As at 31 December 2021, right-of-use assets of the Group amounted to approximately RMB107,896,000. The increase was mainly due to the addition of certain right-of-use assets to property, plant and equipment during the Year Under Review.

4. Property, plant and equipment

Property, plant and equipment owned by the Group include building, leasehold improvements, furniture, fixtures and office equipment, machinery, motor vehicles and construction-in-progress. As at 31 December 2022, the net book value of property, plant and equipment owned by the Group amounted to approximately RMB182,524,000, representing an increase of approximately RMB80,485,000 or 78.9% from approximately RMB102,039,000 as at 31 December 2021. The increase in property, plant and equipment was mainly due to the addition of construction-in-progress and machinery and the addition of certain right-of-use assets during the Year Under Review.

5. Trade and other payables

Trade and other payables of the Group mainly include trade and bill payables, prepayments from customers, other payables and accrued expenses. As at 31 December 2022, trade and other payables of the Group amounted to approximately RMB188,405,000, representing an increase of approximately RMB35,915,000 or 23.6% from approximately RMB152,490,000 as at 31 December 2021. The increase was mainly due to the increase in trade and bills payables.

CAPITAL STRUCTURE

1. Indebtedness

The total indebtedness of the Group, which will be due within one year as at 31 December 2022, was approximately RMB271,285,000 (31 December 2021: approximately RMB229,922,000). During the Year Under Review, the Group did not experience any difficulties in renewing its banking facilities with the lenders.

2. Gearing ratio

As at 31 December 2022, the Group's gearing ratio, calculated as total interest-bearing bank borrowings, less cash and cash equivalents, divided by total equity as at the end of relevant year, was approximately 4.2% (31 December 2021: approximately 5.8%). The decrease was mainly due to the increase in cash and cash equivalents.

3. Pledge of assets

As at 31 December 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 RMB100,480,000, RMB97,174,000, RMB17,709,000 and RMB32,610,000, respectively. As at 31 December 2021, the Group pledged investment properties, right-of-use assets, property, plant and equipment and trade receivables to certain banks in the amount of approximately RMB107,600,000, RMB55,558,000, RMB18,801,000 and RMB85,130,000, respectively.

4. Capital expenditures

The capital expenditures of the Group primarily included purchases of plant, equipment, leasehold improvements and other costs for acquisition of right-of-use assets and land. The Group's capital expenditures amounted to approximately RMB113,888,000 and RMB66,301,000 for the years ended 31 December 2022 and 31 December 2021, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long-term and short-term bank borrowings. For the Year Under Review, the effective interest rate for fixed rate loans ranged from 3.98% to 6.78%. Taking into account the cash flow generated from operations and the long-term and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this announcement.

As at 31 December 2022, the Group had cash and cash equivalents of approximately RMB242,155,000 (31 December 2021: approximately RMB187,925,000) which was mainly generated from operations of the Group.

CAPITAL COMMITMENT

As at 31 December 2022, the Group had capital commitment of approximately RMB232,785,000 (31 December 2021: approximately RMB325,069,000).

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

During the year ended 31 December 2022, the Group did not make any material acquisition or disposal.

LITIGATION

As at 31 December 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, the 2021 Interim Report and 2022 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 re-trial filing and undergoing review by the High People's Court of Guangdong Province for re-trial.

FUTURE OUTLOOK

1. Build a diversified key business and accumulate strength for the greater healthcare business development

The mission of the Group is: committed to becoming a world-class outstanding enterprise in the pharmaceutical and healthcare industry through continuous technological innovations, the Company provided safe and effective pharmaceutical and healthcare products and services to customers around the world. The Company adheres to the business philosophy of being proactive, sincere and altruistic, gain the trust of customers, continue to expand the market, develop steadily and healthily, promote the growth of employees, generate returns for the benefit of Shareholders, assumed social responsibility and strives to create a harmonious and better life community.

Over the past 20 years, the Group's major business targets on the PRC as well as the Hong Kong and Macau markets. In 2023, with the easing Pandemic prevention policy, society has returned to normal operations and the economy has recovered gradually. In addition to the continuous introduction of more excellent products for providing services to consumers, the Group will also give full play to the role of Hong Kong company as a bridgehead, go global along the direction of the Belt and Road Initiative and actively expand long-established Foci "Minshan" Brand product overseas to allow more international consumers to benefit from the PRC's traditional Chinese medicine. Furthermore, the Group will start to build the organisational structure of Innopharm to conduct business, assist the Company to comprehend the development trends of greater healthcare products, understand and analyse the status, scale and prospects of the cutting edge of the greater healthcare products in the European market more quickly, aid the Group in the future greater healthcare product layout, accelerate the introduction of greater healthcare products and pharmaceuticals and healthcare products in quality from Europe, and seek for more investment opportunities to facilitate the global business development of the Group.

2. Vigorously promote the early use of Longde Health Industrial Park and establish a demonstration effect

Longde Health Industrial Park is the most important investment and industrial layout of the Group in the Fifth Five Year Plan. In future, the Group will continue to promote construction with ensured quality and delivery and rapidly establish a professional operation team above standards for the industrial park. Leveraging the advantageous location of the Greater Bay Area along with the Shenzhen policy guidelines, the Group integrates the resources of pharmaceutical supply chain enterprises and higher education institutions in Guangdong-Hong Kong-Macao Greater Bay Area, accelerates the investment promotion of Longde Health Industrial Park, introduce cooperative partners with investment directions in line with the Industrial Park's investment directions and be the first to establish a demonstration effect by building a base to attract more talents.

3. **Actively promote further development of the Hong Kong Drug Project**

With the fully resumed normal travel between Hong Kong and Macau along with the normalised exchanges between Shenzhen and Hong Kong, under the macro background of vigorous economic development of the nation, it is expected that the Shenzhen-Hong Kong Project that benefits the nation and the people will be given great attention and be accelerated. Recently, the Group and many enterprises and associations in the industry have submitted numerous proposals to, and was highly valued by, the two governments. In future, the Group will leverage the nation's vigorous development of Chinese Medicine and continue to promote project development till its implementation.

4. **Enriching the product portfolio continuously and enhancing the operation scale of the brand**

The Group will capture the increasing public awareness of healthcare products in the post-Pandemic era, leverage the resources of over 200,000 offline partner stores, actively launch diversified activities, proactively participate in cross-border collaboration, seek cooperation with various sports events and variety shows to allow our products to reach more consumers, and cooperate with pharmacies to establish experience scenarios that propagate our heartfelt products and form a sales close loop that accelerate sales.

The well-established product of the Group, Nin Jiom, has brought benefits to numerous consumers in relieving their pain during the escalated infection of the epidemic and has been widely propagated by patients spontaneously, resulting in panic buying and insufficient supply condition. As the consumer group continues to expand, the Group will strengthen the brand's promotion and experience, continuously conduct welfare activities such as "Lung Care China Tour" (養肺中國行), "the Youth to Accompany the Old" (青春伴夕陽), "We Share Your Pain" (你的痛我懂) and "Cool Summer" (清涼一夏), reach out to campuses and the society to promote healthcare concepts and services.

Demand for healthcare products and services for chronic diseases has been fostered continuously by the evolution of the ageing society. The Group will continue to explore the maintenance of existing products for the daily home healthcare management of the elderly in the future. At the same time, we are cooperating with a variety of domestic and foreign well-established products with excellent quality, enriching the existing product portfolio, leveraging channel network resources and the efficiency of the professional marketing team to deliver more well-established products with excellent quality to our cooperation partners.

5. **Promote the launch of self-developed brands and products to achieve good results**

According to the Research Report on Healthcare Reforms in the PRC jointly issued by the World Health Organisation and several ministries including the former National Health and Family Planning Commission, the population with chronic diseases in the PRC reached approximately 300 million (with cardiovascular and cerebrovascular diseases, diabetes, cancer and chronic respiratory diseases as the common chronic diseases among Chinese people), when the population with chronic diseases has been rising due to the intensification of ageing of society, putting a heavy burden on the country and the people. Accordingly, prevention and treatment of chronic diseases become a major concern to the public and the people with more and more people paying attention and starting to live healthy lifestyles, including the consumption of quality fish oil products as a way of healthcare through prevention and treatment of cardiovascular and cerebrovascular diseases in their daily lives.

The Group has been promoting Innopharm's fish oil product for which the Group has completed relevant procedures of registration for its independent intellectual property right and product proofing. This product is rich in active ingredients and is easily absorbed. With fish oil that has higher purity of Omega-3, this product has a balanced mix of ingredients, with EPA and DHA in reasonable proportions. We believe that there would be a promising development prospect for this product as it will be brought quickly to the market to cater needs of the consumers following its official launch in the future with the Group's sales strategies and network.

The testing work of several pharmaceutical products under the Group's self-developed brands will be completed and launched to the market soon, injecting new impetus into efforts of marketing the Group's product portfolio and creating better results.

6. Strengthen and expand e-commerce business to enhance comprehensive competitiveness of the Group

According to industry data monitoring reports and forecast based on predictive models released by Sinohealth (中康 CMH), the annual sales revenue from e-commerce pharmacies on business-to-consumer (B2C) market in China amounted to RMB96.1 billion in 2022, representing a year-on-year increase of 27.0% compared with the last year; of which, with the impact of the national policies of Pandemic prevention and control, there was a year-on-year increase of 68.4% in the B2C market for December 2022 to a total of RMB11.3 billion. In terms of channels, offline retail pharmacies continued to dominate the market, with a market share of 85% for the year 2022 and a size of RMB542.1 billion, representing a year-on-year increase of 10.2%, the highest growth in nearly 5 years. In terms of the trend, however, market share of and contribution from the B2C market in the last three years, with a market share of 15% for 2022 and representing a year-on-year increase of 2.0% compared with last year.

With continuous restructuring and optimisation, the Group has been enriching its e-commerce portfolio and products, which achieved good sales in high-margin products that was driven by the number of customers, thus improving the total gross profit. With improvement in professional capabilities of its e-commerce operation team, the Group will respond quickly to market conditions and follow the favourable trend of the rapid development of pharmaceutical e-commerce, so as to enhance the contribution to sales from pharmaceutical e-commerce.

Meanwhile, the non-pharmaceutical e-commerce business under the Group will keep up with changes in touch points and behaviours of consumers, so as to develop promotion strategies that keep abreast with time while expanding its market share and sales.

7. Achieve more reasonable management on investment and financing, with a focus on diversified investment in related industries

The Group will further enhance its own investing and financing capabilities, optimise the corporate capital structure, and strengthen the management of joint ventures and mergers and acquisitions such as Dong Di Xin and Hong Kong Fat Chi; the Group will select quality upstream entities for investment, so as to gain products and R&D capabilities. The Group will speed up its industrial layout, take advantage of Longde Health Industrial Park to establish an integrated and intelligent service platform including industries, businesses and financing institutions for the pharmaceutical supply chain, and continuously improve and optimise the construction of the comprehensive health business system.

8. Expand the investment in R&D of medical devices and improve the technologies for the products

The Group will continue to increase investment in R&D work of Dong Di Xin by stepping up the construction of the smart manufacturing centre of the facility and improving quality of the products. The Group will continue to actively pursue its "going global" strategy by adopting various means of marketing and promotion, so as to enhance global awareness of our products and the Company. The Group will benchmark against global first-class rehabilitation and healthcare companies, thereby developing Dong Di Xin into a global first-class rehabilitation and healthcare company.

9. Refine all types of incentives to ensure the implementation of the Fifth Five-Year Strategic Development Plan

The Group fully recognise the critical role of outstanding external talents in pursuing the development of the Company. Accordingly, the Group reviews the indicators for its business performance and incentive policies with reference to the situation of the talent pool within the industry, so as to develop incentive measures for motivating sales personnel and key management personnel. By strengthening its value with its corporate culture, and by improving skills and comprehensive quality of the employees, the Group attracts talents with a good career development environment, attract outstanding talents with all types of incentive, stabilise and develop the talent team, and continuously improve the talent development platform to promote the long-term stable development of the Company and its employees.

HUMAN RESOURCES AND TRAINING

As at 31 December 2022, the Group had a total of 1,037 employees, of whom 138 worked at the Group's headquarters in Shenzhen, and 434 were stationed in 34 regions mainly responsible for sales and marketing, and 465 worked at Dong Di Xin. The total staff cost for the Year Under Review amounted to approximately RMB145,766,000 (2021: approximately RMB145,092,000). The Group releases an annual sales guideline on a yearly basis, setting out the annual sales targets and formulating quarterly sales strategies to provide sales and marketing guidelines for all representative offices and their staff. The Group has a management team with extensive industry experience (including the sales directors and product managers), which is responsible for coordinating front-line sales and marketing teams to meet the annual sales targets.

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

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

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

DIVIDENDS

To extend the Company's gratitude for the support of our Shareholders, the Board has recommended the distribution of a final dividend for the year ended 31 December 2022 of HK2.47 cents per share to Shareholders whose names appear on the register of members of the Company on Thursday, 8 June 2023, amounting to approximately HK$15,376,000 (equivalent to approximately RMB13,571,000), subject to the approval of the Shareholders at the Company's forthcoming annual general meeting to be held on Monday, 29 May 2023. Total dividend payout ratio is approximately 60.0% of the profit for the year attributable to owners of the Company. The above-mentioned final dividend is expected to be paid on or before Friday, 30 June 2023.

CLOSURE OF THE REGISTER OF MEMBERS

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

The register of members of the Company will be closed from Tuesday, 23 May 2023 to Monday, 29 May 2023 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for attending and voting at the forthcoming annual general meeting, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration no later than 4:30 p.m. on Monday, 22 May 2023.

To qualify for the proposed final dividends

The register of members of the Company will be closed fraom Monday, 5 June 2023 to Thursday, 8 June 2023 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for receiving the proposed final dividends, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration no later than 4:30 p.m. on Friday, 2 June 2023.

SHARE OPTION SCHEME

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

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

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

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

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

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

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

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

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

All share options granted under the Share Option Scheme were lapsed as at 31 December 2021. No share option was granted under the New Share Option Scheme during the Year Under Review.

SHARE AWARD SCHEME

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

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

As disclosed in the announcement of the Company dated 13 July 2022, the Board has resolved to further increase the Scheme Limit to 46,000,000 Shares, being approximately 7.39% of the issued share capital of the Company as at the date of this announcement (subject to adjustment in the event of sub-division of Shares, consolidation of Shares or bonus issue in accordance with the Award Scheme Rules) with effect from 13 July 2022. Please refer to the announcement of the Company dated 13 July 2022 for further details.

Up to 31 December 2021 and during the year ended 31 December 2022, the Trustee has purchased in aggregate 16,000,000 and 8,484,000 shares of the Company, respectively, from the market for the purpose of the Share Award Scheme. The Board resolved to grant the Award with an aggregate of 1,556,000 Awarded Shares on 21 January 2022 to 73 Selected Participants under the Share Award Scheme at nil consideration, among which 384,000 Awarded Shares were granted to 12 Selected Participants who are Connected Grantees and 1,172,000 Awarded Shares were granted to 61 Selected Participants who are Non-connected Grantees. The Awarded Shares represent approximately 0.25% of the total issued share capital of the Company as at the Date of Grant (being 622,500,000 Shares). The closing price of the Shares on the Date of Grant was HK$0.690 per Share and the average closing price of the Share for the five business days immediately preceding the Date of Grant was HK$0.702 per Share. Subject to the acceptance by the Grantees, the Awarded Shares shall be vested in the Grantees on 21 January 2022. Please refer to the announcement of the Company dated 21 January 2022 for further details.

The Share Award Scheme was adopted before the effective date (being 1 January 2023) of the new Chapter 17 of the Listing Rules. The Company will comply with the new Chapter 17 in accordance with the transitional arrangement provided for the existing share schemes. Where any grant of the Awarded Shares (as defined in the August Announcement) is proposed to be made to any person who is a connected person of the Company, the Company shall comply with the relevant provisions of the Listing Rules.

GOING CONCERN

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

PUBLIC FLOAT

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

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

For the year ended 31 December 2022, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

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

During the Year Under Review, the Company complied with the code provisions as set out in the CG Code, in force during the Year Under Review other than code provision 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 is the Chairman of the Board and the chief executive officer. The Board is in the opinion that having Mr. Zhao to carry out both roles can bring about strong and consistent leadership for the Group, and can be more effective in planning and implementing long-term business strategies. The Board also considers that since members of the Board include competent and independent non-executive Directors, this structure will not impair the balance of power and authority between the Board and its management in the business of the Group. The Board is in the opinion that the structure described above will be beneficial to the Company and its business.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

AUDIT COMMITTEE

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

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

During the Year Under Review, the Audit Committee had held two meetings and all the members attended the meetings. The work performed by the Audit Committee during the Year Under Review included reviewing the audited consolidated financial statements of the Group for the year ended 31 December 2021, the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2022 and the effectiveness of the internal control practices of the Group. The Audit Committee has also reviewed the audit plan and approach of the external auditor and monitored the progress and results of the audit regularly.

The Audit Committee also carried out corporate governance functions during the Year Under Review, including developing and reviewing the Company's policies and practices on corporate governance and other duties prescribed under code provision D.2.1 of the CG Code.

The Audit Committee has, together with the management of the Company and external independent auditor, reviewed the consolidated financial statements for the year ended 31 December 2022, this results announcement, the annual report, the accounting principles and practices adopted by the Group, as well as the risk management and internal control systems of the Group for the Year Under Review, and agreed with the accounting treatments adopted by the Group, and was of the opinion that the preparation of the financial statements in this announcement complies with the applicable accounting standards and the requirements under the Listing Rules and adequate disclosures have been made.

EVENTS AFTER THE REPORTING PERIOD

There is no material event after the reporting period as at the date of this announcement.

DISCLOSURE OF INFORMATION

This results announcement is published on the website of the Stock Exchange (http://www.hkexnews.hk) under "Listed Company Information" and the website of the Company (http://www.kingworld.com.cn) under "Investor Relations". The annual report for the year ended 31 December 2022 containing all necessary information as required by the Listing Rules will be sent to the Shareholders in due course, and will be published on the website of the Stock Exchange (http://www.hkexnews.hk) under "Listed Company Information" and the website of the Company (http://www.kingworld.com.cn) under "Investor Relations".

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

Hong Kong, 30 March 2023

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