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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 01110)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2023**

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2023	2022	% Changes
	(unaudited)	(unaudited)	Increase/ (Decrease)
	RMB'000	RMB'000	
Financial Highlights			
Revenue	553,017	419,647	31.8%
Cost of sales	(398,328)	(285,951)	39.3%
Gross profit	154,689	133,696	15.7%
Gross profit margin	28.0%	31.9%	(3.9)% points
Profit for the period	47,701	35,103	35.9%
Profit attributable to owners of the Company	37,727	24,213	55.8%
Basic earnings per share (RMB cents)	6.38	3.99	59.9%

The board (the “**Board**”) of directors (the “**Directors**”) of Kingworld Medicines Group Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) is pleased to announce the unaudited consolidated results of the Group for the six months ended 30 June 2023 (the “**Reporting Period**”) together with the comparative figures for the six months ended 30 June 2022 with the selected notes as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2023 - UNAUDITED

	Note	Six months ended 30 June	
		2023 (unaudited) RMB'000	2022 (unaudited) RMB'000
Revenue	4	553,017	419,647
Cost of sales		(398,328)	(285,951)
Gross profit		154,689	133,696
Other revenue	7(a)	6,317	5,000
Other income and other losses, net	7(b)	(1,987)	9,540
Selling and distribution costs		(54,662)	(49,401)
Administrative expenses		(47,347)	(45,313)
Amortisation of intangible assets		(135)	(6,785)
Valuation gain on investment properties		3,330	–
Profit from operations		60,205	46,737
Finance costs	8(a)	(9,460)	(8,659)
Share of profit of a joint venture		6,576	4,113
Share of profit of an associate		334	38
Profit before taxation	8	57,655	42,229
Income tax	9	(9,954)	(7,126)
Profit for the period		47,701	35,103
Attributable to:			
Owners of the Company		37,727	24,213
Non-controlling interests		9,974	10,890
Profit for the period		47,701	35,103
Earnings per share	11		
Basic and diluted (RMB cents)		6.38	3.99

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2023 - UNAUDITED

	Six months ended 30 June	
	2023 (unaudited) RMB'000	2022 (unaudited) RMB'000
Profit for the period	<u>47,701</u>	<u>35,103</u>
Other comprehensive income for the period		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside the PRC	<u>13,767</u>	<u>(1,284)</u>
	<u>13,767</u>	<u>(1,284)</u>
Total comprehensive income for the period (net of tax)	<u>61,468</u>	<u>33,819</u>
Attributable to:		
Owners of the Company	51,494	22,929
Non-controlling interests	<u>9,974</u>	<u>10,890</u>
Total comprehensive income for the period	<u>61,468</u>	<u>33,819</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2023 - UNAUDITED

	Note	30 June 2023 (unaudited) RMB'000	31 December 2022 (audited) RMB'000
Non-current assets			
Right-of-use assets		112,758	117,370
Property, plant and equipment		226,619	182,524
Investment properties		117,830	114,500
Interest in a joint venture		89,947	83,370
Interest in an associate		9,049	8,584
Goodwill		90,693	90,693
Intangible assets		–	134
Financial assets at fair value through profit or loss		45,375	6,792
Financial assets at fair value through other comprehensive income		35,785	35,076
		<u>728,056</u>	<u>639,043</u>
Current assets			
Inventories		91,292	84,764
Trade and other receivables	12	279,383	283,389
Financial assets at fair value through profit or loss		14,491	14,012
Cash and cash equivalents		256,566	242,155
		<u>641,732</u>	<u>624,320</u>
Current liabilities			
Contract liabilities		62,763	57,538
Trade and other payables	13	209,008	188,405
Bank loans		284,585	271,285
Lease liabilities		7,943	8,006
Tax payable		19,627	16,507
		<u>583,926</u>	<u>541,741</u>
Net current assets		<u>57,806</u>	<u>82,579</u>
Total assets less current liabilities		<u>785,862</u>	<u>721,622</u>

	Note	30 June 2023 (unaudited) RMB'000	31 December 2022 (audited) RMB'000
Non-current liabilities			
Lease liabilities		10,211	11,385
Deferred tax liabilities		17,038	15,422
Deferred income - capital		600	600
		<u>27,849</u>	<u>27,407</u>
NET ASSETS		<u>758,013</u>	<u>694,215</u>
CAPITAL AND RESERVES			
Share capital		53,468	53,468
Reserves		615,933	562,109
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		669,401	615,577
NON-CONTROLLING INTERESTS		88,612	78,638
TOTAL EQUITY		<u>758,013</u>	<u>694,215</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2023 - UNAUDITED

1. GENERAL INFORMATION

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

2. BASIS OF PREPARATION

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

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

The unaudited interim results announcement contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of the events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2022 annual financial statements. The condensed consolidated financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which term collectively includes HKASs and Interpretations issued by the HKICPA.

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

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2022, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards for the first time for the current period's financial information:

HKFRS 17	<i>Insurance Contracts</i>
Amendments to HKFRS 17	<i>Insurance Contracts</i>
Amendment to HKFRS 17	<i>Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information</i>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to HKAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

The adoption of the above new and revised HKFRSs does not have a significant impact on the preparation of the Group's unaudited interim condensed consolidated financial information.

4. REVENUE

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

	Six months ended 30 June	
	2023	2022
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Sales of		
– pharmaceutical products	366,196	222,402
– healthcare products	77,850	57,856
– medical devices	108,971	139,389
	553,017	419,647
Timing of revenue recognition		
– A point in time	553,017	419,647

5. SEGMENT INFORMATION

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

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

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

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

For the six months ended 30 June	Distribution sales of pharmaceutical and healthcare products				Manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices		Total	
	Hong Kong		PRC		PRC			
	2023 (unaudited) RMB'000	2022 (unaudited) RMB'000	2023 (unaudited) RMB'000	2022 (unaudited) RMB'000	2023 (unaudited) RMB'000	2022 (unaudited) RMB'000	2023 (unaudited) RMB'000	2022 (unaudited) RMB'000
Revenue from external customers	25,627	22,679	418,419	257,579	108,971	139,389	553,017	419,647
Inter-segment revenue	2,943	2,571	5,242	3,318	-	-	8,185	5,889
Reportable segment revenue	<u>28,570</u>	<u>25,250</u>	<u>423,661</u>	<u>260,897</u>	<u>108,971</u>	<u>139,389</u>	<u>561,202</u>	<u>425,536</u>
Reportable segment profit/(loss) (adjusted EBITDA)	<u>579</u>	<u>(3,011)</u>	<u>61,323</u>	<u>40,989</u>	<u>29,307</u>	<u>39,895</u>	<u>91,209</u>	<u>77,873</u>
	30 June 2023 (unaudited) RMB'000	31 December 2022 (audited) RMB'000	30 June 2023 (unaudited) RMB'000	31 December 2022 (audited) RMB'000	30 June 2023 (unaudited) RMB'000	31 December 2022 (audited) RMB'000	30 June 2023 (unaudited) RMB'000	31 December 2022 (audited) RMB'000
Reportable segment assets	42,749	38,169	658,811	584,052	406,460	358,328	1,108,020	980,549
Reportable segment liabilities	<u>22,438</u>	<u>19,683</u>	<u>350,862</u>	<u>313,257</u>	<u>95,463</u>	<u>84,481</u>	<u>468,763</u>	<u>417,421</u>

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

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

	Six months ended 30 June	
	2023 (unaudited) RMB'000	2022 (unaudited) RMB'000
Reportable segment profit derived from the Group's external customers and joint venture	91,209	77,873
Depreciation and amortisation	(18,791)	(21,934)
Finance costs	(9,460)	(8,659)
Unallocated head office and corporate expenses	<u>(5,303)</u>	<u>(5,051)</u>
Consolidated profit before taxation	<u>57,655</u>	<u>42,229</u>

6. SEASONALITY OF OPERATIONS

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

7. OTHER REVENUE, INCOME AND OTHER LOSSES, NET

	Six months ended 30 June	
	2023 (unaudited) RMB'000	2022 (unaudited) RMB'000
(a) Other revenue		
Total interest income on financial assets not at fair value through profit or loss:		
Bank interest income	734	182
Interest income from financial assets at fair value through other comprehensive income	145	239
Gross rental income from investment properties	1,558	1,093
Promotional service income	3,880	3,486
	<u>6,317</u>	<u>5,000</u>
(b) Other income and other losses, net		
Government grants (note)	816	966
Change in fair value of financial assets at fair value through profit or loss	(1,610)	5,036
Exchange (loss)/gain, net	(303)	3,603
Others	(890)	(65)
	<u>(1,987)</u>	<u>9,540</u>
Total	<u><u>4,330</u></u>	<u><u>14,540</u></u>

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

8. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2023 (unaudited) RMB'000	2022 (unaudited) RMB'000
(a) Finance costs		
Total interest expense on financial liabilities not at fair value through profit or loss:		
Interest on bank loans	9,044	8,155
Interest on lease liabilities	416	504
	<hr/>	<hr/>
Total finance costs	9,460	8,659
	<hr/> <hr/>	<hr/> <hr/>
(b) Other items		
Amortisation of intangible assets	135	6,785
Cost of inventories sold	398,328	285,951
Staff costs	73,441	74,722
Depreciation of property, plant and equipment	6,289	5,972
Amortisation of right-of-use assets	5,098	5,023
Rental income from investment properties less direct outgoings of RMB173,000 (six months ended 30 June 2022: RMB169,000)	(1,075)	(924)
Research and development cost	6,433	8,084
Payment for share award scheme expense	2,330	687
	<hr/> <hr/>	<hr/> <hr/>

9. INCOME TAX

	Six months ended 30 June	
	2023 (unaudited) RMB'000	2022 (unaudited) RMB'000
Hong Kong Profits Tax		
Current period	(938)	(827)
PRC Enterprise Income Tax		
Current period	<u>10,892</u>	<u>7,953</u>
	<u>9,954</u>	<u>7,126</u>
Deferred tax		
Origination and reversal of temporary differences	<u>-</u>	<u>-</u>
	<u>9,954</u>	<u>7,126</u>

Notes:

- i) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.
- ii) On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of assessable profits of qualifying corporations will be taxed at 8.25%, and assessable profits above HK\$2 million will be taxed at 16.5%. The assessable profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. The two-tiered profits tax rates regime is applicable to the Group for the six months ended 30 June 2023 and 2022.
- iii) The PRC Enterprise Income Tax charge of the Group during the six months ended 30 June 2023 and 2022 represented mainly the PRC Enterprise Income Tax charge on the Group’s PRC subsidiaries, Shenzhen Kingworld Medicine Company Limited, and Shenzhen Dong Di Xin Technology Company Limited (“Dong Di Xin”) are based on a statutory rate of 25% (six months ended 30 June 2022: 25%), except for Dong Di Xin, which is based on a preferential income tax rate of 15% (six months ended 30 June 2022: 15%).
- iv) Under the New EIT Law and its implementation rules, dividends receivable by non-PRC resident enterprises from PRC resident enterprises are subject to withholding tax at a rate of 10% unless reduced by tax treaties or agreements. Under the Agreement between the Mainland China and Hong Kong Special Administration Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion, or Mainland China/HKSAR DTA, Hong Kong corporate tax residents which hold 25% or more of a PRC enterprise are entitled to a reduced dividend withholding tax rate of 5%. Pursuant to CaiShui [2008] No. 1 Notice on Certain Preferential Enterprise Income Tax Policies, undistributed profits generated prior to 1 January 2008 are exempted from such withholding tax. Accordingly, dividends receivable by the Group’s investment holding company in Hong Kong from the PRC subsidiaries in respect of profits earned since 1 January 2008 will be subject to 5% withholding tax.

10. DIVIDENDS

- a) The Company's directors did not recommend the payment of an interim dividend for the six months ended 30 June 2023 and 2022.
- b) Dividends payable to owners of the Company attributable to the previous financial year, approved and paid during the Reporting Period:

	Six months ended 30 June	
	2023	2022
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Final dividend in respect of the previous financial year ended, approved and paid during the Reporting Period, of HK2.47 cents (equivalent to approximately RMB2.18 cents) (2022: HK2.39 cents (equivalent to approximately RMB1.95 cents))	13,517	12,138

11. EARNINGS PER SHARE

(a) *Basic earnings per share*

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

i) *Profit attributable to owners of the Company*

	Six months ended 30 June	
	2023	2022
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Profit for the period attributable to owners of the Company	<u>37,727</u>	<u>24,213</u>
Earnings for the purpose of basic earnings per share	<u>37,727</u>	<u>24,213</u>

ii) *Weighted average number of ordinary shares*

	Six months ended 30 June	
	2023	2022
	(unaudited)	(unaudited)
Weighted average number of ordinary shares in issue	622,500,000	622,500,000
Weighted average effect of shares repurchased and held under share award scheme	<u>(31,143,425)</u>	<u>(14,957,503)</u>
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>591,356,575</u>	<u>607,542,497</u>

(b) *Diluted earnings per share*

Diluted earnings per share for the six months ended 30 June 2023 and 2022 was the same as the basic earnings per share because that the exercise price of the share options granted was higher than the weighted average market price of the Company's shares during the six months ended 30 June 2023 and 2022. As the conversion or exercise of the share options would have an anti-dilutive effect on earnings per share, the calculation of diluted earnings per share does not assume conversion or exercise of potential ordinary shares of the share options.

12. TRADE AND OTHER RECEIVABLES

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

	At 30 June 2023 (unaudited) RMB'000	At 31 December 2022 (audited) RMB'000
0-90 days	77,098	65,774
91-120 days	9,791	5,108
121-180 days	2,562	1,881
181-365 days	858	133
	<hr/>	<hr/>
Total trade receivables, net of allowance for doubtful debts	90,309	72,896
Bills receivables	89,148	110,279
Other receivables	51,108	48,214
Amounts due from related parties	398	398
Amounts due from an associate	3,779	4,855
Amounts due from a joint venture	2	2
	<hr/>	<hr/>
Financial assets at amortised cost	234,744	236,644
Prepayments	13,656	13,801
Trade and other deposits	7,462	8,127
Trade deposits to related parties	23,521	24,817
	<hr/>	<hr/>
	279,383	283,389

13. TRADE AND OTHER PAYABLES

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

	At 30 June 2023 (unaudited) RMB'000	At 31 December 2022 (audited) RMB'000
0-90 days	142,511	134,188
91-180 days	4,669	4,599
	<hr/>	<hr/>
Total trade payables	147,180	138,787
Accruals	7,932	6,652
Amounts due to related parties	3,885	3,536
Other payables and customer deposits	48,363	38,624
	<hr/>	<hr/>
Financial liabilities measured at amortised cost	207,360	187,599
Value-added tax payable	1,648	806
	<hr/>	<hr/>
	209,008	188,405

14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the Reporting Period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET AND INDUSTRY REVIEW

1. Market recovers and consumers' spending becomes rational that present vast opportunities for product with higher cost-effectiveness

In the past decade, China's economy has experienced rapid development, residents' living standards have improved rapidly, and the Chinese market has huge consumption potential. During the past three years, most Chinese consumers put public health as top priority. Today, with the overall recovery of the economy and consumption, the Chinese consumer market is filled with new vitality, along with the emergence of new groups of people, new demands and new models, the Chinese consumer market is facing new opportunities and challenges.

The two sessions (NPC and CPPCC) of the PRC held in 2023 emphasised the importance of stabilizing the economy and set the target of economic growth at around 5% for the current year. Compared with the 3% growth rate in 2022, it shows that the government of the PRC has confidence and determination in stabilising expectations, boosting confidence and promoting growth. Meanwhile, the risk of world economic recession has increased, the growth of external demand has slowed down significantly, and the structure of international supply chain has been reshaping at an accelerated pace. The extremely severe development environment for foreign trade has become a foregone conclusion, and the export-driven and investment-driven economic growth model is changing to a consumption-driven model.

According to Deloitte's report, since the outbreak of the novel coronavirus (COVID-19) pandemic (the "**Pandemic**"), the usage scenarios and demands have been decreasing, with increasing economic pressure and uncertainties in life, the consumption concepts and spending behaviours of consumers have become more and more pragmatic and rational. Consumers have less impulsive consumption, put more attention on product quality and pursuit of cost-effectiveness, they are more detached from promotional activities and are willing to "shop around".

At present, consumers attach great importance to physical and mental health, hope to establish links with various health resources, and are trying to improve their lifestyle and quality of life to pursue a living with reality texture. The products and brands distributed by the Group have excellent quality and cost-effectiveness, which meet the needs of consumers in pursuit of quality life and rational consumption.

2. Chinese medicine policy continues to improve with both opportunities and challenges

2023 is the year of commencement to fully implement the spirit of the 20th National Congress of the Communist Party of China, and it is a crucial year to comprehensively build a modern socialist country and work towards the second centenary goal. At present, China has entered the stage of high-quality development, and the pharmaceutical industry is under all-round supervision. The strengthening of industry management and the application of innovative technology are helpful in promoting the sustainable, standardised and healthy development of the pharmaceutical industry.

During the Reporting Period, policies on the pharmaceutical industry have been issued frequently, and the state government have made adjustments to the medical insurance catalogue on a regular basis, which have steadily facilitated the publication of the 2022 version of the medical insurance catalogue, and the consultation draft on the adjustment plan for a new version of the medical insurance catalogue has been issued. At the meetings of the “two sessions”, representatives offered their opinions and suggestions. The Prime Minister delivered the government work report on the overall deployment of key tasks for the current year. In addition, the National Medical Insurance Bureau, the National Health Commission, the Drug Administration and other departments have also issued relevant documents to guide the development of various tasks. The National Medical Insurance Bureau issued documents mainly covering, among others, medical expenses protection, supervision of medical insurance fund, management of drug prices, spot management of medical insurance, services at out-patient clinics and cross-provincial medical treatment. The documents of the National Health Commission involve, among others, public hospital reform, medical and health services, rational use of drugs, hierarchical diagnosis and treatment, disease prevention and control. The drug regulatory authorities mainly issue relevant policy documents for drug standards, reference preparations, review and approval, and drug supervision, etc. Accordingly, the launch of a number of national and industrial policies present both opportunities and challenges.

Traditional Chinese medicine, being a treasure of the Chinese nation, has made indispensable contribution to the health of general citizens. The Party Central Committee and the State Council attach great importance to the work of traditional Chinese medicine. In 2023, they issued policies related to traditional Chinese medicine and proposed special regulations on the registration and management of traditional Chinese medicine and the implementation plans for, among others, major projects on the revitalization and development of traditional Chinese medicine. The Group’s products are mainly proprietary Chinese medicine products, of which Nin Jiom Pei Pa Koa, Taiko Seirogan and Kingworld Imada Red Flower Oil are all outstanding proprietary Chinese medicine products. The Group is accelerating the research and development of Chinese medicine products and investing upstream to continue expanding the advantages of proprietary Chinese medicine.

3. Retail business of pharmacies continue to recover, and pharmaceutical e-commerce develops rapidly

The pharmaceutical distribution industry is an important part of the national medical and health business and healthcare industry, and an important industry related to the health and safety of life of all citizens. The pharmaceutical distribution business plays an important role in connecting the upstream and downstream sectors in the pharmaceutical industry chain. With the development of China's economy and the trends of, among others, continuous deepening of the reforms of the pharmaceutical and healthcare systems, aging population, continuous growth of disposable income of residents and the pursuit of a quality life with better health, the increase in drug demand will continue to drive the steady growth in scale of the industry. In recent years, industry supervision has been continuously improved, transformation and upgrading of the industry has been accelerated, the pharmaceutical distribution industry has entered a new development stage in scale, digitisation and lean management.

Public hospitals are still the largest drug consumption terminals in China. However, with the increasing demand for disease and health management, as retail pharmacies cover all communities across the country and are closer to patients and more convenient for purchase of required drugs, the scale of drug sales in the retail pharmaceutical market has recorded continuous growth. In 2022, the market size of retail pharmacy in China reached approximately RMB501.5 billion, representing 26.85% of terminal sales (source of data: Chinese Pharmacy Magazine). In 2022, the total sales of the top 100 retail pharmaceutical companies was approximately RMB280 billion, representing 55.83% of the total retail market sales of physical pharmacies, of which the top 10 retail pharmaceutical companies accounted for 30.91% in total market share (source of data: Chinese Pharmacy Magazine). The industry concentration is also increasing at an accelerated pace. With more than 200,000 pharmacies that cover all parts of the PRC, closer cooperation established with the top 100 chain customers, and the strong end-user network, the Group has laid a sound foundation for introduction of new products and expansion of sales of existing products.

After the lifting of the Pandemic lockdown measures, the retail pharmacy market in China has recovered. The increasing customer traffic and unit price indicate that consumers are more aware of healthcare and are willing to increase spending in this area. According to data from Zhongkang Technology, in the first five months of 2023, the overall sales of out-of-hospital drugs reached RMB180.4 billion, representing a year-on-year increase of 10.81%. The best seller category is the influenza and heat clearing drugs, and the category of cough and expectorant drugs has the highest growth rate in sales among all sub-segments, recording a growth rate of 58.41% in sales and a sales amount of RMB9.7 billion. In other words, these two categories of drugs have driven the growth of pharmaceutical sales in the ex-hospital sector. Through market cultivation for the post "Yangkang" group (i.e. the recovering Covid-19 patients), we further enhanced brand awareness and loyalty of Nin Jiom Pei Pa Koa series of the Group.

Pharmaceutical e-commerce has entered a stage of rapid development, which is the necessary means for retail sales of pharmaceutical products in future. At present, the business scope of pharmaceutical e-commerce mainly focuses on over-the-counter drugs. The cross-border integration of pharmaceutical e-commerce will achieve gradual progress. The pharmaceutical e-commerce enterprises will leverage on advanced technologies such as internet, internet of things, big data and cloud computing to capture the first-mover advantages in providing value-added services for the entire industry. According to survey findings, as a result of benefiting from the omni-channel growth trend, the scale of pharmaceutical e-commerce market has reached approximately RMB97.8 billion, representing a year-on-year increase of 32.70%. The penetration rate of the domestic pharmaceutical e-commerce industry has increased year by year, there will be greater space for growth in the pharmaceutical e-commerce industry in the future. Looking forward, the Group will actively promote the development of our e-commerce business.

BUSINESS REVIEW

I. Highlights of pharmaceutical products segment

During the Reporting Period, the Group has achieved rapid growth in performance with the market recovery, with particular outstanding results for Nin Jiom Pei Pa Koa among the drugs distributed by the Group. The Group has captured the opportunity of strong demand for cough prevention and respiratory drug products from the post “Yangkang” group (i.e. the recovering Covid-19 patients) at the beginning of the year to quickly launch and sell the products through the Group’s SMART system and the cooperation with its partners, and carry out targeted marketing and promotional efforts and reaped a rich harvest in operating revenue from Nin Jiom Pei Pa Koa during the Reporting Period. There was a shortage of supply in the Group’s Taiko Seirogan due to its good quality and favourable comments from users, however, due to the reason of, among others, a global shortage in supply of goods, it has only recorded a modest growth. Kingworld Imada Red Flower Oil has recorded lower sales as compared to the same period last year, which was due to a larger base during the Reporting Period and a market pending acceptance by the customers as a result of a rise in the selling price during the second half of 2022; Enalapril has recorded a slight decrease in the sales as compared to the same period of last year, which was due to the fact that certain consumers have switched to prescription from hospitals as a result of reopening of hospitals after the Pandemic.

During the Reporting Period, the Group has adopted the following marketing strategies for the pharmaceutical segment:

1. Seizing the window opportunity in demand to enhance the sales of major products and enrich the portfolio of products

At the end of 2022, with the relaxation of epidemic preventive and control measures, the sales of the four drug categories, namely, “antipyretic, cough, antibacterial, and antiviral” have been relaxed from strict control, sales in the end market have gradually recovered. During the Reporting Period, the respiratory and immune systems of the “Yangkang” population were still recovering, which created demand in the fields of cough relief, breathing and immunity enhancement. And after the preventive and control measures of the Pandemic have been lifted, less people wore masks, and the prevalence of some respiratory infectious diseases, including influenza, was also returning, which also drove the sales of categories of related pharmaceutical products and intestinal diarrhoea medicine products. Therefore, the Group seized this rare window opportunity of demand, actively analysed the end market demand with channel partners, and formulated a distribution plan to ensure that the products could be on shelves as quickly as possible in the end market. Meanwhile, the Group adheres to the corporate mission of “Serving community and benefiting the world (效力世人, 潤澤蒼生)”. In order to ensure that the public can purchase urgently needed medicines at a reasonable price to relieve the pain after infection, the Company’s SMART system monitors the channel price system and gaps, and promptly stops shipments that do not meet the requirements of the price system and requires partners to correct them. Finally, with the joint efforts of our partners, we ushered in a boom in the sales of the two major products, the Nin Jiom Pei Pa Koa product series and the Taiko Seirogan. The sales of Nin Jiom Pei Pa Koa product series achieved a substantial year-on-year increase, while a modest increase in the sales of Taiko Seirogan was recorded due to insufficient supply.

During the Reporting Period, the Group obtained the cooperation authorisation for the promotion of Fortune Coltalin (幸福科達琳) in Shanghai, Henan, Anhui, Shaanxi and Gansu for three years, opening a new chapter of cooperation between the two parties. Fortune Pharmacal was founded in Hong Kong in 1954. For 24 consecutive years, the Cold, Flu and Cough series of the Fortune Pharmacal has achieved the No.1 sales in Hong Kong, China, and sold well in Europe and the United States. In 1993, Fortune Coltalin (幸福傷風素) entered the mainland Chinese market under the name of Fortune Coltalin (幸福科達琳) in mainland China. The product has been popular among the consumers across various regions such as Guangdong and Yunnan with an outstanding sales among four products, and become one of the preferred household medical products. The Group has obtained the authorisation of the renowned brand product, which demonstrates the Group's strength and control over consumption terminals. Fortune Coltalin and Nin Jiom Pei Pa Koa are well-known products originated from Hong Kong and are applied to fever as medicine. Accordingly, they shared common features at the end-user market. After the Pandemic, people have relaxed their Pandemic prevention awareness gradually, and the recurrence of respiratory illnesses have increased. The Group introduced the product with Nin Jiom Pei Pa Koa as a cross-over of a famous brand in Hong Kong.

In addition, Pu Ji Kang Gan Granules produced by Hong Kong Yuen Tai Pharmaceutical Limited, an affiliate of the Group, were also sold through cross-border pharmaceutical e-commerce when the epidemic prevention and control was lifted due to its excellent effect in combating flu and sooth respiratory discomfort.

2. Optimising channels, stabilising consumption terminals and boosting dynamic sales so as to improve customer adherence and satisfaction

During the Reporting Period, the Group continued to sort out and optimise the commercial layout, aiming at wider coverage, optimising channels, selecting high-quality commercial cooperation, leveraging on the expansion of goods distribution and coverage, and developing new consumption terminals while activating dormant consumption terminals to increase coverage rate.

The increase of consumption terminals distribution rate has made more consumers being able to see the drugs under the Group's brand-name in pharmacies. However, to make the consumers purchase the products requires the promotion of dynamic sales as the core goal. Through the improvement of display at consumption terminals, store staff training and incentives, consumer gift on purchases, price maintenance and other activities to enhance store staff confidence and stimulate consumer interest and desire to purchase, so that consumers can eventually develop loyalty after experiencing the products in good quality.

During the Reporting Period, the Group has established sound commercial cooperation and coverage, covering a total of approximately 150,000 chain pharmacies and individual pharmacies, approximately 20,000 primary medical institutions, more than 10,000 hospitals and clinics, as well as some convenience stores and supermarkets.

During the Reporting Period, the Group continued to improve customer adherence and satisfaction, formulated KA in-depth cooperation strategy, strengthened key account cooperation and establishment, and carried out special projects and dedicated personnel to enhance business adherence and customer satisfaction. The senior management of the headquarters has visited the key accounts in various regions multiple times in order to understand their market feedbacks, opinions and needs, so as to strengthened their insights into the dynamics of the first-line market and solved the existing problems in the area in a timely manner.

3. Multi-dimensional brand promotion to be closer to consumers

The Group pays attention to the market, grasps the consumption trend, and carries out online and offline multi-dimensional brand promotion around product promotion to better align with the minds of consumers.

During the Reporting Period, the Group carried out various forms of offline promotion such as brand promotion activities, outdoor advertisements, elevator advertisements and community activities. For example, Nin Jiom carried out brand activities such as filial piety project, respiratory system health carnival, meet your celebrities, etc., which allowed more consumers to join the activities and have a better understanding of our social responsibilities and the quality of our products. Taiko Seirogan has launched a university entrance examination caring activities and Enalapril has launched public welfare activities such as free checking for H-type hypertension. After the Pandemic, consumers are more concerned about their health, and outdoor activities that takes into account the attributes of fitness and socialisation are also favoured by consumers. During the Reporting Period, Kingworld Imada Red Flower Oil of the Group carried out events such as Shenzhen Wutong Mountain Leisure Run (深圳梧桐山歡樂跑), Shenzhen Baoan Marathon (深圳寶安馬拉松), Hangzhou Xianghu Half Marathon (杭州湘湖半程馬拉松) and Shenzhen-Hong Kong-Macao Youth Team Tennis Invitational (深港澳青年網球團體邀請賽), in particular, Kingworld Imada Red Flower Oil was used as the designated topical medicated oil for Shenzhen Baoan Marathon with nearly 20,000 participants. In addition, safflower oil also adheres to the red gene, and continues to cooperate with the Shenzhen Action Charity Foundation (深圳市關愛行動公益基金會) to carry out care for veterans activities and launched a gentle hand massage services for veterans, which has been well received by the majority of veterans. These promoting activities with a focus on targeted groups have further enhanced the awareness of our products, while allowing consumers to experience the quality of our products as well as our social responsibilities and care for the community.

During the Reporting Period, the Group carried out nationwide public transportation advertisements and subway advertisements for various agency products. At the consumption terminals, we pay more attention to the establishment of sales atmosphere and the establishment of flagship stores. We also interact with pharmacies and consumers to carry out activities on Women's Day, Dragon Boat Festival etc. and the care of candidates for the high school and university entrance examination.

For online segment, the Group observes from the consumers' reviews and their visual perspectives that the consumers increasingly prefer interesting, friendly and welcoming brands, and the Group strives to transform consumers from passive recipients of our brand to active participants and communicators. Through channels such as product title in the traffic column, we-media voicing, authoritative articles, press release topics, online media display, product sharing and short video creation, we strengthened the establishment of a stronger and more harmonious emotional bond with consumers. During the Reporting Period, Nin Jiom was the title sponsor of *The Knockout* (狂飆) on iQIYI, with a viewership rating of over 1 billion, creating a popularity of viewership and enduring topics; and the title sponsorship of the variety show *Come Sing with Me* (我想和你唱) on Hunan Satellite TV further consolidated and expanded the young consumer base. Other pharmaceuticals such as Red Flower Oil also used short videos platforms such as Douyin and Kuaishou as their communication base to strengthen communication with young consumers, thereby presenting effectiveness and scenario in a convenient and interesting way and gaining access to consumers for further sales. Through e-commerce platforms, Taiko Seirogan optimised product promotion and advertising pictures and launched search direct cards to attract new consumers and expand the consumer base.

4. *Expanding sales of prescription drug products with medical and professional expertise*

The Group has two prescription drug products, namely Enalapril and Jianfu Capsules (健婦膠囊), which fall into two major categories, namely cardiovascular and female infertility. The prospects of these two products are promising against the backdrop of the social trend of severe aging population and rising infertility rate.

During the Reporting Period, the Group has worked with chain store pharmacies and doctors to launch various seminars on high blood pressures and actively disseminated the danger of high blood pressure, thereby allowing the people and in particular elderly and the patients to understand relationship between high pressure and hemorrhagic stroke, in order to provide education to the people on prevention of disease and health management. We have actively explored the sales of prescription drug products through OTC, and have promoted the sales of Enalapril and achieved certain progress. During the Reporting Period, the number of dynamic sales customers of Enalapril was 9,526, representing a year-on-year increase of 7.4%. In terms of the clinical exploration of Jianfu Capsule, the Group has examined the effects of the product through data and articles by partners and doctors, thereby allowing more doctors to have awareness of the products and relieving troubles for the patients.

II. Highlights of healthcare and daily chemical segment

Healthcare products and daily chemical products are the second largest business segment of the Group, including Culturelle probiotics, the largest sales volume of Probiotics in the United States, Life's DHA series, the earliest algae oil series, and the Carmex lip balm which sells 170 items per minute. During the Reporting Period, the Group benefited from the rebound of visitor flow to Hong Kong and the trend of consumers' increasing demand for brand quality and price-performance ratio, which led to the substantial increase of the healthcare daily chemical business year-on-year, while the sales of CARMEX decreased, which was due to non-peak seasons and a decrease in sales of gloss products. During the Reporting Period, the Group has adopted the following marketing strategies for the healthcare and daily chemical segment:

1. *Capitalize on circumstances to explore business opportunities*

During the Reporting Period, the Group's Hong Kong team seized the opportunity of the rebound in visitor traffic to Hong Kong, strengthened the sales force, formulated online and offline promotion strategies that met the market needs, improved team efficiency, maintained and consolidated the constituents of existing market channels in Hong Kong and Macau such as distributors, chain stores, wholesalers, supermarkets, dealers and pharmacies, with Culturelle probiotics as the pillar product, and took advantage of the introduction of new products such as female probiotics as an opportunity to vigorously explore business opportunities and achieved the outstanding performance of a year-on-year growth. Among which, life's DHA recorded an increase by 42.2% and Culturelle probiotics has recorded an increase by 68.1%.

2. *Develop production channels, cultivate and optimize production platforms*

With consumers who pay more attention to safety, quality and health, there is a promising prospects for DHA products. Our DHA products have recorded an increase of 50% in online sales, substantially outperforming that of other products. As a pioneer of DHA products, and a well-known leading player in terms of DHA and the related technologies, Life's DHA, which have strong brand influence and superior product quality, have been favoured by consumers. The sales of Life's DHA has been increasing since its distribution by the Group. During the Reporting Period, the products of the Life's DHA series has recorded a rapid increase in sales and was among the JD 618 selling list. During the Reporting Period, the Group optimised the promotional methods on platforms (Tmall Global, JD.com, Kaola, Vipshop, Ali Health).

The Group continued to optimize platforms, optimize production and select high-quality live streaming talents (Kuaishou live streaming and Taobao live streaming) to promote creative marketing and conversion through content short videos on JD.com. By focusing on cultivating professional mother and baby production platforms, market products through posts+e-commerce to enhance the loyalty of mother groups, for example, the GMV of Nico Mama (年糕媽媽) reached as high as 81W+. Weibo has also cooperated with talents of, among others, Shanshan (珊珊) and Zhongyaobu (中腰部) to achieve higher sales through enhance cooperation with production talents, and targeted promotion and marketing to customers with conversion rate as the target.

3. *Building the e-commerce business ecosystem*

A few years ago, the Group kept pace with the times, complied with the “Internet +” trend, upgrading its business model from “Internet plus” to “Plus internet” and vigorously expanded its e-commerce business, especially the opening of the overseas flagship store of Kingworld Health Home, which was one of the first batch of flagship stores to obtain approval for pilot cross-border pharmaceutical e-commerce. Since its opening in 2021, the product categories introduced have been enriching continuously to over 100 SKUs, covering various regions such as Hong Kong, Japan, the US, Germany and Southeast Asia. Among them, there are 7 managed and self-owned brands, with rising sales and gross profit margins, ranking the top 30 among the TOP stores.

At present, Kingworld e-commerce has formed an initial ecosystem through public domain traffic promotion, private domain traffic promotion, medical platform promotion and generation of GMV from online sales platform of products, so as to build a supply chain ecosystem for sharing information and mutual benefit.

The Group has also performed trial operation of the e-commerce business and mobilised motives of all parties and achieved good results. During the Reporting Period, the Group has further promoted the formal operation of this business unit and formulated and improved the plan for ecosystem partners of cross-border OTC projects.

During the Reporting Period, “金活健康之家” of the Group ranked first on Tmall platform for the sales of its single items, with an outstanding gross profit margin of 40% of monthly sales of the stores. For sales in Hong Kong, the unit selling price on key channels such as those operated by Tmall and TDI increased by 15% and sales grew by over 160% through our efforts of expanding consumer base and more scenario as well as discounts for buying in bottles with raising unit price as the objective. LIFE’s DHA flagship, with a focus on attracting second purchase by members, gifts for members discounts for buying in boxes and other promoting activities, thereby better bringing targeted groups together. We have also achieved higher conversion through SMS, customers service and professional maintenance. In the PRC, our e-commerce department has reached more patients through our online chronic diseases management platform and has achieved preliminary result. Meanwhile, we established in-depth cooperation with JD by launching redemption of products across various brands for the first time. By doing so, we have exposure and conversion of our products increased by 300% as compared to that during our daily operation.

III. Highlights of the medical devices segment

The non-wholly owned subsidiary of the Group, Shenzhen Dong Di Xin Technology Company Limited (“**Dong Di Xin**”), is a national high-tech enterprise and was awarded the Shenzhen’s Professional, Refined, Specialised and New SME Award during the Reporting Period. Under the continuous influence of the international and domestic macro environment, the overall orders of Dong Di Xin decreased year-on-year. However, through active marketing and promotion, the market share of the major products increased significantly year-on-year with an increase in gross profit margin.

1. In terms of production

Dong Di Xin will continue to deepen and solidly promote the “6S management model of lean production” to ensure high-quality products. We continued to innovate the bidding and procurement methods of electronic components, which greatly reduced the cost of raw materials and ensured the Company’s gross profit margin to achieve the target level. Meanwhile, continuous efforts were exerted to deepen and improve the product quality system, after-sales service system and risk accident control system, laying a solid foundation for better serving global customers. In addition, various incentive measures were provided to key employees, which effectively ensured the normal operation of the production system and further improved efficiency.

2. In terms of sales

Dong Di Xin will actively “go global” by having face-to-face communication with customers and invite international customers to “come in” by conducting marketing through multiple channels and various methods and increase promotional efforts. After making these efforts, the Company’s product balance was optimized, and the market share of handheld therapeutic devices and professional desktop therapeutic devices increased significantly year-on-year, which improved the Company’s gross profit margin. We have participated in many international exhibitions and various domestic medical equipment or rehabilitation exhibitions. Through continuous product launches and a series of targeted marketing campaigns, the confidence of customers has been further boosted. We continue to increase investment and marketing efforts in our proprietary brand (NU-TEK) in the domestic market. So far, more than 20 provinces and cities across the nation are covered, and we have cooperated with more than 200 customers, and successfully entered more than 150 Class A hospitals, numerous outpatient clinics and rehabilitation physiotherapy institutions through bidding.

3. In terms of scientific research management

During the Reporting Period, Dong Di Xin has accumulated the ownership of 3 valid invention patents, 25 valid utility model patents, 1 valid design patents and 13 software copyrights. Among them, two of the utility model patents were authorized and announced during the Reporting Period. During the Reporting Period, a number of Dong Di Xin projects received support from government funds and were nominated for industrial development and innovative talent awards.

MANAGEMENT REVIEW

1. The construction of Longde Health Industrial Park is progressing smoothly with preparatory work going in an orderly manner

In the strategies of the Fifth Five-Year Plan formulated by the Group, emphasis is on continuous technological innovation. And the Kingworld•Longde Life and Health Industrial Park, which is under construction, will undertake this important mission and fulfill the strategic requirements. Over the years, the Group has been committed to promote the open up and integration of traditional Chinese medicine in Shenzhen and Hong Kong and the innovation of international layout of traditional Chinese medicine. Undertaking the mission of building and innovating the ecological partners of traditional Chinese medicine, The Kingworld•Longde Life and Health Industrial Park has been providing specialised biopharmaceutical hardware and equipment sharing platforms, and building the software for industry and academic integration platforms, including the “landing port for Hong Kong-based pharmaceutical products”, the “Shenzhen-Hong Kong Chinese medicine in-hospital preparation centre” and the “biopharmaceutical science and technology innovation training camp”, to provide multi-module services, such as “R&D planning, production and distribution for products”, “brand planning and patent layout” and “macro-trends and financing” for innovative ecological partners of traditional Chinese medicine. The Group adheres to the complementary and coordinated development of R&D and innovation + industry cultivation + distribution business, fully empowers innovative traditional Chinese medicine projects, creates a characteristic health industry ecological model, and promotes the inheritance, innovation and development of traditional Chinese medicine and industrial clustering.

During the Reporting Period, the overall construction of the Longde Industrial Park was 85% completed. Merchant solicitation work is also in full swing. In the meantime, the Group and Shenzhen Angel Fund of Funds have jointly held the “20+8” industry matching conference, and established two-way relationships with dozens of industrial enterprises, investment institutions and ecological partners in the biopharmaceutical, medical device and healthcare sectors.

The biopharmaceutical industry is one of the three leading industries to be developed in Longgang District, Shenzhen. During the Reporting Period, leaders of the government departments at all levels in Shenzhen and Longgang District of Shenzhen have visited Longde Industrial Park for investigation and guidance, listened to the needs of enterprises, and hoped that Longde will seize development opportunities and policy opportunities to drive ecological innovation in the biopharmaceutical industry in Longgang District to inject new vitality and promote new developments.

2. Equity incentives gather people’s hearts and work together for development

Subsequent to the initial grant of awards on 21 January 2022, the Group granted a total of 3,504,000 incentive shares at nil consideration to 79 selected participants on 6 April 2023 under the Share Award Scheme adopted by the Company on 27 August 2019. Of which, 1,044,000 awarded shares were granted to 14 selected participants who are connected grantees and 2,460,000 awarded shares were granted to 65 selected participants who are not connected grantees (the “Second Grant of Award”). This is a practical measure for the Group to further implement the Group’s Share Award Scheme to recognise the contributions by certain participants and to provide incentives in retaining the participants for the continual operation and development of the Group and to attract suitable personnel for further development of the Group. The implementation of the Share Award Scheme has greatly stimulated the morale of the employees, and the Group has achieved a year-on-year increase by 32% in sales performance during the Reporting Period.

3. Strengthen training for employees to enhance overall capabilities of our employees

The Group adheres to the people-oriented principle, focuses on the construction of corporate culture, enhances the cohesion of the enterprise and the sense of belonging of the employees. Under the guidance of the core value of “Everything is possible with mindset (有精神凡事有可能)”, the Group focuses on cultivating our employees’ mindset of growth and learning and has been encouraging them to keep learning. The strong corporate atmosphere of diligence and willingness to learn encourages every employee to continue learning and forge ahead, and ultimately achieve the common growth of the enterprise and employees. During the Reporting Period, the Group has organized dozens of programmes on mind and visual training for our employees from various functions of product knowledge, intellectual property right as well as new employees. Nearly a thousand of our employees have received training. The Group and Guangdong Food and Pharmaceutical Vocational College have been organizing the innovative “Kingworld Class” for more than ten years, providing Kingworld with a large number of excellent basic level employees. In July 2023, the Food and Drug Vocational College awarded the plaque of “Mobile Station for the Practice of Teacher Enterprise”.

4. Smooth development of new products has laid a sound foundation for the development of our Group

Products and services are the roots of our Group. During the Reporting Period, the Group has fully integrated resources in the industry and fully utilized our internal resources, cooperated and negotiated with a number of upstream manufacturers through market survey and effective marketing plans, and obtained the dealership of Fortune Coltalin in five provinces in the PRC. Meanwhile, the Group has reassessed the prospects of Kingworld series at the market and relaunched certain products that are closely connected to healthcare sectors, including Kingworld American Ginseng Capsule (金活西洋參膠囊). Furthermore, the Group is aware of the increasing demand for orthopedics products in an aging society, and has established cooperation with well-known enterprises in the PRC by launching crossover products. During the Reporting Period, the Group has entered into a strategic cooperation with Shanghai Goldpartner Biotech Co.,Ltd. by launching Kingworld-Goldpartner crossover Glucosamine products. The company focused on both quality of raw materials and reasonable proportions of raw materials, thereby developing nutrient supplements which are suitable for Chinese people, with an aim of being good partner of Chinese people in the area of health. Goldpartner was recognised as the TOP 500 valuable brands in the PRC in 2008. The Radix Paeoniae Alba Calcium capsule launched by Goldpartner is presented as a glucosamine youth capsule. It is rich in glucosamine and extracts of Radix Paeoniae Alba, and has been validated in animal experiments as an effective healthcare product in enhancing bone mineral density and immunity. With 40g of D-(+)-Glucosamine hydrochloride per 100g and extracts of Radix Paeoniae Alba, the product cures both symptom and root under Chinese and Western medical principles. With increasing aging people and people participating in sports exercise, the product is embracing a promising prospect.

In respect of the introduction of new health care products, the Group has been exploring development of new products with existing manufacturers and enriching types and specifications of its existing products, and has achieved certain progress. For example, Culturelle probiotics and new algae oil series will be launched. During the Reporting Period, the Group focused on the research and development of its own brands, keep up with the pace of launching new products of Innopharm in France, and planning of jointly launching the Herba Cistanche Probiotics (肉蓯蓉益生菌) project.

5. Investment and financing that promote extensive growth of the Group and thereby expansion of the Group

Adhering to the direction of investment in pharmaceutical and healthcare industry, the Group has fully leveraged its advantages as a listed company at the capital market, and as formed cooperation and alliance with other strong enterprises in upstream and downstream across the industrial chain through capital contribution, brands and cooperation. By doing so, the parties can mobilise their premium resources for rapid development of the Group. For example, the sales of Fo Ci Group in terms of market share soared upon the Group becoming its second largest shareholders, laying a sound foundation for the promotion of authentic Long Yao. Both the Board and the board of Fo Ci Group have confirmed matters relating to further development of new products and industrial cooperation in the future.

In April and August 2023, the Group subscribed for 2,178,400 shares and 1,007,500 shares, respectively, of Taiko Pharmaceutical Co., Ltd. (“Taiko Pharmaceutical”, stock code: 4574.JP), the total shareholding representing approximately 6.42% of the enlarged issued share capital of Taiko Pharmaceutical Taiko. Taiko Pharmaceutical is the supplier of Taiko Seirogans, one of the Group’s distribution of pharmaceutical products. The investment in Taiko Pharmaceutical is in line with the Group’s industrialisation strategy, which will help to promote business synergy and strengthen cooperation, and will also help the Group to expand new product business so as to serve public health.

During the Reporting Period, the capital system team of the Group investigated and analyzed dozens of projects and contacted 13 institutions and platforms during the Reporting Period. The projects are mainly distributed in innovative drugs, cell therapy, health care equipment, etc., of which healthcare and ophthalmic equipment projects account for more than one-third of the above projects.

6. Strengthen core capabilities and control risks

In light of changes that have not been seen in a century, the Group has been improving its internal management system, optimising its process and fully leveraging various IT techniques to ensure sound approving process, and has adopted our wechat official account and mini programme to speed up flow, transparency and pace of information transfer, in order to make quick response to market conditions and mitigate risks. At the same time, the Group has been strengthening management on goods and receivables with a focus on risk control. During the Reporting Period, the Group has managed to control receivables within maturity in changing and uncertain market conditions, and has been operating smoothly without any non-performing loan.

7. Serving community and make progress in public welfare

During the Reporting Period, the Group continued to uphold the corporate mission of “Serving community and benefiting the world (效力世人, 潤澤蒼生)”, actively fulfill its social responsibilities and strive to build a harmonious and graceful community of human beings.

In response to the national call, the Group actively contributes to rural revitalization, national health, and talent education and training. The Group also actively cares for the lives of veterans and launches public welfare campaigns and activities while contributing to environmental protection and caring for the health of monks. During the Reporting Period, the Company donated a total of more than RMB3 million in cash and in kind, and won the titles, including “Health Industry Charity Award (健康產業慈善公益獎)”, “The Public Welfare Education Support Unit (公益助學奉獻單位)”, “The Community Care for Veterans (退役軍人關愛共同體)”.

During the Reporting Period, the Group is committed to alleviating the poor and the needy. As the Group sponsored the construction of the Party Building Park in Chidu Village, Yujiao Town, Jiedong District, the Group received a “Rural revitalization promotes development, contributing to party building and genuine caring (鄉村振興促發展, 黨建助力獻真情)” pennant from its villagers committee and the general Party branch as a sign of gratitude. During the Reporting Period, the Group also donated in cash and in kind to cataract patients of Guangmingxing (光明行) projects through units such as Shenzhen Chaoqing Youth Association (深圳市潮青會) and more, and actively participated in rural revitalization. Zhao Kin Wai, assistant to the Chairman of the Group, participated in the 2023 Shenzhen, Hong Kong and Macau Representatives’ National Conditions Investigation Group (深圳港澳代表人士國情考察團), and went to Kashgar, the southern Xinjiang region, to participate in research and exchange activities, jointly explore the high-quality development path of the new Silk Road, and donated a batch of daily medicines to Kashgar with love.

During the Reporting Period, the Group, together with its subsidiary Kingworld Healthcare Foundation (金活關愛健康基金會), and the Shenzhen Project Care Foundation (深圳市關愛行動公益基金會), continued to carry out the community activities of “Caring for the Veterans with the Red Power of Shenzhen (紅動鵬城關愛老兵)” under the guidance of the Shenzhen Municipal Bureau of Veterans (深圳市退役軍人局). The Group carried out caring for veterans and caring for the underprivileged campaigns in Longgang District and Nanshan District in Shenzhen. The Group also took advantage of the benefits of Kingworld Imada Red Flower Oil to enhance their awareness of body massage and relieve common conditions in daily life.

In addition, the Group provided service project such as H-type hypertension screening, stroke risk genetic testing, mental health examination and disease prevention publicity for veterans.

The Group has been holding the large-scale public welfare activity during Vassa summer retreat for many years. During the Reporting Period, the Group donated Kingworld Imada Red Flower Oil, Nin Jiom Chuan Bei Pei Pa Koa and Pu Ji Kang Gan Granules and other medicines to hundreds of famous mountain monasteries in various provinces and cities across China during the monks’ meditation period according to the custom of Vassa to care for the health of monks and the believers, and to pray for common citizens.

During the Reporting Period, the Group continued to participate in various environmental protection activities of The Nature Conservancy and Taohuayuan Foundation to protect green waters and mountains, and donated patrol kits with Kingworld Imada Red Flower Oil and Pu Ji Kang Gan Granules to the rangers of six nature reserves under Taohuayuan Foundation. The rangers sent gratitude videos to expressed their appreciation to Kingworld as the kits were helpful during their patrols.

HONOURS

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

- In January 2023, the Group was awarded the Shenzhen Time-honoured Brand (深圳老字號) (Re-examination);
- In February 2023, Kingworld Imada Red Flower Oil became the designated topical medicinal oil for Wutong Leisure Run (梧桐歡樂跑) in Luohu District, Shenzhen;
- In March 2023, Shenzhen Dong Di Xin Technology Company Limited, a subsidiary of the Group, was successfully selected as the “Shenzhen’s Professional, Refined, Specialised and New Small and Medium-sized Enterprise (深圳市專精特新中小企業)”;
- In March 2023, Kingworld Imada Red Flower Oil became the designated topical medicated oil for the 2022 Shenzhen Baoan Marathon;
- In March 2023, the Group’s agent and distributor of Nin Jiom Chuan Bei Pei Pa Koa won the award of the “The Brand with Highest Recommendation Rate of Pharmacy Clerk In China 2022 (2022年度中國藥店店員推薦率最高品牌)”, and has been on the list for 17 consecutive years;
- In March 2023, the Group won the “Health Industry Charity Award” (健康產業慈善公益獎) and the “Consumer Trust Brand Award in the Health Industry” (健康產業消費者信賴品牌獎);
- In March 2023, Chan Lok San, the executive director of the Group, was featured in the Nanfang Daily’s “High-quality Development in Shenzhen with Women Power (高質量發展 深圳她力量)” character series, and was finally selected as the “Most Graceful Woman Power (最美她力量)”;
- In March 2023, the Group’s Kingworld Health Care Foundation was awarded as the “4th Urban Superman Care Project of the Ma Jialong Community as a Dream Realisation Ambassador Unit (家龍社區第四屆城市超人關愛計劃圓夢大使單位)”;
- In April 2023, Kingworld Imada Red Flower Oil became the designated topical medicinal oil for the Hangzhou Xianghu Half Marathon 2023 (2023杭州湘湖半程馬拉松);
- In May 2023, the Group won the honour of Shenzhen Well-known Brand (深圳知名品牌) 2023-2025;

- In May 2023, Zhao Li Sheng, the chairman of the board of Kingworld Medicines Group, was appointed as the chief president of the Federation of HK Shantou Community Organizations (香港汕頭社團總會);
- In June 2023, Kingworld Health Care Foundation was awarded the title of “Public Welfare Education and Dedication Unit 2022” (2022年度公益助學奉獻單位);
- In June 2023, Zhao Li Sheng, chairman of the board of the Group, was awarded an honorary director at the celebration of the “26th anniversary of Hong Kong’s handover to the mainland, the 34th anniversary of the establishment of the Hong Kong Friendship Association and the inauguration of the 9th Board of Directors (慶祝香港回歸祖國26週年、香港友好協進會成立34週年暨第九屆董事會就職典禮晚會)”;
- In June 2023, the Group won the Shenzhen Business Development Co-creation Award (深商發展同創獎);
- In June 2023, the Group was selected as a key enterprise in Shenzhen (深圳市骨幹企業);
- In June 2023, Nin Jiom, which is distributed by the Group, was listed in the “Top 100 Chinese Medicine Enterprises (中國中藥企業TOP100排行榜)”;
- In June 2023, Zhao Li Sheng, the chairman of the Board of Directors of the Group, was appointed as the honorary chairman of the organizing committee of the 16th World Chinese Entrepreneurs Conference (第16屆世界華商大會).

FINANCIAL REVIEW

1. Revenue

Revenue of the Group for the six months ended 30 June 2023 amounted to approximately RMB553,017,000, representing an increase of approximately RMB133,370,000 or 31.8% compared to approximately RMB419,647,000 for the six months ended 30 June 2022. The increase was mainly due to the increase in the revenue from distribution of imported branded pharmaceutical and healthcare products in China for the Reporting Period as compared to the six months ended 30 June 2022 as a result of the market recovery from the lifting of the Pandemic control measures. Such increase was partially offset by the decrease in sales of medical devices, including infrared thermometer, manufactured by Dong Di Xin. The decrease was mainly due to the drop in sales of anti-Pandemic devices.

2. Cost of sales and gross profit margin

For the six months ended 30 June 2023, cost of sales of the Group amounted to approximately RMB398,328,000, representing an increase of approximately RMB112,377,000 or 39.3% compared to approximately RMB285,951,000 for the six months ended 30 June 2022. The increase in cost of sales was mainly due to the increase in sales volume and the change of product mix. Gross profit margin decreased from 31.9% for the six months ended 30 June 2022 to 28.0% for the six months ended 30 June 2023 as a result of the decrease in proportion of revenue from products with relatively higher margin, in particular the medical device products from Dong Di Xin, during the Reporting Period.

3. Other revenue, income and other net loss

Other revenue, income and other net loss mainly included rental income, interest income, promotion service income, government grants, change in fair value of financial assets at fair value through profit or loss, investment gain and exchange gain. For the six months ended 30 June 2023, other revenue, income and other net loss amounted to approximately RMB4,330,000, representing a decrease of approximately RMB10,210,000 or 70.2% compared to approximately RMB14,540,000 for the six months ended 30 June 2022. Such decrease was mainly due to the decreases in exchange gain and change in fair value of financial assets at fair value through profit or loss, and was partially off-set by the increase in gross rental income from investment properties during the Reporting Period. Details of other revenue, income and other net loss are set forth in Note (7) to the condensed consolidated financial statements.

4. Selling and distribution costs

For the six months ended 30 June 2023, selling and distribution costs amounted to approximately RMB54,662,000, representing an increase of approximately RMB5,261,000 or 10.6% compared to approximately RMB49,401,000 for the six months ended 30 June 2022. This increase was mainly due to the increases in delivery expenses and storage fee as a result of the increase in sales volume for the Reporting Period.

5. Administrative expenses

For the six months ended 30 June 2023, administrative expenses amounted to approximately RMB47,347,000, representing an increase of approximately RMB2,034,000 or 4.5% compared to approximately RMB45,313,000 for the six months ended 30 June 2022. This increase was mainly due to the increase in research and development cost during the Reporting Period.

6. Profit from operations

For the six months ended 30 June 2023, profit from operations for the Group amounted to approximately RMB60,205,000, representing an increase of approximately RMB13,468,000 or 28.8% compared to approximately RMB46,737,000 for the six months ended 30 June 2022. The increase in profit from operations was mainly due to the increase in gross profit, which was partially off-set by the decrease in other revenue, income and other net loss; and the increase in selling and distribution costs and administrative expenses during the Reporting Period.

7. Finance costs

For the six months ended 30 June 2023, finance costs amounted to approximately RMB9,460,000, representing an increase of approximately RMB801,000 or 9.3% compared to approximately RMB8,659,000 for the six months ended 30 June 2022. The increase in finance costs was mainly due to the increase in interest charged on bank loans as a result of an increase in the average bank borrowings.

8. Profit before taxation

For the six months ended 30 June 2023, profit before taxation for the Group amounted to approximately RMB57,655,000, representing an increase of approximately RMB15,426,000 or 36.5% compared to approximately RMB42,229,000 for the six months ended 30 June 2022. The increase in profit before taxation was mainly due to the increase in profit from operations and share of profit of a joint venture.

9. Income tax

For the six months ended 30 June 2023, income tax for the Group amounted to approximately RMB9,954,000, representing an increase of approximately RMB2,828,000 or 39.7% compared to approximately RMB7,126,000 for the six months ended 30 June 2022. The effective tax rate during the Reporting Period was 17.3%, compared to 16.9% for the six months ended 30 June 2022. Details of income tax are set forth in Note (9) to the condensed consolidated financial statements.

10. Profit for the period

As a result of the foregoing, for the six months ended 30 June 2023, profit for the period of the Group amounted to approximately RMB47,701,000, representing an increase of approximately RMB12,598,000 or 35.9% compared to approximately RMB35,103,000 for the six months ended 30 June 2022.

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

For the six months ended 30 June 2023, profit for the period attributable to owners of the Company amounted to approximately RMB37,727,000, representing an increase of approximately RMB13,514,000 or 55.8% compared to approximately RMB24,213,000 for the six months ended 30 June 2022. The increase was mainly due to the fact that profit for the period was mainly derived from operation belongs to owners of the Company.

12. Liquidity and capital resources

The Group has met its working capital needs mainly through cash generated from operations and various short-to-long term bank borrowings. During the Reporting Period, the effective interest rate for fixed rate loans ranged from 3.98% to 8.35%. Taking into account the cash flow generated from operations and the bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least twelve months from the date of publication of this announcement.

As at 30 June 2023, the Group had cash and cash equivalents of RMB256,566,000 (as at 31 December 2022: approximately RMB242,155,000) mainly generated from operations of the Group.

13. Cash flows

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

During the Reporting Period, the Group's cash and cash equivalents increased by approximately RMB14,411,000, which mainly comprised the net cash generated from operating activities with the amount of approximately RMB88,758,000, net cash used in investing activities with the amount of approximately RMB94,606,000, net cash generated from financing activities with the amount of approximately RMB18,493,000, and the net positive effect of foreign exchange of approximately RMB1,766,000.

14. Capital structure

Indebtedness

The total amount of the borrowings of the Group which will be due within one year as at 30 June 2023 was approximately RMB284,585,000. During the Reporting Period, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

Gearing ratio

As at 30 June 2023, the Group's gearing ratio, calculated as the total interest-bearing bank borrowings, less cash and cash equivalents, divided by total equity multiplied by 100%, was 3.7% (as at 31 December 2022: 4.2%). The decrease in gearing ratio was mainly due to the increase in cash and cash equivalents; and total equity.

Pledge of assets

As at 30 June 2023, 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, RMB99,400,000, RMB17,709,000 and RMB42,393,000, respectively (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).

Capital expenditure

The capital expenditures of the Group primarily included purchase of property, plant and equipment. The Group's capital expenditures amounted to approximately RMB87,368,000 and RMB37,978,000 for the Reporting Period and the six months ended 30 June 2022, respectively.

Foreign exchange risk

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

15. Contingent liabilities, legal and potential proceedings

As at 30 June 2023, 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, the 2021 Annual Report and the 2022 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 the 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.

16. Major acquisitions and disposals

For the six months ended 30 June 2023, the Group did not make any material acquisition or disposal.

17. Going concern

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

FUTURE OUTLOOK

When encountering new opportunities and challenges in the development arising from unstable global political conditions, complicated and changing Sino-US relation, slower economic growth in China’s economy as a whole, insufficient domestic demand, declining birth rate, an aging population and increasing awareness of health among the people after the pandemic, the Group has been going under the strategies of the Fifth Five-Year Plan. Our employees has been actively working to gain progress. The Group continue to be committed to becoming a leading domestic and internationally renowned provider of medical and health products and services, and strive to build a harmonious and graceful community of human beings.

1. Continue to implement the strategies of the Fifth Five-Year Plan in an active and stable manner to enhance our competitiveness

2023 is the second year for our strategies of the Fifth Five-Year Plan. Based on the good opening in the last year, the Group has achieved encouraging development during the Reporting Period. The Group has accomplished its plans for the first half of the year, with results exceeding the targets. We recorded a year-on-year increase of 32%. In the second half of 2023, the Group will continued to accelerate the decision and implementation of the strategic plans in the strategies of the Fifth Five-Year Plan. The Group will make adjustments in light of actual market conditions, and make resources integration and allocation of manpower, properties and goods, in order to ensure first priority of investing and increasing strategic resources, The Group will adhere to the concept of “highlighting its principal activities and developing related businesses”, so as to continuously enhance the quality of the operation of its pharmaceutical and healthcare businesses, strengthening its competitiveness in technologies and products as well as profitability of the Group, thereby developing the Group into a large group with core competitiveness.

2. Emphasis on both product introduction and product development that form the two wings for the development of the Company

The hope to better life is the everlasting aspiration among the people, while our efforts to maintain quality of our products is also the everlasting aspiration. We have been striving to diversify our products, and meeting needs of healthy among various groups by capturing opportunities arising from the increasing demand for healthcare products, thereby providing customer across the globe with safe and effective pharmaceutical and healthcare products and services. On one hand, the Group will continue to strengthen its efforts of introducing various types of pharmaceutical and healthcare products. For pharmaceutical products, the Group will introduce more Chinese pharmaceutical products and Long Yao/Fo Ci products through investment. In the post-pandemic era, with better understanding of Chinese medicine among the people, and Fo Ci Group with a history of a hundred years and authentic raw materials and a number of approvals for Chinese medicines, the Group will, based on in-depth study of the market, work with Fo Ci to develop Goldpartner products; for healthcare products, the French Innopharm products are expected to be launched to the market in the second half of 2023, when preparatory work has been performed. Meanwhile, the Group has noted the promising prospects of the agale oil products. Accordingly, the Group and DSM Group will work together to enrich types and specifications of Life's DHA, so as to meet needs of consumers on various channels. At the same time, manufacturers of Culturelle probiotics have leveraged their capabilities of scientific research and has enriched types of Culturelle probiotics products, developing products with various functions and effects, thereby meeting the demand of consumers for quality lifestyle.

On the other hand, the Group will continue to strengthen the development of its self-owned brands, The self-owned Kingworld brands that possess various elements of products, quality, management, culture and business models have been key vehicles for the Group in inheriting the culture of the brands. With the successful experience of Red Flower Oil, a self-owned Kingworld product, the Group is planning to launch more self-owned brands such as American Gingseng capsule and Loins Strengthening and Kidney Invigorating tablets.

Moreover, the Group has been reforming the ways of cooperation, by which crossover products will be launched with a number of enterprises/brands, including Goldpartner's crossover Glucosamine Radix Paeoniae Alba calcium products, Fo Ci's crossover products. By leveraging the need for health and the development of various diseases, and through empowering products with cultural and technical elements, the Company will provide endless quality products for its ongoing development.

3. Ensuring safe and smooth operation of Longde Health Industrial Park

The construction of Longde Health Industrial Park, the high-profile project of the Group, is progressing smoothly and we expect the acceptance in near future. On the one hand, the Group will make acceptance of the construction a key project in supervision and management. We will make full preparation for acceptance in accordance with standards stipulated by the government and formulate timetable and milestone for the acceptance. We will also assign the tasks to persons responsible, so as to ensure completion of the project with the required quality.

On the other hand, the Group has established the business solicitation team for the project. Looking forward, the Group will, based on the operating model and negotiation terms for relevant industrial parks in Shenzhen, and with reference to strategic position and resources of Longde Health Industrial Park, develop terms of business solicitation and operating planning for Longde Health Industrial Park, thereby ensuring operation of Longde Health Industrial Park as soon as possible, generating economic efficiencies and creating synergies with principal activities and industrial development directions of the Group.

4. Advancing forward digital intelligence from digitization

The Group has been operating in the field of pharmaceutical industry for nearly 30 years, with a marketing network that covers the PRC, Hong Kong and Macau. It is partly attributable to strengthen efforts in developing its IT capabilities for the management of its operation.

Looking forward, the Group's marketing team will continue to take the demand of consumers as the key consideration and seize opportunities arising from the recovery of pharmaceutical and healthcare market. The Group will act under the guideline of data platform under its SMART system and continue to consider digitalization as the driver of our growth. The Group will, based on business analysis of existing data at various levels, standardized its analysis models and improve data intelligence. We will identify possible opportunities of launching marketing activities for targeted marketing. We will continue to advance the Company forward digital intelligence from digitalisation, thereby further enhancing its operating efficiency.

5. Launch online and offline integration with consumers as the core, so as to enhance consumer experience

For offline business, the Group will continue to strengthen the cooperation with various partners, chain store pharmacies and other stores. We will continue to strengthen our distribution network and launch diversified themed activities, when offline consumers will be invited to experience the quality of our brands. By doing so, we will be able to launch experience marketing and establish connection with consumers.

For online business, the Group will develop a new retail model that integrated online and offline businesses. We will enrich our e-commerce categories through “金活健康之家”, our cross-boundary e-commerce platform. We will continue to explore and improve the e-commerce ecosystem, foster professional e-commerce teams for the operation, foster integration of online and offline businesses and expand the sales. We will seize opportunities and challenges arising from consumer behavior and trends of development and changes, so as to embrace new ways of marketing on social media.

6. Pooling talents with career prospects in improving and developing our platform

With the implementation of the strategies of the Fifth Five-Year Plan and stabilization of our business, the Group will continue to improve its talent development platform by introducing more professional talents, so as to establish the pool for cultivating talents. At the same time, we will include more talents into our equity incentive scheme by establishing an incentive mechanism that involves short term, medium term and long-term incentives. By pooling talents with career prospects, we will maintain and develop our talent teams. Each of our people will be our partner when developing themselves together with the Company. By doing so, we will be able to motivate our employees and they will have stronger sense of owners. Our employees will work hard and striving for the best, in order to fulfill our strategic business targets and ensure long-term and stable development of the Company, thereby making greater contribution to our community.

HUMAN RESOURCES AND TRAINING

As at 30 June 2023, the Group had a total of 1,019 employees, of which 129 worked at the Group's headquarters in Shenzhen, and 398 were stationed in 34 other regions mainly responsible for sales and marketing, and 492 worked at Dong Di Xin. For the six months ended 30 June 2023, the Group's total remuneration paid to employees was approximately RMB73,441,000 (2022: approximately RMB74,722,000). The Group releases an annual sales guideline on a yearly basis, setting out the annual sales targets and formulating quarterly sales strategies, so as to provide sales and marketing guidelines for all representative offices and their staff to observe. The Group has a management team with extensive industry experience (including sales directors and product managers). They are responsible for coordinating front-line sales and marketing teams to meet the annual sales targets.

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

OTHER INFORMATION

CAPITAL COMMITMENT

As at 30 June 2023, the Group had capital commitment of approximately RMB176,551,000 (as at 31 December 2022: approximately RMB232,785,000).

PUBLIC FLOAT

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

DIVIDENDS

Pursuant to a resolution passed by the shareholders of the Company on 29 May 2023, the Company declared a final dividend for the year ended 31 December 2022 of HK\$2.47 cents per share, amounting to approximately HK\$15,376,000 (equivalent to approximately RMB13,571,000) to the shareholders of the Company. The dividend was fully paid on 30 June 2023 by the internal cash resources of the Company.

The Board resolved not to recommend the payment of any interim dividend for the six months ended 30 June 2023 (2022: nil).

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

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

CORPORATE GOVERNANCE PRACTICES

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

AUDIT COMMITTEE

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

The financial information in this interim results announcement has not been audited by the auditor of the Company. The Audit Committee has reviewed the unaudited condensed consolidated interim financial statements, this unaudited results announcement and the interim report of the Company for the six months ended 30 June 2023 with the management of the Group and agreed with the accounting treatments adopted by the Company, and was of the opinion that the preparation of the financial statements in this interim results announcement complies with the applicable accounting standards and the requirements under the Listing Rules and adequate disclosures have been made.

EVENTS AFTER THE REPORTING PERIOD

On 15 August 2023, the Group agreed to subscribe for an additional 1,007,500 shares of Taiko Pharmaceutical, representing approximately 2.08% of the issued share capital of Taiko Pharmaceutical. Upon completion, when aggregated with the previous subscription of the shares of Taiko Pharmaceutical by the Group which took place in April 2023, the Group shall hold a total of 3,185,900 shares of Taiko Pharmaceutical, representing approximately 6.42% of the enlarged issued share capital of Taiko Pharmaceutical (taking into account of the shares of Taiko Pharmaceutical to be issued upon completion). For details, please refer to the announcement of the Company dated 15 August 2023.

Other than as disclosed above, there is no material event after the Reporting Period and up to the date of this announcement.

DISCLOSURE OF INFORMATION

The interim report for the six months ended 30 June 2023 will be duly dispatched to shareholders of the Company and published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.kingworld.com.cn>).

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

Hong Kong, 28 August 2023

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