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

2023 ANNUAL REPORT

Healthy Life with

KINGWORLD

CONTENTS

Corporate Information

DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

AUDIT COMMITTEE

Mr. Wong Cheuk Lam *(Chairman)*
Mr. Duan Jidong
Mr. Zhang Jianbin

REMUNERATION COMMITTEE

Mr. Zhang Jianbin *(Chairman)*
Mr. Duan Jidong
Mr. Wong Cheuk Lam

NOMINATION COMMITTEE

Mr. Duan Jidong *(Chairman)*
Mr. Wong Cheuk Lam
Mr. Zhang Jianbin

COMPANY SECRETARY

Mr. Chan Hon Wan

AUTHORISED REPRESENTATIVES

Mr. Zhao Li Sheng
Mr. Chan Hon Wan

REGISTERED OFFICE

Ocorian Trust (Cayman) Limited
Windward 3, Regatta Office Park
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

8th-9th Floor, Block A
Majialong Chuangxin Building
198 Daxin Road
Nanshan District, Shenzhen
Guangdong Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 613, 6th Floor
Goodluck Industrial Centre
808 Lai Chi Kok Road
Kowloon
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Ocorian Trust (Cayman) Limited
Windward 3, Regatta Office Park
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

Corporate Information

PRINCIPAL BANKS

China Construction Bank
Shenzhen Luohu Sub-branch
East Section
Financial Centre
South Hong Ling Road
Shenzhen
Guangdong Province
The PRC

Industrial Bank
Shenzhen Overseas Chinese Town Sub-branch
B1-29 Yitian Holiday Plaza
9028 Shennan Avenue, Nanshan
Shenzhen
Guangdong Province
The PRC

Nanyang Commercial Bank
Hong Kong, Western Branch
1st Floor - 2nd Floor
359-361 Queen's Road Central
Hong Kong

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

LEGAL ADVISORS TO THE COMPANY

King & Wood Mallesons
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Central
Hong Kong

AUDITOR

Crowe (HK) CPA Limited
9th Floor
Leighton Centre
77 Leighton Road
Causeway Bay
Hong Kong

STOCK CODE

01110

WEBSITE ADDRESS

www.kingworld.com.cn

Financial Highlights

	For the year ended 31 December		Changes
	2023	2022	Increase/
	RMB'000	RMB'000	(Decrease)
Financial Highlights			
Revenue	**1,078,659**	957,701	12.6%
Cost of sales	**(797,994)**	(680,074)	17.3%
Gross profit	**280,665**	277,627	1.1%
Profit before taxation	**93,886**	67,584	38.9%
Profit for the year	**61,594**	43,542	41.5%
Profit attributable to owners of the Company	**38,096**	22,741	67.5%
Basic earnings per share (RMB cents)	**6.44**	3.75	71.7%
Proposed final dividends per share (HK cents)	**3.38**	2.47	36.8%

	As at 31 December		Changes
			Increase/
	2023	2022	(Decrease)
Liquidity and Asset-liability Ratio			
Current ratio (1)	**1.27**	1.15	10.4%
Quick ratio (2)	**1.02**	1.00	2.0%
Gearing ratio (3)	**24.1%**	4.2%	473.8%

Notes:

(1) Current ratio is calculated as total current assets divided by total current liabilities as at the relevant year end.

(2) Quick ratio is calculated as total current assets less inventories divided by total current liabilities as at the relevant year end.

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

Chairman's Statement

Dear Shareholders,

On behalf of Kingworld Medicines Group Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**"), I am pleased to report the annual results for the year ended 31 December 2023 (the "**Year Under Review**"). I want to express my sincere gratitude to all shareholders of the Company (the "**Shareholders**") for your continuing support and encouragement to the Group. 2023 was pivotal for the Chinese market as we transitioned into the "post-pandemic" era and set the stage for growth. It was also a key year in China's 14th Five-Year Plan, a period bridging past and future developments. With robust national policies and a growing public awareness of health, we witnessed renewed momentum in the development of traditional Chinese medicine and healthcare products in China. The Group's ongoing commitment to enhancing the supply chain system of the pharmaceutical and health industry, coupled with our efforts to expand its signature product lines and accelerate overseas business, proved fruitful, successfully capitalizing on market opportunities during the Year Under Review. With enhanced business resilience, the Group navigated market shifts and policy changes, maintaining its leading position in the market and achieving steady growth. These accomplishments represent milestone progress along the strategic path of the Group's Fifth Five-Year Plan.

Chairman's Statement

MARKET AND BUSINESS REVIEW

The revitalization of traditional Chinese medicine and the implementation of the Greater Bay Area strategy facilitate industrial innovation and development

In 2023, the launch of the Implementation Plan for Major Projects to Revitalize and Develop Traditional Chinese Medicine marked a new era for the development of traditional Chinese medicine. It's heartening to witness the country's full support for developing Guangdong as a stronghold for traditional Chinese medicine within the Guangdong-Hong Kong-Macao Greater Bay Area. The plan has rolled out multiple strategic initiatives to foster the integrated development of traditional Chinese medicine across the Greater Bay Area, steering the traditional Chinese medicine industry towards a modern and international development trajectory. Measures such as streamlining the approval processes, innovating regulatory approaches, and establishing drug-sharing mechanisms are normalizing communication and cooperation among the three regions. These policies have not only addressed the demands of industrialization, modernization, and internationalization but also breathed new life into the heritage and innovation of traditional Chinese medicine. The drug-sharing mechanism, in particular, has optimized the allocation and utilization of traditional Chinese medicine resources within the Greater Bay Area, enhancing the accessibility and efficiency of these medical services.

The National Medical Products Administration has delegated the responsibility to the Guangdong Provincial Medical Products Bureau to streamline the registration and approval process for proprietary Chinese medicines from Hong Kong and Macao for external use. This move aims to align the traditional Chinese medicine regulatory frameworks across the three regions and introduce more high-quality proprietary Chinese medicines from Hong Kong and Macao to be registered and launched on the mainland market. By the end of 2023, eleven external-use products from Hong Kong and Macao have been approved, registered, and launched in mainland China, including the Group's Fengbao Jianfu Capsule. The effective policy implementation paves the way for more renowned Hong Kong brands to serve a broader consumer base in the mainland market. We have been strategically laying the groundwork for years to promote the landing of Hong Kong pharmaceuticals, and the inauguration of the Kingworld × Longde Life and Health Industrial Park in 2024 is set to be a cornerstone for innovation, promoting the strategic development of our Fifth Five-Year Plan.

The consensus on "health first" in the post-pandemic era drives continuous growth in demand for healthcare products

In 2023, the impact of COVID-19 touched the lives of many, leaving a lingering shadow known as sequelae of "long COVID" with symptoms such as dizziness, coughing, hair loss, and fatigue, persisting for months. This reality has significantly triggered public attention to personal health, collectively emphasising "health first" and highlighting that each person is primarily responsible for their health. This shift has catalyzed the healthcare product market. Our Nin Jiom Pei Pa Koa, one of the most renowned cough relief medicine brands in China, saw a massive increase in sales during this period.

Meanwhile, there is a growing public focus on healthy living habits and recognizing the benefits of regular exercise, reflected by the increasing demand for healthcare and medical products that enhance sports performance and reduce injury risks. During the Year Under Review, China's sports industry has flourished, with a notable surge in large-scale sports events such as golf tournaments and marathons. Last year, over five million individuals participated in over 600 long-distance running events, highlighting the vast economic potential in the sports sector. Attuned to the national fitness movement, we have sponsored major domestic marathons and cross-country races under the banner of Kingworld Imada Red Flower Oil. This move has solidified and expanded the Group's reputation and the standing of its products within the sports community, enhancing the product application scenarios and user experience.

The aging population fuels the "silver economy", anticipating rapid growth in the senior healthcare and pharmaceutical market

China is on the threshold of transitioning into a moderately aging society. While the elderly population faces an elevated risk of diseases, advancements in pharmaceutical and medical technologies have increased average life expectancy. By 2030, China is poised to host the world's largest elderly population, representing a blue ocean for the "silver economy". According to the AskCI Consulting, the silver economy reached around RMB7 trillion in 2023, accounting for 6% of China's gross domestic product ("**GDP**"). Forecasts suggest that by 2024 and 2026, the size will reach approximately RMB9 trillion and RMB12 trillion, respectively. In January 2024, the General Office of the State Council issued the "State Council's Opinions on Developing the Silver Economy and Promoting the Well-being of the Elderly", which encouraged the research and development of healthcare foods tailored to the elderly's unique needs for chewing, swallowing, and nutrition as a sector with potential growth.

Therefore, based on data from AskCI Consulting, the expansion of the silver economy is expected to enhance the standardization of the healthcare product industry for seniors. Coupled with the rising disposable income of seniors in the mainland China, there is a rapid increase in demand for diverse and multi-tiered health management services, which in turn is spurring the demand for health products and services. We have responded to these market needs by introducing a range of products, including glucosamine and premium fish oil, to cater for the diverse health requirements of this target group.

Strengthening upstream and downstream synergy domestically and internationally to capture growth opportunities in the traditional Chinese medicine industry

Since 2022, the inaugural year of the Group's Fifth Five-Year Strategy, the Group has established a strong presence in the health industry. Following the easing of the pandemic in 2023, we embraced the revival of market sales with a robust operational base, reigniting the engine for market growth. The Chinese market experienced a boost in consumer spending during the Year Under Review, and our products recorded satisfactory sales growth. In particular, our flagship product, Nin Jiom Pei Pa Koa, saw a significant year-on-year increase of 33.4%, due to our team's relentless effort to enhance the brand's reputation and influence over its therapeutic effects and health benefits. By significantly improving market penetration with our diverse online and offline marketing strategies, we captured the strong demand for historic, high-quality, and reputable health products in the post-pandemic era.

Apart from reinforcing existing products' branding and marketing strategies, the Group has continued to align with the developing health industry and the public health needs, understand market demands and actively seek out and introduce quality products that can enhance public health and meet consumer expectations. These include Fortune Coltalin, Goldpartner Radix Paeoniae Alba Calcium Capsule, premium fish oil, and dual-branded products like An Gong Niu Huang Wan, which were developed together with Lanzhou Foci Pharmaceutical.

Chairman's Statement

With the intense competition in the market, the Group, as a leading domestically and internationally recognized provider of pharmaceutical products and services, is committed to establishing extensive cooperative relationships with globally renowned pharmaceutical manufacturers to strengthen the upstream supply of health products. In April and August 2023, the Group subscribed for a total of 3,185,900 shares of Taiko Pharmaceutical Co., Ltd. (stock code: 4574.JP) ("**Taiko Pharmaceutical**"), the supplier of world-renowned Taiko Seirogan, which represented approximately 6.42% of the enlarged issued share capital of Taiko Pharmaceutical as at 17 August 2023. As a strategic investor of Taiko Pharmaceutical, the Group plans to leverage a deeper partnership and capitalize on the past sales achievements of Taiko Seirogan in China, seizing the rapid development opportunities in the traditional Chinese medicine industry. By accelerating national market development, optimizing commercial layout, and collaborating better with key retail chains, the Group aims to boost Taiko Seirogan's impact and market share in China. We believe co-developing new products that meet public needs will bring greater returns for the future growth of both Taiko Pharmaceutical and the Group.

As domestic pharmaceutical companies expand globally, overseas capital and industries actively seek strategic opportunities to enter the Chinese market. We have seized the development opportunities to strengthen upstream supply chain collaborations, enhance full-industry-chain layout capabilities, and promote further optimization of resource allocation along the industry chain. Through the investment in Taiko Pharmaceutical and Fat Chi Medicine Company Limited ("**Hong Kong Fat Chi**"), along with the strategic collaboration with Shaanxi Pharmaceutical, the Group will position Hong Kong as a base for import and export business. This not only promotes the traditional Chinese medicine culture of "Long medicine" from Gansu and "Qin medicine" from Shaanxi but also marks a significant stride toward our internationalization, highlighting new opportunities and the immense potential of China's pharmaceutical industry in international cooperation and cultural exchange.

Enhancing scientific research and production prowess and leading the Greater Bay Area's biopharmaceutical platform towards international prominence

Advancing scientific research and innovation is a pivotal sub-strategy of the Group's Fifth Five-Year Plan. We are dedicated to opening up and integrating Shenzhen and Hong Kong's traditional Chinese medicine and innovating the international layout of traditional Chinese medicine. The Group is dedicated to developing the Kingworld Longde Life and Health Industrial Park. This initiative will provide professional biopharmaceutical hardware and a shared equipment platform for us to build innovative traditional Chinese medicine ecological partners, marking the Group's significant development. During the Year Under Review, the overall construction and preparation for operations of Longde Industrial Park in Longgang District, Shenzhen, have been completed. The industrial park was recognized as one of the "2023 Longgang District Major Projects", and merchant solicitation work is in full swing. During the Year Under Review, government officials from various levels of Shenzhen Municipality and Longgang District visited the industrial park to learn about the Group's needs and offer guidance. The Group and the Shenzhen Angel FOF also co-hosted the "20+8" industry event, fostering bilateral dialogues with many enterprises across biopharmaceuticals, medical devices, and the health industry, as well as investment firms and ecological partners.

Our development strategy revolves around the synergy of "R&D Innovation + Industrial Cultivation + Circulation Services", empowering innovative traditional Chinese medicine projects and forging a distinctive health industry ecosystem. This approach supports the heritage, innovation, and development of traditional Chinese medicine and facilitates industry clusters. During the Year Under Review, Shenzhen Dong Di Xin Technology Company Limited ("**Dong Di Xin**"), a non-wholly owned subsidiary of the Group and a national high-tech enterprise, was recognized as "Shenzhen's Professional, Refined, Specialised and New Small and Medium-sized Enterprise". Dong Di Xin has continuously advanced intelligent manufacturing and refined the "Lean Production 6S" management model, striving for comprehensive enhancements from product quality and after-sales service to the risk and accident management system. This supports the Group's product development across different regions with a globally leading quality model, lifting the international sales performance.

We have been leading the domestic healthcare product market for years, maintaining our reputation through insight in the market, precise marketing strategies, and reliable international quality. During the Year Under Review, Dong Di Xin actively pursued the "going global" strategy to expand into overseas markets with great growth potential, aiming for the Middle East and Southeast Asia and the rapidly growing European market.

To bolster the upstream product supplies, we acquired Innopharm S.A. ("**Innopharm**"), a French company, in 2022. During the Year Under Review, accelerated the launch of new products and formulated the marketing plan. This has expedited our penetration of foreign markets, effectively introducing premium European health food and branded products and developing our own brands.

Chairman's Statement

Establishing precise sales channels and marketing management for gaining further sales achievements

The post-pandemic era has seen changes in consumer habits, with the pandemic stay-at-home economy promoting online shopping behaviors and spawning the influencer-driven economy, fueled by online platform algorithms and traffic management and the marketing approaches tapping into trending topics for brand promotion, all of these catalyzed exponential sales growth. Under the norm of this new consumption economy, businesses need to employ more scientific and precise marketing and channel management strategies to harness purchasing power and stimulate sales. During the Year Under Review, we comprehensively enhanced its SMART sales management system. Guided by the philosophy of altruistic marketing and based on the market and sales performance, we requested partners to make timely adjustments to shipment prices that do not align with the pricing policy. Reasonable selling prices can achieve higher sales volume and safeguard the Group's and its partners' mutual interests.

To promote the health concept, achieve national health goals, and raise health management awareness among citizens, we value the offline consumer engagement experience and online marketing. After the pandemic, the Group capitalized on the resurgence of large-scale in-person events. By participating in major health-oriented events, the Group effectively disseminated the mission of the enterprise and products as well as information related to health. During the Year Under Review, Kingworld Imada Red Flower Oil sponsored many large domestic marathons, cross-country races, golf events, and tennis competitions, aiming to set off with the people from one starting line and support the participants to create a new healthy life. This also led to a positive brand reputation. We have also actively collaborated with professional pharmacists and physicians in chain pharmacies to organize educational sessions for seniors and patients, such as lectures on the relationship between H-type hypertension and stroke. Apart from raising awareness of health management, these efforts have bolstered OTC sales of prescription products such as Enalapril and Jianfu Capsule.

Caring for and protecting employee interests and achieving sustainable development

To enhance the market responsiveness of our front line staff and ensure they make swift, effective decisions to capitalize on market opportunities, we introduced a quasi-business unit system in 2022 as a new operational model. This was initially trialed in the Kingworld Health Home cross-border OTC flagship store. During the Year Under Review, this system has been further rolled out in our e-commerce division, significantly boosting the team's initiative. In the future, we will continue to implement innovative systems in new projects, such as the business unit and partnership system, empowering competent personnel to grow alongside the Company and jointly drive the Group's expansion and competitiveness.

Following an increase in the total equity incentives and an expansion of the incentive coverage, we are glad to observe a notable boost in our employees' morale. With the implementation of the Fifth Five-Year Plan and the business steadily recovering and improving the industrial layout and growth drivers, the Group will continually refine the personnel development platform. We aim to attract more professionals of the highest caliber, creating a robust talent pipeline. In addition, we plan to extend the equity incentive program to a broader talent pool, establishing a comprehensive incentive system that integrates short-, medium-, and long-term rewards. This approach is designed to attract and retain talent through career opportunities, fostering a stable and progressive talent community where every employee who evolves with the Company will become partners. By fully engaging the proactive spirit of our workforce at all levels and reinforcing a sense of ownership, we strive to collectively meet our strategic and operational objectives. This concerted effort is key to driving the Group's enduring, stable development and enabling us to contribute more to society.

FUTURE OUTLOOK

Looking ahead to 2024, we find ourselves at a pivotal juncture in the global economic cycle, bracing for significant changes and challenges in the political and economic landscape. Dubbed the year of the "super elections", key political events such as the U.S. presidential election, alongside elections in the U.K., South Korea, Japan, India, Indonesia, Mexico, and Russia, would inject an element of uncertainty into China's external security environment and economic stability. Goldman Sachs forecasts a global economic annual growth rate of 2.6%. Additionally, unresolved geopolitical conflicts increase economic policy sensitivities, posing additional economic challenges for China. The heightened risks of "green barriers", "security barriers" and "technological barriers" could introduce variables for China and global development, potentially complicating international trade and political relations.

Adjustments in global industrial and supply chains in recent years will create new international opportunities for Chinese enterprises. Sectors such as automotive machinery, clean energy, pharmaceuticals, healthcare, and the digital economy are expected to accelerate global outreach in 2024, providing room for development for Chinese enterprises. The collaborations between China and Southeast Asia and countries along the Belt and Road have become a vital strategy for Chinese companies "going global". We believe this outward expansion not only facilitates the internationalization of Chinese enterprises but also injects new vitality into the global economy. Thus, we plan to intensify product promotion in the European market in 2024 and leverage its domestic sales network to secure the distribution rights of more stellar products. Meanwhile, through our international network, we plan to proactively identify businesses for acquisition with high-growth prospects, such as innovative drugs, cell therapy, and health and medical devices. We expect this will contribute fresh impetus to the Company's future growth. Therefore, we are confident about the Group's "going global" development.

Chairman's Statement

Over the past years, we have adhered to the mission of "serving the community and benefiting the world". Despite the severe economic and political challenges domestically and globally, we are steadfastly committed to fostering a healthier life for the public. As Kingworld Medicines' Longde Life and Health Industrial Park, located in the Greater Bay Area, will be put into operation in 2024, we are committed to building the Group into a driving force for the traditional Chinese medicine life and health industry in Shenzhen and Hong Kong, further boosting the Greater Bay Area's health industry market. In addition, we will focus on segmented markets for healthcare products and pharmaceuticals, adopt differentiated marketing strategies, and enhance product diversity to increase market shares for different products while cultivating more stellar products.

As for online and offline sales, we will adjust to changing circumstances with targeted market strategies to maximize Gross Merchandise Value (GMV). For instance, we will consider harnessing AIGC technology to refine our marketing and enhance operational efficiency, reaching a broader consumer base and providing a novel experience that meets diverse purchasing needs. We will also strengthen the use of AI and big data analytics to fine-tune sales channel management and pricing, boosting performance. As an enterprise advocating for healthy living with a commitment to social responsibility, we will continue to uplift staff morale and foster corporate progression through efficient and cohesive teamwork. We will continue to serve and give back to society and fulfill the responsibility as a corporate, creating positive relations for society, the public, and clients.

ACKNOWLEDGEMENTS

Emerging from the pandemic, the Group has resumed its growth momentum with robust strides, achieving satisfactory results in 2023. This success is attributable to the Group's concerted efforts towards the phased goals of the Fifth Five-Year Plan. By introducing an advanced sales and service management system with a solid foundation to the market, we have empowered market sales through technology and successfully built a stronger brand presence in the market. I would like to take this opportunity to express my sincere gratitude to my fellow directors (the "**Directors**") of the board of directors of the Company (the "**Board**"), the management and all employees for their valuable contributions to the development of the Group. At the same time, on behalf of the Board, I would like to express my appreciation to all Shareholders, investors, and business partners for their continuous trust and support to the Group.

Mr. Zhao Li Sheng
Chairman of the Board

Hong Kong, 26 March 2024

MARKET AND INDUSTRY REVIEW

In 2023, although most regions of the world emerged from the shadows of the COVID-19 pandemic, global geopolitical conflicts had intensified, and several economies worldwide faced serious inflationary issues, coupled with the persistent high-interest rates resulted in a continued lack of confidence in the overall consumer market. Following the phased and orderly withdrawal of epidemic prevention and control policies in China, the economy has steadily recovered. However, the confrontation between China and the United States continued to escalate. China's export trade is facing severe challenges, and the domestic youth employment statistics must catch up to expectations. Consequently, China's overall economic performance could have been better. China's GDP in 2023 reached RMB126.06 trillion, representing a year-on-year increase of approximately 5.2%. The national consumption surpassed RMB47.15 trillion, with a year-on-year increase of around 7.2%. The combined sales of traditional Chinese and Western medicines hit RMB671 billion, with a year-on-year increase of around 5.1%. In the first half of 2023, sales in the national retail pharmacy market reached RMB268.5 billion, representing an 8.2% growth compared to the same period of last year.

As for the pharmaceutical industry, the deepening of domestic medical insurance negotiations, volume-based procurement policies, and the rapid integration of digital technology into traditional pharmaceutical practices have led China's pharmaceutical industry to experience a significant transformation in both technology and management. The thorough implementation of national strategies, including the Belt and Road initiative and the Regional Comprehensive Economic Partnership Agreement ("RCEP"), has created new opportunities for global expansion for Chinese pharmaceutical companies.

As for the consumer market, the "Health First" concept in the post-pandemic era has notably influenced consumer behaviours, feeling consistent growth in the demand for healthcare products. Public awareness about enhancing immunity and preventing illness has increased. As a result, respiratory health products such as cough relieving medicine have seen a marked increase in sales. Meanwhile, as public interest in healthy lifestyles grows, more people are turning to exercise, thus boosting the market demand for healthcare and medical products associated with exercise recovery and health maintenance. Moreover, the "silver economy" driven by demographic aging has injected new vitality into the healthcare product market. As the proportion of the elderly population increases, health management and disease prevention for seniors have become a focal point for market development. Products tailored to meet the needs of the elderly, such as those designed for chewing, swallowing, and specific nutritional requirements, have seen a rapid uptick in demand, which reflects the growing societal emphasis on health management and the enhancement of life quality.

Anti-corruption governance and the upgrade of the health insurance system promote the industry's transition to more efficient development

During the Year Under Review, the pharmaceutical and healthcare industry faced major restructuring, corporate transformation and upgrades. Since the second half of 2023, ten ministries/commissions of China have jointly launched a year-long intensive campaign against corruption in the national pharmaceutical sector. The campaign has instituted comprehensive and systematic governance in critical links of the pharmaceutical industry, including production, supply, sales, usage, and reimbursement processes. The campaign aims to catalyze reforms in the healthcare system, tackle corruption problems that significantly impact public interests, and increase public confidence in the healthcare system.

Management Discussion and Analysis

On 15 February 2023, the National Healthcare Security Administration issued the "Notice on Further Implementation of Incorporating Designated Retail Pharmacies into Outpatient Coordination Management", which officially incorporated designated retail pharmacies into the outpatient coordination management system. By the end of 2023, most regions in China had improved this coordination mechanism, including about 160,000 retail pharmacies. It is estimated that by 2024, with the full connection to the national health insurance system and the application of the electronic prescription circulation system, retail pharmacies will see an increase in customer traffic, which will achieve the goal of having "diagnoses at hospitals and medication purchases at pharmacies" and improve the efficiency and quality of medical services while providing convenience to patients and ensuring public health. This measure is a pivotal component of national healthcare system reforms, aiming to enhance the accessibility and convenience of public medical services and complement the governance system of the pharmaceutical industry. With its network of about 220,000 retail outlets, the Group has been dedicated to developing a robust supply chain and increasing retail pharmacy traffic over the years.

China accelerates integration with the global pharmaceutical industry

In 2023, Chinese pharmaceutical companies significantly increased their overseas investments, with the total investment reaching USD14.3 billion. Chinese pharmaceutical companies have been vying to expand abroad as "going overseas" has become an important development strategy, demonstrating the global competitiveness and innovation capabilities of Chinese pharmaceutical firms. These endeavors have not only opened new market opportunities for Chinese companies but have also fostered international exchanges and collaborations in technology, products, and services, laying a solid foundation for the long-term development of China's pharmaceutical industry. China has also strongly advocated for homegrown innovative medicines to "go overseas". After joining international organizations such as the International Council for Harmonization of Technical Requirements for Pharmaceuticals for Human Use ("**ICH**"), the International Medical Device Regulators Forum ("**IMDRF**"), and the Global Harmonization Working Party ("**GHWP**"), the National Medical Products Administration is striving to join the Pharmaceutical Inspection Co-operation Scheme ("**PIC/S**") to create an excellent international setting for the industry's high-quality development.

During the year, China sped up its efforts to join PIC/S. This action underscores China's resolve to align with international pharmaceutical standards and practices, thereby enhancing the global recognition and influence of Chinese pharmaceuticals. Joining PIC/S will allow China to actively contribute to formulating and implementing international Good Manufacturing Practices ("**GMP**") standards, benefit from shared resources and training opportunities, and avoid duplication of effort in regulation. Moreover, the successful accession to PIC/S reflects China's dedication to modernizing its pharmaceutical industry and meeting international standards of drug quality and safety. China's participation will unlock further international cooperation opportunities for China and enable it to play a more significant role in the global pharmaceutical arena.

Volume-based procurement becomes routine while traditional Chinese medicine innovation progresses

During the Year Under Review, the pharmaceutical industry in China has seen positive momentum from the regularized implementation and widening scope of volume-based procurement policies. Through centralizing purchases, volume-based procurement has increased procurement efficiency and lowered drug costs, giving more patients access to the medications they need at reduced prices. Implementing this policy has improved drug cost-effectiveness, promoted the healthy growth of the pharmaceutical industry, and encouraged pharmaceutical companies to intensify their research and development ("**R&D**") efforts to deal with market competition.

Meanwhile, China has increased support for preserving and innovating traditional Chinese medicine. The government has not only emphasized the standardized cultivation of traditional Chinese medicine raw materials but also supported the innovative R&D, review, and launch of traditional Chinese medicine. These measures are instrumental in forging a modern, innovative traditional Chinese medicine industry system and promoting the traditional Chinese medicine industry's development and global reach. The key laboratories for traditional Chinese medicine established by the National Medical Products Administration have become significant scientific and technological platforms for traditional Chinese medicine regulation and innovative progress. This has not only strengthened the scientific regulation of traditional Chinese medicine but also promoted its legacy and forward-looking development, thus advancing the scientific and modern aspects of traditional Chinese medicine.

We believe that these policies and measures collectively foster the growth of China's pharmaceutical industry. They are conducive to improving the industry's overall standard and enhancing Chinese medicine's image in the global market. These policies also reflect China's long-term planning for the pharmaceutical sector and its profound commitment to public health.

BUSINESS REVIEW

I. *Business review of pharmaceutical distribution segment*

As the domestic and overseas markets rebounded, the Group's pharmaceutical distribution business experienced satisfactory growth, and among the drugs distributed by the Group, Nin Jiom Pei Pa Koa stood out with the best sales performance. During the Year Under Review, the pharmaceutical distribution segment's sales recorded approximately RMB735,018,000, representing a significant increase of 23.8%. In the beginning of 2023, the post-COVID group (i.e. people who have recovered from COVID-19) showed a keen demand for medications that alleviate phlegm, relieve cough, soothe asthma, and enhance the respiratory system. This demand significantly propelled the sales of Nin Jiom Pei Pa Koa, which notably boosted the brand's influence.

Another flagship drug the Group distributes is Taiko Seirogan, a household essential medicine for families of all sizes that aids digestion and promotes intestinal health, for which the market demand has been strong for a long time. However, due to supply and demand imbalances of raw materials in Japan, there were delivery delays, causing prolonged periods of the product being in short supply in China. Therefore, its sales declined slightly year-on-year. Driven by the people's need to live a healthy life and pursue sports to improve health, Kingworld Imada Red Flower Oil, another flagship drug in the Group's portfolio, which is reputable for activating blood circulation and relieving pain, has successfully established brand influence and awareness among sports groups and reinforced engagement with health-conscious consumer groups thanks to the Group's vigorous promotion in the sports market.

Management Discussion and Analysis

During the Year Under Review, through its own efforts, the Group obtained a three-year cooperation authorization for Fortune Coltalin in five provinces/cities, including Shanghai, Henan, Anhui, Shaanxi and Gansu. Sales have progressed smoothly in the above regions. As a globally recognized cold medicine, Fortune Coltalin, has been the top-selling brand in Hong Kong, China for 24 consecutive years and sells well in Europe and the United States. In the future, the Group will further intensify the brand promotion efforts for Fortune Coltalin. In addition, the drugs for cold symptoms in the Group's portfolio include Pu Ji Kang Gan Granules, produced by Hong Kong Yuen Tai Pharmaceutical Limited, an affiliate of the Group, for effectively combating flu and soothing respiratory discomfort. During the Year Under Review, the medicine was sold via cross-border pharmaceutical e-commerce for the first time, benefiting mainland consumers.

The Group's two prescription drug products, namely Enalapril Maleate and Folic Acid Tablets ("**Enalapril**") and Fengbao Jianfu Capsule, fall into two major categories – cardiovascular diseases and female infertility. During the Year Under Review, the Group was dedicated to organizing offline events and working with pharmacists in chain pharmacies and doctors to educate the elderly and those with high blood pressure about the link between hypertension and stroke, enhancing the general public's understanding of these conditions and health management. The Group partnered with chain pharmacies and explored the sales of prescription drug products through OTC. During Year Under Review, the number of customers of Enalapril continue to increase. Although Enalapril was impacted by the easing of post-pandemic hospital dispensing rules that directed the patients' consumption back to hospital pharmacies, with the Group's strong marketing efforts, Enalapril's year-on-year sales still rose by 9%.

During the Year Under Review, the Group has adopted the following marketing strategies for the pharmaceutical segment:

1. ***Expanding coverage of offline sales terminals while enhancing customer acquisition through online group engagement***

   In response to new opportunities brought by the market resurgence, the Group proactively optimized its business layout and introduced a series of innovative measures to broaden its market reach. In addition to expanding the coverage of the offline sales terminal network, the Group increased online publicity and e-commerce promotion to attract a younger customer base, thus bolstering sales. During the Year Under Review, the Group actively expanded its business and worked with more reputable commercial partners to enhance market coverage, reaching 418 cities with nearly 100,000 independent pharmacies, over 120,000 chain pharmacies, more than 30,000 primary healthcare institutions, nearly 20,000 clinics, and almost 2,000 hospitals, as well as supermarkets and convenience stores.

   The Group continued to deepen its collaboration with Key Accounts (KAs) by establishing and fortifying its connections with more major clients and setting up dedicated KA follow-up teams. This strategy improved client retention and satisfaction. Senior management from the headquarters frequently visited regional KAs to gather feedback and build a broader customer market with clients.

The Group leveraged short-video platforms like Douyin and Kuaishou to create communication and interaction platforms with young consumers for products such as Kingworld Imada Red Flower Oi. The consumer-led product promotion resonates with more like-minded audiences so that they can better understand the product's effectiveness. For Taiko Seirogan, the Group optimized the product advertising images on e-commerce platforms, launched search direct cards, and hosted creative events such as the Taiko Seirogan innovative display. Through social media and these innovative marketing approaches, the Group extended its communication reach, attracting more consumers and transforming them from passive to active brand participants and communicators. The Group has also been dedicated to understanding and assessing brands and products from the consumer's point of view. By leveraging various channels, including becoming the title sponsor of high-traffic shows, self-media posts, articles on encyclopedia websites, trending topics of press releases, online media displays, influencer content, and short video creation, the Group has significantly enhanced product acceptance and favorability across diverse consumer groups.

Management Discussion and Analysis

In the post-pandemic era, with relaxed government policies on drugs and a shift in market demand, the Group has astutely seized market expansion opportunities following the easing of regulatory oversight for the anti-pyretic, cough relief, antibacterial, and antiviral medications. Actively collaborating with channel partners and employing precise marketing strategies and sales management, the Group has effectively and flexibly responded to market order demand and devised accurate distribution tactics, ensuring rapid market delivery of the products to satisfy consumer needs. With the joint efforts of our partners, we ushered in a boom in the sales of our two flagship products, the Nin Jiom product series and the Taiko Seirogan, with the former achieving a substantial year-on-year increase. The Group has implemented the SMART system to closely monitor the market for any unreasonable pricing and promptly intervene when shipment prices do not align with the pricing policy, requiring partners to adjust accordingly. This ensured that the public could obtain the urgently needed medications at reasonable prices to alleviate their ailments.

2. ***Actively diversifying product development and promptly seizing market trends***

The Group reassessed the market prospects of the Kingworld series and relaunched products closely related to healthcare, including Kingworld American Ginseng Capsule and Zhuang Yao Jian Shen Pian. With an aging population and growing emphasis on health, the market share of tonic products that replenish Qi, nourish Yin, clear heat, and stimulate the production of body fluids will increase accordingly. According to Sinohealth CMH, in 2023, the nutritional supplements products, such as circulation enhancement products and Qi-deficiency products, have grown rapidly in physical pharmacies (including O2O). In 2023, the sales of circulation enhancement products in the domestic retail market have reached RMB6.77 billion, representing a year-on-year increase of 20%. The American ginseng capsules produced by Shenzhen Kingworld Lifeshine Pharmaceutical, an affiliate of the Group, have pure ingredients that can replenish Qi, nourish Yin and promote body fluid. It can be used for cough and asthma, irritability and fatigue, dry mouth and throat caused by Qi deficiency and Yin deficiency. Shenzhen Kingworld Lifeshine Pharmaceutical has a citronella demonstration planting base in Luhe. In addition to extracting raw materials for red flower oil, it is also developing citronella essential oil products to cover more consumer groups. The launch of a series of private brands of Kingworld and the extension of existing mature products, such as red flower plaster, are making solid progress. In addition, the Group has noticed that the aging society will have a considerable demand for cardiovascular disease-related and thus actively pursued collaborations with renowned domestic enterprises to prepare for the launch of dual-brand products, such as Foci Kingworld An Gong Niu Huang Wan. The demographic of Chinese citizens aged 65 and above currently accounts for 15.4% of the population, indicating that China has entered a moderately aging society by international standards. This figure is projected to reach 20.3% by 2030, at which point China will essentially be a deeply aged society, home to the largest elderly population in the world. This age group is particularly prone to diseases, notably cardiovascular and cerebrovascular conditions, which currently afflict over 300 million individuals in China. With the acceleration of aging, the prevalence of these diseases and the demand for related medications are expected to rise significantly. An Gong Niu Huang Wan, a product with a century-long history known for its heat-clearing, detoxifying, convulsion-calming and spirit gate-opening effects, has garnered considerable consumer acclaim in recent years, with impressive sales figures. Data from Menet.com.cn shows that sales of An Gong Niu Huang Wan in physical pharmacies across Chinese cities surpassed RMB4 billion in 2022 and exceeded RMB3 billion in the first half of 2023.

3. Targeting different consumer segments with "dynamic", "approachable", and "sporty" brand images

The Group has paid close attention to market dynamics and consumer behaviours, striving to comprehensively understand and cater to consumer needs through a mix of online and offline branding promotional initiatives. We are dedicated to enhancing consumer interaction across multiple channels to closely align with and address their preferences. By employing a holistic approach to brand promotion, we anticipate strengthening consumers' awareness and recognition of our products, boosting our market presence and brand value.

During the Year Under Review, Nin Jiom undertook an assertive marketing strategy, promoting the brand across several high-profile film and television productions. In addition to being the title sponsor of "The Knockout" on iQIYI, which gained one billion views and of the variety show "Come Sing with Me" on Hunan Satellite TV, Nin Jiom made a significant investment in advertising during the early episodes of the urban drama "Blossoms Shanghai" on Tencent, which is the first TV series directed by the world-renowned director Wong Kar-wai and its peak single-day online viewership hit 145 million. Such exposure across these hot-ticket programs, both nationally and internationally, significantly bolstered the Nin Jiom brand in resonating with diverse audiences, reinforcing and broadening consumer affection for the products. During the Year Under Review, Nin Jiom secured 18th place in the 16th CPEO's "2023 Healthcare Industry Brand Value Ranking" with a brand value of RMB4.815 billion, up by four spots from the previous year. As for offline marketing, the Group carried out promotional activities in various forms such as brand promotion, outdoor advertising, elevator advertising, and community activities, for example, the Nin Jiom Filial Piety Project, the Lung Nourishing Carnival, celebrity meet-and-greets, and the "Nin Jiom • New Voice" National Youth Singing Competition. These efforts have engaged more consumers to participate in our events and directly experience our commitment to social responsibility and product excellence.

The core value of our products is inseparable from providing a healthier lifestyle and physical well-being for our consumers. During the Year Under Review, the Group's Kingworld Imada Red Flower Oil actively engaged in major sporting events to support the public in building a healthy, sporty life while enabling a wider range of potential users to directly experience the product's benefits. Therefore, the brand was involved in the Shenzhen Wutong Mountain Leisure Run, Shenzhen Baoan Marathon, Hangzhou Xiang Lake Half Marathon, Meizhou Marathon, Nanchang Marathon, Shaoxing Marathon, Shenzhen Marathon, and the Shenzhen-Hong Kong-Macao Youth Tennis Team Invitational. These marathons drew over 20,000 participants, with Kingworld Imada Red Flower Oil as the official external medicinal oil. Its massage services in the post-race stretching areas received high praise from runners, some of whom expressed their commendations on radio broadcasts. Such outdoor activities that bolster physical health and social connections have amplified consumer support for our products.

Red Flower Oil continued to promote the spirit of solidarity and compassion by partnering with the Shenzhen Project Care Foundation to organize activities for veterans, providing them with massage services that have been highly praised by the retired military community. During the Year Under Review, Taiko Seirogan, one of the products distributed by the Group, participated in the assistance program for college entrance exams and hosted the gastrointestinal health tour across cities in Guangdong and Fujian. These efforts aimed to foster product image that prioritizes the health and wellness of our consumers both physically and mentally.

Management Discussion and Analysis

4. ***Advancing market education for prescription medications and boosting product trust***

The Group has two prescription drugs, Enalapril and Jianfu Capsule. Enalapril, utilized for cardiovascular and cerebrovascular treatments, plays a significant role in enhancing the quality of life for the elderly, while Jianfu Capsule, an innovative product tailored towards women's health, helps solve the issue of infertility. As demographic aging accelerates and infertility rates climb, the demand for these two product categories continues to rise, revealing a vast growth potential. The Group has consistently met societal needs by partnering with medical specialists to launch educational activities, enhancing public knowledge and preventive awareness for these health issues, and further solidifying the products' market presence.

During the Year Under Review, the Group collaborated with pharmacists from chain pharmacies and doctors to host several seminars on hypertension, actively communicating the risks associated with H-type hypertension and elevating public awareness, particularly among seniors and hypertension sufferers, of the correlation between H-type hypertension and stroke. We are dedicated to fostering broader societal engagement with health topics through public education on effective prevention and health management. Enalapril has also been involved in charitable activities such as complimentary screenings for H-type hypertension.

Moreover, the Group has been proactively exploring the OTC sales model for prescription drugs, aiming to make these vital health management drugs more readily accessible to consumers. During the Year Under Review, the brand awareness of Enalapril improved and its sales have increased. As for clinical research of Jianfu Capsule, the Group has substantiated the product's efficacy in addressing infertility through clinical data and research papers by partners and doctors, such that more healthcare professionals are aware of the product and offer solutions to patients' concerns.

II. *Business review of healthcare and daily chemical distribution segment*

As the Group's second largest business segment, the healthcare and daily chemical products include Culturelle Probiotics, the No. 1 best seller of probiotics in the United States; Life's DHA, the pioneering algae oil; and the Carmex lip balm endorsed by the United States' No. 1 pharmacist and internet celebrities, which had a selling record of "selling 170 items per minute globally, popular in over 50 countries and regions". During the Year Under Review, the Group capitalized on a post-pandemic surge in public concern for personal and family health, the burgeoning health and beauty economy, and a trend towards higher consumer expectations for brand quality and cost-effectiveness. As a result, the health and daily chemical business saw a significant year-on-year increase. The sales from the health and daily chemical distribution segment recorded a growth of 7.9% to approximately RMB102,562,000.

Culturelle Probiotics emerged as a significant growth driver among the Group's healthcare products, registering a year-on-year increase of 46.6%. The algae oil brand Life's DHA initially showed promising growth but ultimately recorded only a slight increase due to substantial price adjustments by the manufacturer in the second half of the year. During the Year Under Review, targeting the Hong Kong market, the Group focused on Culturelle Probiotics as its flagship product and introduced new offerings, such as probiotics for females. Leveraging a stronger sales team and deploying online and offline marketing strategies tailored to meet market demands, the Group actively maintained and strengthened the constituents of market channels in Hong Kong and Macao, including distributors, chain stores, wholesalers, supermarkets, and pharmacies. Capitalizing on the resurgence of tourism in Hong Kong, the division also experienced record growth.

During the Year Under Review, the Group adopted the following important development strategies for healthcare and daily chemical products:

1. *Consolidating new marketing channels to strengthen market awareness of brands*

During the Year Under Review, the Group continued to consolidate its marketing channels and developed new ones, with the number of first-tier customers in the Hong Kong and Macao markets growing by over 10%. Culturelle Probiotics stabilized its presence in Hong Kong and Macao pharmacy chains such as Watsons, Mannings, SaSa, and CRcare, with an increased repurchase rate and lead products being the powdered probiotics for kids, the health & wellness capsules for adults, and women's probiotic. In addition, the Group boosted market and consumer awareness of Culturelle Probiotics through diverse marketing approaches, including in-store displays, advertising on buses, newspapers and TVB Jade channel, and participation in the large-scale Eugene Baby Expo. Culturelle Probiotics also won the Top Popularity Award of H.K. Pharmacies 2022-2023 during the Year Under Review. As for the mainland's offline sales channels, the Group introduced the Carmex lip balm series into new outlets such as Hema Xiansheng, new retail and department stores, CS, and Pang Dong Lai.

During the Year Under Review, the Group actively fine-tuned promotional strategies on platforms such as Tmall International, JD.com, Kaola, Vipshop, and Ali Health, achieving desirable sales outcomes. Life's DHA, the global leading DHA brand, has been well-received by consumers for its superior brand impact and product quality. Through ongoing marketing campaigns and consumer education, we reinforced Life's DHA's standing among consumers. Through collaboration with health professionals and nutritionists, we further elevated Life's DHA's market visibility, ensuring consumers recognize the health benefits of DHA. The Life's DHA series was featured on JD.com's 618 Dark Horse Brand List during the year.

The Group also meticulously selected quality live streamers from Kuaishou and Taobao based on market demands, utilizing content-based short videos to facilitate product education, which successfully led to increased sales. The Group focused on nurturing a professional maternal and infant product platform by combining content-driven promotion with e-commerce to enhance engagement with mother communities and strengthen collaborations with existing influencers. The Group achieved satisfactory outcomes through publicity, promotion, and marketing efforts around targeted customers to increase sales conversion.

2. ***Capitalizing on personalization and omnichannel integration and optimizing sales gross profit in e-commerce***

With AIGC enhancing the consumer shopping experience and sales nowadays, successful e-commerce operations must use big data analytics to provide a personalized shopping experience. Over the past years, the Group has utilized data to understand customer behaviors and preferences to implement precise personalized marketing strategies for product recommendations, promotions, and content. The Group's Kingworld e-commerce aimed to build a complete marketing eco-chain, from influencing potential customers in public domains, promoting products to customers in private domains, and patient education on medical platforms to generating greater GMV on the e-commerce platform through the empowerment of the Kingworld Medicines Group. The chain is now in its embryonic form. The Group will focus on creating an information-sharing, mutually beneficial supply chain and sales ecosystem.

In addition, the trend of seamless omnichannel integration, both online and offline, continues to proliferate in healthcare products. The Group is establishing a system capable of presenting a unified customer perspective across various touchpoints. Adapting to the new normal of consumption upgrades, the Group is comprehensively constructing a new Kingworld retail ecosystem that spans both online and offline realms. During the Year Under Review, the core e-commerce channels have enhanced the product conversion rates, including Culturelle Probiotics and Life's DHA, through marketing campaigns such as loyalty programs for members, especially repeat customers, member bonuses, and exclusive discounts for bulk purchases. These initiatives have effectively consolidated the brand's customer base, in addition to targeted SMS outreach and professional customer service to facilitate high-efficiency conversions. Moreover, the Group's domestic e-commerce department has ventured into reaching more patients through internet-based chronic disease management platforms and carried out in-depth collaboration with JD Health for the first time, launching redemption of products across various brands that significantly boosted product visibility and conversion rates.

The Group's long-established SMART system has been instrumental in providing the marketing team with extensive market data for predictive analysis, offering valuable insights into product trends, demands, and consumer behaviors. This has helped the Group to proactively make decisions and optimize inventory management, pricing strategies, and marketing campaigns. During the Year Under Review, the cross-border business of Kingworld Health Home, through operational adjustments to the product mix and support for high-margin and Kingworld specialty products, has created seven distinctive Kingworld brands and over 20 stock keeping units ("**SKUs**"). Certain individual products achieved first place in sales on Tmall's cross-border platform, and the store's monthly sales gross profit was optimized.

The Group has trialed a quasi-business unit approach for e-commerce. By increasing the average customer spending, conversion rates, and market share by applying big data, we have seen improvements in gross profit margins and customer satisfaction. This has spurred increased stakeholder engagement and fueled revenue and profit growth. During the Year Under Review, the Group actively organized major promotional events such as creating viral products and innovative campaigns for occasions like the 618 shopping festival, establishing a firm foundation for the sustainable development of the e-commerce quasi-business unit.

3. *Expanding presence in both domestic and international markets and broadening the range of healthcare products*

The Group's Kingworld Health Home overseas flagship store is among the pioneering batch of cross-border pharmaceutical e-commerce. It meticulously selects superior overseas pharmaceutical brands and products to cater to consumers' demand for high-quality international OTC family medicines. During the Year Under Review, the store adopted the strategy of broadening the product range, and the SKU count exceeded 100, encompassing regions such as Hong Kong, China, Japan, the United States, Germany, and Southeast Asia, including a total of 7 brands distributed or owned by Kingworld.

During the Year Under Review, the Group entered into a strategic cooperation with Shanghai Goldpartner Biotech Co., Ltd. ("**Goldpartner**"). The Kingworld-Goldpartner crossover Glucosamine product was launched as a nutrient supplement designed for Chinese people and their needs. With the finest raw materials and scientifically balanced formulations, it aims to become a good partner for Chinese consumers, particularly the elderly, in health. The Radix Paeoniae Alba Calcium capsule launched by Goldpartner is presented as a glucosamine capsule for joint health, rolled out in pharmacies nationwide in the fourth quarter of 2023. The product, with a fusion of Chinese and Western formulae, features glucosamine and extracts of Radix Paeoniae Alba and has been validated in animal experiments as an effective healthcare product in enhancing bone density and improving immunity. Given the accelerating aging trend, the product is embracing a promising prospect.

During the Year Under Review, the Group collaborated with Innopharm in France and based on the advantages of Europe's leading biotechnology and pharmaceutical fields, and combined with the latest scientific research results, we have created a high-end natural nutrition brand in France through the use of global high-quality raw materials. The brand of Innopharm was founded in 1983. The founder, Dr. Jacques Noury, has participated in the formulation research and development and clinical trials of many popular pharmaceuticals and healthcare products (such as star oral nutritional supplements and cosmetics) in Europe for 40 years. At present, we have developed and launched two high-end fish oils representing the ceiling (top) quality of fish oil, with a purity of up to 95%, high absorption rate and high blending ratio, which have obtained a number of international quality certifications such as IFOS, FDA, FOS, HALAL, NSF and MSC, which have been launched to the market in 2024. Additionally, the Group is expediting the development of a series of products, such as grape seed extract and coenzyme Q10.

III. *Business review of medical devices and equipment division*

As a global developer and manufacturer of electrophysical therapy and rehabilitation equipment and a national high-tech enterprise, Dong Di Xin, a non-wholly owned subsidiary of the Group, has been dedicated to electrophysical therapy and rehabilitation equipment since its establishment in 2000. Its products span two primary fields, namely physical rehabilitation physiotherapy instruments and general diagnostic devices. The product lineup includes five major categories: infrared thermometers, handheld electrophysical therapeutic products, professional medical electrophysical therapeutic equipment, biofeedback and therapeutic products, and accessories and spare parts, and are mainly sold to the European and American markets.

During the Year Under Review, with the revival of the global economy, particularly the escalated purchasing power in the European and American markets and the steady increase in demand for medical equipment after the pandemic, Dong Di Xin achieved a satisfactory overall sales performance and had met its annual sales goal. During the Year Under Review, the sales from the medical devices segment amounted to approximately RMB240,936,000, representing a year-on-year decrease of about 10.4%.

Sales of infrared thermometers resumed to pre-pandemic levels as the COVID-19 restrictions were lifted worldwide. Products with high gross margins, such as professional desktop therapeutic devices, saw a considerable year-on-year sales increase. The key clients, especially those in Europe, sustained stable growth, providing robust backing for fulfilling the year's sales targets. Through vigorous marketing efforts, the market share of flagship products recorded a substantial year-over-year increase, thereby boosting the segment's gross profit margin.

The Group maintained stable growth in the European and American markets and proactively developed other potential markets such as the Middle East, Southeast Asia, and Hong Kong, China. By engaging in local medical equipment expos, the Group enhanced direct customer interactions and secured orders, effectively broadening the international reach of its product portfolio.

During the Year Under Review, the Group adopted the following essential development strategies for the medical devices and equipment business:

1. *Upgrading smart production and quality services in line with global expansion*

Dong Di Xin consistently reinforces its commitment to the management model of "Lean Production 6S" to pursue excellent operations. In addition, the Company significantly increased investments in upgrading and transforming the precision machining center while intensifying employee training. These measures have optimized organizational processes and notably elevated the Company's standard of production management.

In the SMT intelligent manufacturing system field, Dong Di Xin implemented a suite of optimization measures tailored to industrial manufacturing needs, effectively lowering labor costs, enhancing production efficiency, and significantly reducing manual errors. These measures support the core production management principle of "doing things right at one time".

Furthermore, the Company has continued to enhanced its product quality system, the after-sales service framework, and the risk event control mechanism, which are the crucial components of its production management strategy. It has also established emergency systems for medical accidents and protocols for information confidentiality to ensure stable sales performance. These initiatives demonstrate Dong Di Xin's efforts to establish an effective global high-quality service operational model, providing a solid foundation for sustained sales achievements.

2. ***Cultivating proprietary brands to improve product gross profit***

The Company has always attached great importance to the cultivation of its own brand, NU-TEK, and has continued to increase investment in marketing. During the Year Under Review, sales from the proprietary brand accounted for more than 10% of total sales, with an annual growth rate of over 10%. The brand successfully penetrated the markets in China, Europe, and the United States, with sales in China surpassing RMB10 million, reaching over 30 provinces and cities, and collaborating with 194 clients.

In addition, the Company entered into a strategic partnership with ZIMMER from Germany, with Dong Di Xin taking on the contract manufacturing for three ZIMMER products registered in China. During the Year Under Review, three batches of products were successfully delivered. The Company continued to strengthen cooperation with such renowned international physical rehabilitation therapeutic enterprises. This sales model featuring "domestic registration, global supply", which benefits from the national import substitution policy, has paved the way for Dong Di Xin's products to penetrate further into medical institutions and grow sales in the future.

3. ***Enhancing scientific research and leading product development***

In March 2023, the Industry and Information Technology Bureau of Shenzhen Municipality released the list of "Shenzhen's Professional, Refined, Specialised and New Small and Medium-sized Enterprise" and Dong Di Xin was successfully selected, highlighting the Group's innovation capacity and professional spirit in the industry. As of of 2023, Dong Di Xin had filed a total of 67 patents, including 10 invention patents, 48 utility model patents, and 9 design patents. It also secured 13 software copyrights, showcasing its scientific research capacities and accomplishments. As for scientific research collaboration, the Company has strengthened technological exchanges with Sun Yat-sen University and its affiliated hospital, jointly developing a treatment device for dysphagia. Furthermore, Dong Di Xin has collaborated with Guangzhou University of Chinese Medicine and its affiliated hospital, focusing on the technological advancement and clinical application of third-generation physical rehabilitation therapeutic devices.

IV. Review of other business

1. Longde Health Industrial Park has successfully passed inspection, and new developments are on the horizon

To promote the opening up and integration of traditional Chinese medicine between Shenzhen and Hong Kong, innovate the international layout of traditional Chinese medicine, and strengthen the establishment of the university-industry-research integration platform in Shenzhen and Hong Kong, the Group has been dedicated to constructing the Kingworld • Longde Life and Health Industrial Park. This is a critical strategic move within Kingworld's strategies of the Fifth Five-Year Plan to propel scientific research and innovation. The industrial park is designed to offer specialized biopharmaceutical hardware and shared equipment platforms. On the software front, it aims to establish integrated industry-academia-research platforms such as the "landing port for Hong Kong-based pharmaceutical products", the "Shenzhen-Hong Kong Chinese medicine in-hospital preparation center" and the "biopharmaceutical science and technology innovation training camp", to provide innovative ecological partners of traditional Chinese medicine with multi-module services, such as "R&D planning, production and distribution", "brand planning and patent layout", and "macro trends and financing".

During the Year Under Review, government officials from various levels of Shenzhen Municipality and Longgang District visited the industrial park to learn about the Group's needs and offered guidance. During the Year Under Review, the Group has completed the overall construction and preparation for operations of Longde Industrial Park in Longgang District, Shenzhen. The park was recognized as one of the "2023 Longgang District Major Projects", and merchant solicitation work is in full swing.

Management Discussion and Analysis

2. ***Through investment and financing in the healthcare industry to lead sustainable business growth***

The Group is committed to the long-term development of the pharmaceutical and healthcare industry. Relying on the capital market advantages as a listed company, the Group has taken a multi-dimensional approach combining capital operations, brand influence, and strategic cooperation to establish cooperation or alliances with upstream and downstream companies along the industry chain. In doing so, the Group can share resources with partners and bring its brands and management strengths into collaborations, achieving mutual benefits and win-win success and spurring rapid growth for both the enterprise and its partners.

In April and August 2023, the Group subscribed for 2,178,400 shares and 1,007,500 shares, respectively, of Taiko Pharmaceutical Co., Ltd. (stock code: 4574. JP) ("**Taiko Pharmaceutical**"), with the total shareholding representing approximately 6.42% of the enlarged issued share capital of Taiko Pharmaceutical as at 17 August 2023. Taiko Pharmaceutical is the supplier of Taiko Seirogan, one of the pharmaceutical products distributed by the Group. The investment in Taiko Pharmaceutical is in line with the Group's industrialization strategy, which will help promote business synergy and strengthen cooperation, and also help the Group expand new product business to promote traditional Chinese medicine and serve public health.

The Group strengthened cooperation with Hong Kong Fat Chi, and the sales of Hong Kong Fat Chi products soared in market share, laying a sound foundation for promoting authentic Long medicine. Both the Board and the board of directors of Hong Kong Fat Chi have confirmed matters relating to further developing new products and industrial cooperation in the future. During the Year Under Review, the Group signed a strategic cooperation framework agreement with Shaanxi Pharmaceutical Holding Group Chinese Medicine Investment Co., Ltd. The agreement prioritizes collaborative efforts in marketing, R&D, and production, which include expanding market reach through exhibition and sales cooperation, furthering sales collaboration, leveraging Hong Kong, China as a hub for import and export business, and developing products sourced from authentic Shaanxi medicinal materials. By doing so, the two sides aim to promote the traditional Chinese medicine culture featuring authentic "Qin medicine" in Shaanxi and contribute to building a healthier China.

The Group has adhered to investment and financing within the pharmaceutical and healthcare sectors. It has strived to retain its leading position in the highly competitive pharmaceutical and healthcare sector while providing robust support for its long-term development. During the Year Under Review, the capital system team of the Group has evaluated dozens of projects, primarily in areas such as innovative drugs, cell therapy, and healthcare equipment, of which healthcare and ophthalmology equipment projects accounted for more than one-third.

3. *Share incentive scheme boosts morale, leading to a notable increase in performance*

Following the initial grant of awards on 21 January 2022, the Group granted 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 these, 1,044,000 incentive shares were granted to 14 selected participants who are connected grantees and 2,460,000 to 65 selected participants who are not connected grantees (the "**Second Grant of Award**"). This action represents the Group's concrete steps to further actualize its Share Award Scheme, acknowledging and rewarding the essential contributions of excellent employees. It aims to inspire continued commitment to the Group's overall ongoing operations and growth while attracting more top-tier talent to propel advancement. The execution of this scheme has greatly uplifted morale. The Group's sales performance experienced a year-on-year increase of approximately 12.6%.

V. *Corporate culture and sustainable development*

1. *Embracing corporate sustainable development and ethical practices to serve the community*

The Group continued to uphold the corporate mission of "Serving the community and benefiting the world", actively fulfilling its corporate social responsibility and striving to build a harmonious and graceful community of human beings. During the Year Under Review, the Group focused on contributing to society in crucial areas such as rural revitalization, national health, personnel education and training, support for veterans, environmental protection, and caring for monks' health. During the Year Under Review, the Group donated a total of nearly RMB10 million in cash and in kind, and was honored with titles including the "Health Industry Charity Award", the "Public Welfare Education Support Unit", and the "Veterans Care Community".

During the Year Under Review, in response to natural disasters, the Group generously donated RMB800,000 in cash and RMB250,000 in disaster relief supplies, totaling RMB1.05 million, to the Beijing-Tianjin-Hebei flood victims through the Shenzhen Charity Federation and the One Foundation. These funds aided flood control, rescue efforts, and post-disaster reconstruction in the affected areas. Following the earthquake in Jishishan County, Linxia Prefecture, Gansu, at the end of December 2023, the Group collaborated with Lanzhou Foci to donate medicines and supplies to the earthquake victims. The Group ordered urgently RMB600,000 worth of military-style cotton coats and delivered them overnight to the affected areas.

Management Discussion and Analysis

The Group continued to hold the large-scale public welfare activity "Vassa Summer Retreat". During the monks' meditation 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 provinces and cities across China to care for the health of monks and the believers and to pray for common citizens. During the Year Under Review, the Group participated in environmental protection activities held by The Nature Conservancy and the Paradise International 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 the Paradise International Foundation.

In addition, the Group's Kingworld Healthcare Foundation and the Shenzhen Project Care Foundation continued to carry out the community activities of "Caring for the Veterans with the Red Power of Shenzhen" under the guidance of the Shenzhen Veterans Affairs Bureau. Activities were organized in Shenzhen's Longgang and Nanshan districts to care for veterans and assist vulnerable groups. Kingworld Imada Red Flower Oil was used to enhance massage awareness and alleviate common ailments, and services such as H-type hypertension screening, stroke risk genetic testing, mental health assessments, and disease prevention education were provided to veterans.

2. ***Emphasizing training for employees to enhance their professionalism and overall capabilities***

The Group adhered to the people-oriented philosophy and was committed to deepening the corporate culture and strengthening the cohesion in the enterprise to foster a work environment full of positive energy and a sense of belonging. We emphasize our employees' personal growth and learning spirit, nurturing a corporate culture that encourages employees to learn and helps them find joy in learning. We believe that continuous learning and effort can not only drive personal development but also facilitate the collective advancement of the enterprise.

To realize this goal, the Group conducted dozens of training sessions for over a thousand participants during the Year Under Review. These sessions cover aspects such as product knowledge, intellectual property protection, marketing strategy, and new employee orientation. These sessions aimed to sharpen employee expertise and market acumen, enhance their thinking and broaden their perspectives.

The Group and Guangdong Food and Pharmaceutical Vocational College have organized the innovative "Kingworld Class" for over ten years, providing Kingworld with various excellent entry-level employees. In July 2023, the Food and Drug Vocational College awarded the "Teacher-Enterprise Practice Mobile Station" plaque to Kingworld.

3. ***Rigorous risk management and agile market response***

In a dynamic business environment with numerous challenges, the Group is dedicated to enhancing internal management and refining workflow processes. Through the proactive adoption of IT tools such as WeChat Work and mini programs, we have improved approval processes and increased the speed and transparency of information flow, ensuring a swift response to market shifts and effectively reducing operational risks. Moreover, we have bolstered the management of goods and receivables, particularly by making significant efforts in risk control.

During the Year Under Review, despite market uncertainties, the Group managed to keep accounts receivable within a reasonable timeframe with no bad debts, ensuring the stable operations of the Group. By taking these measures, the Group has not only effectively responded to the complex market landscape but also improved the management standards and risk control capabilities of the Group, providing a firm foundation for our ongoing stable growth.

4. ***Advancing with the times: building a digital and intelligent marketing platform***

During the Year Under Review, the Group leveraged digital tools to streamline processes and systems. Projects such as the single sign-on system, the SAP reporting system, the data cockpit, and the intelligent marketing management robot (mobile app) were launched and put into use, playing a pivotal role in smart management and providing multi-dimensional visual data for informed decision-making of the Group. For the construction and application of the digital and intelligent marketing platform on the SMART system, the Group established the "customer value-added service application platform" for regions and key clients based on the philosophy of mutual benefit and the principles of marketing management. Through the real-time self-service application, this platform facilitates one-to-one, detailed management of key clients to solidify regional/channel/product sales. In line with the "digital intelligence marketing" concept, the Group fully utilizes the IT platform to empower marketing efforts and develop tools such as a sales team performance assessment evaluation system. The results of the digital and intelligent marketing platform during the year have played a significant role in the Group's management, personnel motivation, customer services, and regional management. Furthermore, the Group follows the trend and plans to explore digital personas for media communications.

HONOURS

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

- In January 2023, the Group was awarded the "Shenzhen Time-Honored Brand" (深圳老字號) (Re-examination);

- In March 2023, Shenzhen Dong Di Xin Technology Company Limited, a subsidiary of the Group, was successfully selected as "Shenzhen's Professional, Refined, Specialized and New Small and Medium-sized Enterprise" (深圳市專精特新中小企業);

- In March 2023, Nin Jiom Chuan Bei Pei Pa Koa, distributed by the Group, won the award of the "2022 China Pharmacy Clerks' Most Recommended Brand" (2022年度中國藥店店員推薦率最高品牌), marking its 17th consecutive year on the list;

- 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, Ms. Chan Lok San, an executive director of the Company, 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 May 2023, the Group won the honor of "Shenzhen Top Brand" (深圳知名品牌) 2023-2025;

- In May 2023, Mr. Zhao Li Sheng, Chairman of the Board, 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, Mr. Zhao Li Sheng, Chairman of the Board, assumed the position of 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 Friends of Hong Kong Association Ltd. 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 the Group distributes, was listed in the "Top 100 Chinese Medicine Enterprises (中國中藥企業TOP100排行榜)";

- In June 2023, Life's DHA, distributed by the Group, was included in JD.com's 618 Dark Horse Brand List (京東618黑馬品牌榜);

- In June 2023, Mr. Zhao Li Sheng, Chairman of the Board, 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);

- In August 2023, Nin Jiom secured the 18th place in the CPEO's "2023 Healthcare Industry Brand Value Ranking" (2023健康產業品牌價值榜) with a brand value of RMB4.815 billion, and continued to lead the category of cough relief and phlegm alleviation medicines;

- On 16 September 2023, the "2022 Shenzhen Charitable Donation List" (2022年度深圳慈善捐贈榜) was released, and Kingworld donated RMB8.3689 million, ranking 18th on the corporate donor list, while Kingworld Health Care Foundation received RMB9.9158 million, placing 62nd on the donation recipient list;

- In September 2023, Shenzhen Kingworld Medicines Co., Ltd. was listed among the "2023 Top 500 Enterprises in Shenzhen" (2023深圳企業500強榜單);

- In October 2023, Mr. Zhao Li Sheng, Chairman of the Board, assumed the position of Honorary Vice President of the First Council of the Hong Kong China Friendship Association;

- In October 2023, Mr. Zhao Li Sheng, Chairman of the Board, assumed the position of Honorary Chairman of the 8th Supervisory Board of the Shenzhen Overseas Chinese International Association;

- In November 2023, Longde Life and Health Industrial Park was selected as a major project in Longgang District for 2023;

- In November 2023, Zhao Kin Wai, assistant to the Chairman of the Group, was recognized as a leader in Shenzhen's high-quality development for 2023;

- In November 2023, Mr. Zhao Li Sheng, Chairman of the Board, Zhao Kin Wai (assistant to the Chairman), and Zhao Weiying (assistant to the Chairman) were elected as Vice President, Executive Director, and Director, respectively at the first council meeting of the eighth session of the Shenzhen Overseas Friendship Association (深圳海外聯誼會);

- In November 2023, Mr. Zhao Li Sheng, Chairman of the Board, was appointed as the Honorary Chairman of the 10th International Teochew Youth Convention (第十屆國際潮青聯誼年會);

- During the Double Eleven festival in 2023, Nin Jiom was ranked first in the "Most Popular Products in Livestreaming" (直播最受歡迎品) on JD Health for cold and cough family medicines, second in the "Top 10 Essential Products for Users" (用戶常備TOP10單品), and second in the "Top Brands for Respiratory System Medicines" (呼吸系統用藥TOP品牌); and

- From October to December 2023, Imada Red Flower Oil was the designated external medicinal oil for the Meizhou Marathon, Nanchang Marathon, Shaoxing Marathon, and Shenzhen Marathon.

FINANCIAL REVIEW

1. Revenue

Revenue of the Group for the Year Under Review was approximately RMB1,078,659,000, representing an increase of approximately RMB120,958,000 or 12.6% from approximately RMB957,701,000 for the year ended 31 December 2022. The increase was mainly a result of the increase in revenue from the sales of Nin Jiom Chuan Bei Pei Pa Koa. The increase was mainly due to the gradual recovery of market demand due to the infection control and better understanding of the Pandemic during the Year Under Review as compared to the year ended 31 December 2022. Such increase was partially off-set by the decrease in sales of medical devices, including infrared thermometer, manufactured by Dong Di Xin. These Pandemic preventive products were in great demand during the year ended 31 December 2022.

2. Cost of sales and gross profit

For the Year Under Review, cost of sales for the Group amounted to approximately RMB797,994,000, representing an increase of approximately RMB117,920,000 or 17.3% from approximately RMB680,074,000 for the year ended 31 December 2022. The increase in cost of sales was in line with the increase in sales volume. Gross profit for the Year Under Review was approximately RMB280,665,000 representing an increase of approximately RMB3,038,000 or 1.1% from approximately RMB277,627,000 for the year ended 31 December 2022. Gross profit margin decreased from 29.0% for the year ended 31 December 2022 to 26.0% for the year ended 31 December 2023. Such decrease is a result of the decrease in proportion of revenue from products with relatively higher gross profit margin to total revenue, in particular the medical device products from Dong Di Xin, during the Year Under Review.

3. Other revenue, income and other net loss

Other revenue, income and other net loss mainly included exchange difference, promotional service income, rental income, government grant, interest income and dividend income. For the Year Under Review, other revenue, income and other net loss amounted to approximately RMB40,374,000, representing an increase of approximately RMB18,829,000 or 87.4% from approximately RMB21,545,000 for the year ended 31 December 2022. The increase was mainly due to the increase in change in fair value of financial assets at fair value through profit or loss and dividend income through other comprehensive income and through profit or loss.

4. Selling and distribution costs

For the Year Under Review, selling and distribution costs amounted to approximately RMB102,762,000, representing an increase of approximately RMB2,310,000 or 2.3% from approximately RMB100,452,000 for the year ended 31 December 2022. This increase was primarily attributable to the increase in delivery cost, storage expense and bonus.

5. Administrative expenses

For the Year Under Review, administrative expenses amounted to approximately RMB119,532,000, representing an increase of approximately RMB14,959,000 or 14.3% from approximately RMB104,573,000 for the year ended 31 December 2022. This increase was mainly due to the increase in research and development costs and bonus.

6. *Finance costs*

For the Year Under Review, finance costs amounted to approximately RMB11,519,000, representing a decrease of approximately RMB773,000 or 6.3% from approximately RMB12,292,000 for the year ended 31 December 2022. The decrease was mainly due to the decrease in interest charged on bank loans as a result of a decrease in average interest rate for borrowing.

7. *Profit before taxation*

For the Year Under Review, profit before taxation for the Group amounted to approximately RMB93,886,000, representing an increase of approximately RMB26,302,000 or 38.9% from approximately RMB67,584,000 for the year ended 31 December 2022. The increase in profit before taxation was mainly due to the increase in profit from operations.

8. *Income tax*

For the Year Under Review, income tax expenses for the Group amounted to approximately RMB32,292,000, representing an increase of approximately RMB8,250,000 or 34.3% from approximately RMB24,042,000 for the year ended 31 December 2022. The increase was mainly due to the increase in profit before taxation. The effective tax rate for the Year Under Review was 34.4%, compared to 35.6% for the year ended 31 December 2022. The details are set out in Note 8 to the consolidated financial statements in this report.

9. *Profit for the year*

As a result of the foregoing, the Group recorded a net profit for the Year Under Review of approximately RMB61,594,000, representing an increase of approximately RMB18,052,000 or 41.5% when compared to approximately RMB43,542,000 for the year ended 31 December 2022.

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

For the Year Under Review, profit for the year attributable to owners of the Company amounted to approximately RMB38,096,000, representing an increase of approximately RMB15,355,000 or 67.5% from approximately RMB22,741,000 for the year ended 31 December 2022. The increase in profit for the year attributable to owners of the Company was mainly due to the increase in profit for the year.

ANALYSIS OF MAJOR BALANCE SHEET ITEMS

1. *Trade and other receivables*

Trade receivables of the Group include credit sales to the Group's distributors. Other receivables of the Group include prepayments, deposits and other receivables. Trade and other receivables of the Group as at 31 December 2023 amounted to approximately RMB276,959,000, representing a decrease of approximately RMB6,430,000 or 2.3% from approximately RMB283,389,000 as at 31 December 2022. The decrease was mainly due to the increase in cash received from our customer during the Year Under Review.

2. *Inventories*

As at 31 December 2023, inventories owned by the Group amounted to approximately RMB117,628,000, representing an increase of approximately RMB32,864,000 or 38.8% when compared to that of RMB84,764,000 as at 31 December 2022. The main reason for the increase in inventories was the increase in finished goods.

3. *Right-of-use assets*

As at 31 December 2023, right-of-use assets amounted to approximately RMB107,438,000. As at 31 December 2022, right-of-use assets of the Group amounted to approximately RMB117,370,000. The decrease was mainly due to the amortisation in buildings held for own use during the Year Under Review.

4. *Property, plant and equipment*

Property, plant and equipment owned by the Group include building, leasehold improvements, furniture, fixtures and office equipment, machinery, motor vehicles and construction-in-progress. As at 31 December 2023, the net book value of property, plant and equipment owned by the Group amounted to approximately RMB278,279,000, representing an increase of approximately RMB95,755,000 or 52.5% from approximately RMB182,524,000 as at 31 December 2022. The increase in property, plant and equipment was mainly due to the addition of construction-in-progress and purchase of a building during the Year Under Review.

5. *Trade and other payables*

Trade and other payables of the Group mainly include trade and bill payables, prepayments from customers, other payables and accrued expenses. As at 31 December 2023, trade and other payables of the Group amounted to approximately RMB192,954,000, representing an increase of approximately RMB4,549,000 or 2.4% from approximately RMB188,405,000 as at 31 December 2022. The increase was mainly due to the increase in trade payables.

CASH FLOWS

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

During the Year Under Review, the Group's cash and cash equivalents decreased by approximately RMB68,477,000, which mainly comprised the net cash inflow generated from operating activities with the amount of approximately RMB42,284,000, net cash outflow used in investing activities with the amount of approximately RMB120,634,000, net cash inflow generated from financing activities with the amount of approximately RMB4,372,000 and the foreign exchange gain of approximately RMB5,501,000. Details of cash flows of the Group are set out in pages 92 and 93 of the "Consolidated Statement of Cash Flows" in this report.

CAPITAL STRUCTURE

1. *Indebtedness*

The total indebtedness of bank loans of the Group, which will be due within one year as at 31 December 2023, was approximately RMB191,663,000 (31 December 2022: approximately RMB271,285,000). The bank loans which will be due over one year as at 31 December 2023 was approximately RMB150,467,000 (31 December 2022: RMB Nil). During the Year Under Review, the Group did not experience any difficulties in renewing its banking facilities with the lenders.

2. *Gearing ratio*

As at 31 December 2023, the Group's gearing ratio, calculated as total interest-bearing bank borrowings, less cash and cash equivalents, divided by total equity as at the end of relevant year, was approximately 24.1% (31 December 2022: approximately 4.2%). The increase was mainly due to the increase in bank borrowings.

3. Pledge of assets

As at 31 December 2023, the Group had pledged investment properties, right-of-use assets and property, plant and equipment to certain banks in the amount of approximately RMB99,990,000, RMB95,810,000 and RMB16,618,000, respectively. As at 31 December 2022, the Group 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, RM97,174,000, RMB17,709,000 and RMB32,610,000, respectively.

4. Capital expenditures

The capital expenditures of the Group primarily included purchases of plant, equipment, leasehold improvements and other costs for acquisition of right-of-use assets and land. The Group's capital expenditures amounted to approximately RMB107,400,000 and RMB114,058,000 for the years ended 31 December 2023 and 31 December 2022, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long-term and short-term bank borrowings. For the Year Under Review, the effective interest rate for the Group's bank loans ranged from 3.00% to 8.54%. Details on the effective interest rate and maturity profile of the Group's total borrowings are set out in Note 27 to the consolidated financial statements. Taking into account the cash flow generated from operations and the long-term and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 31 December 2023, the Group had cash and cash equivalents of approximately RMB173,678,000 (31 December 2022: approximately RMB242,155,000) which was mainly generated from operations of the Group.

CAPITAL COMMITMENT

As at 31 December 2023, the Group had capital commitment of approximately RMB141,678,000 (31 December 2022: approximately RMB232,785,000).

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

During the year ended 31 December 2023, the Group did not make any material acquisition or disposal.

LITIGATION

As at 31 December 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, 2021 Annual Report and 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, 2022 Interim Report and 2023 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 report, the Guangdong Province Shenzhen Municipal People's Procuratorate (廣東省深圳市人民檢察院) had approved the request for re-trial.

FUTURE OUTLOOK

According to a McKinsey industry research report, the global health market will reach USD1.8 trillion by 2024. The increase is primarily attributed to a higher demand for healthy living among millennials and generation Z than older consumers. AIGC aligns with consumer needs, providing targeted delivery of personalized health-related information. Besides, consumers have a greater demand for healthcare products backed by scientific evidence and professional endorsements from doctors. In 2022, China's healthcare food market size reached RMB394.68 billion, with a year-on-year growth of 3.0%. According to the Media Research, the market of healthcare products in China will further expand to RMB423.7 billion by 2027. Despite the global and Chinese economies are still facing a slowdown in external economic growth, geopolitical uncertainties, and various uncertainties within the domestic macroeconomic environment in 2024, there are still significant market growth prospects in the global health industry.

Looking to the future, we will work with our employees and partners in the following key areas to achieve more abundant results:

1. *Upholding the strategies of the Fifth Five-Year Plan and leading the business to "go global" for greater expansion*

Building on the excellent performance of 2023, the Group will continue to pursue the strategies of the Fifth Five-Year Plan. Guided by the development philosophy of "highlighting core business and fostering diversity", the Group will persistently enhance the operational quality of its core business in medicine and health. In 2024, the Group will expedite collaborations with Southeast Asia and other countries along the "Belt and Road" and intensify product promotion in the European market. By implementing the "going global" development path, the Group will solidify its international presence. Looking ahead, we will leverage our extensive domestic and international sales networks to secure agency rights for globally recognized healthcare medicines, expanding our product lines to provide diverse health options for consumers worldwide. The Group is also committed to seeking out businesses with potential for acquisition and investment, such as innovative drugs, cell therapy, and health and medical equipment, which have excellent growth potential. These products can benefit a diverse demographic, from children and millennials to the elderly, thus creating multiple growth drivers for the Group.

2. *Grasping the development of AIGC and improving the strength from marketing to product R&D*

The rapid development of AIGC has affected the ecological development of industries worldwide, and the pharmaceutical industry is no exception. From a marketing perspective, the Group will implement omnichannel online and offline marketing strategies in the future. It is indispensable to combine the most advanced technologies and grasp market trends, social hot spots, health trends, etc., in real time to conduct precise marketing. The Group will use AIGC to empower the upgrade and transformation of e-commerce marketing. This will bring consumers a different feel and experience of products. By accurately understanding the health needs that consumers focus on, the Group can provide personalized product information, improve sales efficiency, and create more buying demand. Meanwhile, the global medical product industry will also actively apply AIGC to drive creative production. This will help reduce costs and increase efficiency for the development and innovation of medical devices, thereby creating products that meet the human body's needs more effectively. The Group will invest resources to develop in related fields, train more tech talents, and elevate the Group's capabilities to another level.

3. *Accelerating corporate expansion through product introduction, sales terminals upgrading, and exogenous development*

With the Group's successful track record of achieving satisfactory sales results for many stellar products in China and other regions over the years, we will enhance our product introduction capabilities and terminal distribution intensity by selecting more high-quality business partners on both the product supply and sales sides. The Group has maintained friendly and cooperative relationships with its business partners over the years, enabling the Group to continue to obtain products favored by consumers. The Group will continue to increase the variety of medicines, health products, and medical devices to expand the market. Meanwhile, the Group will actively seek suitable investment and financing projects, and introduce more pharmaceutical products with roots in ancient Chinese medicine and Long Yao Foci products through equity participation and investment. The nearly century-old Foci Group, known for its authentic raw medicinal materials, holds many approvals for traditional Chinese-prepared medicines. Based on an in-depth market study, the Group will work with Foci Pharmaceuticals to jointly develop a blockbuster product that embodies the essence of Chinese medicine culture and establishes an ideal healthy life for people. The Group will also tap into the demand for health products generated by an aging population and develop effective pharmaceutical and health products and medical device products for seniors. With the attainment of the distribution right for Fortune Coltalin, the Group plans to leverage the strong marketing channels established by Nin Jiom, also a cold symptom relief product, to quickly expand the sales of Fortune Coltalin. The Group believes it can bring synergistic effects to both sales, thereby enhancing overall sales.

4. *Longde Health Industrial Park: A national-level incubator and investment promotion base for the pharmaceutical industry in the Greater Bay Area*

Following the successful acceptance inspection on 18 January 2024, the Longde Life and Health Industrial Park is progressing smoothly with its investment promotion activities. The industrial park is anticipated to commence operations in November 2024. The Group is dedicated to building the industrial park into a national-level incubator and investment promotion base for the pharmaceutical industry in the Greater Bay Area. This initiative aligns with the region's vision of fostering a healthy city, encompassing the R&D of health and medical products, technological innovation, modern logistics, and industrial finance services. As cross-border movement between the mainland and Hong Kong increases, there will be an enormous demand for medical services across the border in the Greater Bay Area, and primary healthcare and rehabilitation services might become essential growth areas. According to the Chief Executive's 2023 Policy Address of the Hong Kong SAR, the Elderly Health Care Voucher Greater Bay

Area Pilot Program is set to broaden the applicability of elderly health care vouchers to select medical facilities within the Greater Bay Area by 2024, which will help create concrete commercial opportunities in the area. Looking ahead, the Group plans to leverage the unified market of the Greater Bay Area to enhance the cross-border flow and development of medical resources and data and accelerate the development of the Longde Health Industrial Park.

HUMAN RESOURCES AND TRAINING

As at 31 December 2023, the Group had a total of 1,002 employees, of whom 142 worked at the Group's headquarters in Shenzhen, and 431 were stationed in 34 regions mainly responsible for sales and marketing, and 429 worked at Dong Di Xin. The total staff cost for the Year Under Review amounted to approximately RMB133,118,000 (2022: approximately RMB146,497,000). The Group releases an annual sales guideline on a yearly basis, setting out the annual sales targets and formulating quarterly sales strategies to provide sales and marketing guidelines for all representative offices and their staff. The Group has a management team with extensive industry experience (including the sales directors and product managers), which is responsible for coordinating front-line sales and marketing teams to meet the annual sales targets.

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

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

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

DIVIDENDS

To extend the Company's gratitude for the support of our Shareholders, the Board has recommended the distribution of a final dividend for the year ended 31 December 2023 of HK3.38 cents per share to Shareholders whose names appear on the register of members of the Company on Tuesday, 11 June 2024, amounting to approximately HK$21,041,000 (equivalent to approximately RMB19,049,000), subject to the approval of the Shareholders at the Company's forthcoming annual general meeting to be held on Wednesday, 29 May 2024. Total dividend payout ratio is approximately 50.0% of the profit for the year attributable to owners of the Company.

There is no arrangement under which a Shareholder has waived or agreed to waive any dividends, the above-mentioned final dividend is expected to be paid on or before Sunday, 30 June 2024.

Directors' and Senior Management's Biographies

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

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Zhao Li Sheng (趙利生), aged 65, was appointed as an executive Director of the Company on 25 September 2008. He is the co-founder of the Group and the chairman of the Company. He is primarily responsible for the Group's overall strategic planning and business management. He has over 28 years of experience in business management and development in the distribution of pharmaceutical and healthcare products. He was also appointed as the chairman of Shenzhen Kingworld Industry Company Limited ("**SZ Industry**") in 1994 and the general manager and chairman of SZ Kingworld Medicine Company Limited ("**SZ Kingworld**") in 1996. Mr. Zhao was qualified as a senior business manager by the Business Management Qualification Accreditation Committee of Hubei Province in December 2002. Mr. Zhao was a member of the standing committee (常委) of the 4th and 5th Shenzhen Committee of the Chinese People's Political Consultative Conference (深圳市政協第四及第五屆委員會). Mr. Zhao was the vice-president of The Fifth Council of the Shenzhen General Chamber of Commerce (深圳市總商會(工商聯)第五屆理事會) in 2005. He was the honorary director (名譽會董) of the Federation of Hong Kong Chiu Chow Community Organisations, the council member (理事) of the Third Session of China Overseas Friendship Association (第三屆中華海外聯誼會) in 2008 and the standing council member (常務理事) of the Third China Economic and Social Council (第三屆中國經濟社會理事會) in 2009. Currently, he is the vice president (副會長) of the Shenzhen Healthcare Association (深圳市保健協會) and the Fifth Council of the Pharmaceutical Profession Association (深圳市醫藥行業協會第五屆理事會). He is also the chairman of the Youth Chawnese Committee of Shenzhen (深圳潮人海外經濟促進會青年委員會). He is the spouse of Ms. Chan Lok San, an executive Director of the Company.

Ms. Chan Lok San (陳樂燊), aged 60, was appointed as an executive Director of the Company on 25 September 2008. She is the co-founder of the Group. She is primarily responsible for the Group's financial planning and human resources management. She has over 26 years of experience in the pharmaceutical industry as well as over 14 years of experience in property management. Ms. Chan has been working for SZ Industry since 1994 and SZ Kingworld since 1996, respectively. She has been the vice chairlady of SZ Kingworld and SZ Industry since 2005 and 2006, respectively, and the vice chairlady of Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited since 2005 and the legal representative of Shenzhen Kingworld Department Store Property Management Company Limited and Shenzhen King Gibson Golf Company Limited. She received a master degree in business administration of senior management from Sun Yat-Sen University in 2010. In 2011, she was appointed as a committee of Shenzhen Golf Society and a vice-chairlady of Shenzhen Clothing Society. She was also a member of the Global Foundation of Distinguished Chinese (世界傑出華人基金會) in 2003. Since 25 December 2012, she has served as the chairlady of the EMBA Alumni Association of Sun Yat-Sen University. Currently, she is also the director (理事) of Sun Yat-Sen University Entrepreneur Alumni Association (Third Session) (第三屆中山大學企業家校友聯合會). She is the spouse of Mr. Zhao Li Sheng, an executive Director of the Company.

Mr. Zhou Xuhua (周旭華), aged 57, was appointed as an executive Director of the Company on 3 August 2009. He has been the general manager of SZ Kingworld since 2009. He is primarily responsible for the business development and operations of SZ Kingworld. He was the business manager of SZ Industry between 1994 and 1995 and was the regional manager and deputy general manager of SZ Kingworld after he joined SZ Kingworld in 1996. He has 26 years of experience in the pharmaceutical industry. Mr. Zhou has worked as a clerk and was later promoted to become a supervisor of Shenzhen International Arcade between 1987 and 1993. He completed his education at Shenzhen Finance School (深圳市財經學校) in 1987.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Duan Jidong (段繼東), aged 58, was appointed as an independent non-executive Director of the Company on 5 November 2010. He has approximately 33 years of experience in the pharmaceutical industry. Mr. Duan received a bachelor degree in medicine at The Shanghai Railway Medical Institute (上海鐵道醫學院) in 1989, and was a surgeon with the Central Hospital of Shenyang Railway Bureau (原瀋陽鐵路局中心醫院) from 1989 to 1994 and worked in the Beijing Mundipharma Pharmaceutical Company Limited (北京萌蒂製藥有限公司) from 1994 to 1998. Mr. Duan served as the chairman and legal representative of Kunming Baker Norton Pharmaceutical Company Limited from December 2002 to April 2006, a director of Holley Pharmaceutical (Chongqing) Co., Ltd. (重慶華立藥業股份有限公司, stock code : 000607), a company listed on the Shenzhen Stock Exchange, from 2005 to 2006, and a director of Wuhan Jianmin Pharmaceutical Groups Corp, Ltd. (武漢健民藥業集團股份有限公司, stock code: 600976), a company listed on the Shanghai Stock Exchange, from 2004 to 2006. He was a chief executive officer from 2002 to 2005, and a director from 2004 to 2006, of Kunming Pharmaceutical Group Corporation, Ltd. (昆明製藥集團股份有限公司, stock code: 600422), a company listed on the Shanghai Stock Exchange. From April 2008 to April 2011, he was an independent non-executive director of Zhejiang CONBA Pharmaceutical Company Limited (浙江康恩貝製藥股份有限公司, stock code: 600572), a company listed on the Shanghai Stock Exchange. Since February 2013, he has been an independent non-executive Director of Yan He Medicines Company Limited (仁和药業股份有限公司, stock code : 000650), a company listed on the Shenzhen Stock Exchange. Currently, he is the chairman of Beijing Strategy & Action Enterprise Management Consulting Company Limited (北京時代方略企業管理諮詢有限公司).

Mr. Wong Cheuk Lam (黃焯琳), aged 55, was appointed as an independent non-executive Director of the Company on 5 November 2010. He has over 28 years of experience in accounting and finance fields. Mr. Wong obtained a bachelor degree in arts from the University of Hong Kong in 1992 and a master degree in business from Victoria University of Technology, Australia in 1997. Mr. Wong is a member of the Hong Kong Institute of Certified Public Accountants, a member of CPA Australia and a Certified Taxpay Strategist (PRC). He is also an associate member of Hong Kong Chartered Governance Institute and an associate member of the Chartered Governance Institute. From 1994 to 2003, Mr. Wong worked in accounting positions in Sakura Finance Asia Limited, BOCI Securities Limited and Going Accounting Services Company. He worked at Zhengzhou China Resources Gas Company Limited (鄭州華潤燃氣股份有限公司), a company previously named Zhengzhou Gas Company Limited and was listed on the Stock Exchange as a company secretary from 2003 to January 2013, a chief financial officer from July 2005 to January 2013 and a financial controller from October 2007 to July 2010. From February 2015 to May 2015, Mr. Wong worked in Genvon Group Limited (currently named Beijing Enterprises Medical and Health Industry Group Limited), a company listed on the Main Board of the Stock Exchange (stock code: 2389), as financial controller and deputy company secretary. From May 2015 to June 2016, Mr. Wong was the CFO and company secretary of ASR Logistics Holdings Limited (currently named Beijing Sports and Entertainment Industry Group Limited), a company listed on the Main Board of the Stock Exchange (stock code: 1803). From August 2018 to October 2019, Mr. Wong was employed as the deputy company secretary of China Shun Ke Long Holdings Limited（中國順客隆控股有限公司）, a company listed on the Main Board of the Stock Exchange (Stock code: 974). Since March 2020, Mr. Wong has worked in Megain Holding (Cayman) Co., Limited（美佳音控股有限公司）a company listed on the Main Board of the Stock Exchange (Stock code: 6939) as the company secretary.

Directors' and Senior Management's Biographies

Mr. Zhang Jianbin (張建斌), aged 63, was appointed as an independent non-executive Director of the Company on 1 August 2013. Mr. Zhang has over 31 years of experience in teaching and researching in the management aspect of marketing, services marketing and brand marketing, and in project consultation work. Mr. Zhang obtained a bachelor degree in engineering (industrial management engineering profession) from Wuhan University of Technology (formerly known as Wuhan Institute of Technology) in June 1982. Mr. Zhang completed a USA MBA program (organised by the graduate school of Columbia University and other universities) of Beijing Information Science & Technology University (formerly known as Beijing Institute of Machinery) in September 1986, and obtained a doctor's degree of economics (industrial economics profession) from the College of Economics, Jinan University in July 1999. Mr. Zhang worked in the Management Engineering Faculty of Wuhan University of Technology (formerly known as Wuhan Institute of Technology) as a teaching assistant and a lecturer from July 1982 to March 1989. He worked in the Management Engineering Faculty of Guangdong University of Technology (formerly known as Guangdong Institute of Technology) as a teaching assistant, lecturer, associate professor and served as deputy director, director and deputy head of the Teaching and Research Department from March 1989 to June 1998. Mr. Zhang has been teaching at Jinan University since July 1998 and is an associate professor and a tutor to master's degree research students at the Management School of Jinan University. Mr. Zhang was also the director of the MBA Department and deputy director of the MBA education centre from 2003 to 2005. Mr. Zhang was a chief marketing consultant of the Fourth Shoe Factory (第四皮鞋廠) in Wuhan city from 1987 to 1989. He was a factory director of Zhongshan Precision Instrument Factory (中山先能精密儀器廠) from 1991 to 1992 and a manager of the Planning Department of Guangdong International Mass Advertising Media Company (廣東國際大眾廣告傳播公司) from 1992 to 1993. From 1993 to 1995, Mr. Zhang was a general manager of Guangdong Design and Planning Company (廣東創世紀設計策劃公司) and was a marketing consultant of Guangdong Construction Real Estate Company (廣東建業房地產公司) from 1995 to 1996. He was a marketing consultant of Guangdong Yihe Real Estate (Group) (廣東頤和地產(集團)有限公司) from 1997 to 2002 and a consultant of Guangdong Persian Technology Company Limited (廣東波斯科技股份有限公司) from 2002 to 2012.

SENIOR MANAGEMENT

Mr. Chan Hon Wan (陳漢雲), aged 63, was appointed as the financial controller and company secretary of the Company on 25 June 2009. Currently, he is also the authorised representative of the Company. He is responsible for the management of the Group's financial matters. Mr. Chan has over 38 years of experience in auditing and accounting fields. He served as a financial controller of Fairwood Fast Food Limited from 1995 to 1998. He also worked as a corporate finance director of Texwood Limited from 2000 to 2005 and a business director of Texwood Group from 2006 to 2008, respectively. Mr. Chan received a bachelor degree in economics from Macquarie University Australia in 1986. In 2005, he received a master degree in science (accountancy) from the Hong Kong Polytechnic University. He is an associate member of the Institute of Chartered Accountants in Australia and an associate member of the Hong Kong Institute of Certified Public Accountants.

Ms. Fang Danna (方丹娜), aged 58, has been the financial manager of SZ Kingworld since 1995. She is primarily responsible for the management of SZ Kingworld's financial policies. Ms. Fang has 32 years of experience in the accounting industry. She worked for the accounting department of Shenzhen Xinwei Electronics Company Limited (深圳新偉電子有限公司) in 1989 before she joined SZ Industry as a financial manager in 1995. Ms. Fang completed a course in accounting from Wuhan University (武漢大學) in 1991.

Mr. Zhao Kin Wai (趙鍵瑋), aged 33, joined the Group in 2017 as an assistant to the Chairman. He is mainly responsible for the informatization, product introduction and Longde business of the Group. Mr. Zhao obtained a master's degree from Columbia University in 2016. He is proficient in mathematics and business, and has working experience as a real estate financial analyst in the United States. He is the vice chairman of the Hong Kong Youth Development Alliance and a member of the Internet Society of Hong Kong. He has been a CPPCC member in Nanshan District, Shenzhen since 2021. Mr. Zhao Kin Wai is the son of Mr. Zhao Li Sheng, the Chairman and an executive Director of the Company, and Ms. Chan Lok San, an executive Director of the Company.

Mr. Liu Jinwu (劉金武), aged 45, is the deputy controller of the pharmaceutical department of SZ Kingworld. He is mainly responsible for the market planning, promotion and market management of various products of the pharmaceutical department. Mr. Liu has over 17 years of experience in marketing and management operations. In 2005, he worked in the marketing department of Shenzhen Jie Nuo Import and Export Trading Company (深圳傑諾進出口貿易公司). Mr. Liu graduated from Hunan College of Traditional Chinese Medicine majoring in traditional Chinese medicine in 2002. He joined SZ Kingworld in 2007.

Mr. Xie Yaoliang (謝耀樑), aged 53, is the executive sales and marketing general manager of SZ Kingworld. He is mainly responsible for the sales of the pharmaceutical segment. Mr. Xie has over 24 years of experience in the pharmaceutical field. In 2014, he completed the relevant courses of the Zhongda Kingworld EMBA Seminar (中大金活EMBA課程研修班) of Sun Yat-sen University. Mr. Xie joined SZ Kingworld in 1999.

Ms. Zhang Yingxia (張迎霞), aged 48, is the controller of the operation management center SZ Kingworld. She is mainly responsible for the coordination and management of pharmaceutical business operations and the data construction of the Group. Ms. Zhang has over 22 years of experience in the pharmaceutical industry. She graduated from Nanjing University majoring in international affairs in 1995, and graduated from Nanjing Academy of Political Science majoring in law in 2004. Ms. Zhang joined SZ Kingworld in 2008.

Mr. Xing Guang Qian (邢光前), aged 43, is the controller of Zhejiang-Shanghai region of SZ Kingworld. He is primarily responsible for the sales and management in Beijing, Shanghai, Zhejiang, Jiangxi and Shandong. Mr. Xing has over 22 years of experience in the pharmaceutical industry. He was a lecturer at Zhejiang Dianzi University from 2014 to 2017. Mr. Xing completed the relevant courses of Innovative Development EMBA Advanced Seminar (創新發展EMBA高級研修班) of Shanghai Jiao Tong University in 2020. He joined SZ Kingworld in 2013.

Mr. Fang Jia Zhi (方嘉治), aged 41, is the manager of the investment center of Kingworld Medicines Group Limited. He is primarily responsible for affairs of the investment center of the Group. Mr. Fang has over 16 years of experience in corporate restructuring and investment related fields. From 2007 to 2010, he served as the head of the securities department of SZ Kingworld, where he participated in the preparation for the listing of the Company; from November 2010 to February 2015, he served as controller, deputy manager and manager of the investment center of SZ Kingworld successively, where he participated in and was responsible for project research, equity participation and acquisition matters. Since August 2015, he has been the manager of the investment development center of the Group, responsible for investment matters. Since 2021, he has served as a supervisor of Fat Chi Medicine Company Limited (佛慈藥廠有限公司), a Hong Kong company. Mr. Fang graduated from School of Law of Huaqiao University majoring in law in 2006. He joined SZ Kingworld in 2007.

Directors' and Senior Management's Biographies

Mr. Huang Zhihui (黃志輝), aged 32, is the manager of the audit and supervision center of the Group. He is primarily responsible for formulating, implementing and reviewing the internal control of SZ Kingworld. Mr. Huang completed accounting related courses at Central South University in 2019. He joined SZ Kingworld in 2016.

Ms. Wang Hui (王慧), aged 40, executive controller of Human Resource Center of SZ Kingworld. She is responsible for human resource management of the Group. Ms. Wang has over 17 years of experience in the human resource management field. She has been worked for Human Resource Center of Philips Respironics since 2007. She served as training manager of DOVINIE from 2010 to 2016 and training consultant of Shenzhen Jiufu Chaoneng (深圳玖富超能) from 2016 to 2018. Ms.Wang obtained Master degree in Human Resource Management from Keele University of UK in 2007. She joined SZ Kingworld in 2018.

Mr. Chen Yong (陳勇), aged 51, manager of the finance department of SZ Kingworld. He is primarily responsible for the finance work of SZ Kingworld Medicine (深圳金活醫藥) and Dong Di Xin. Mr. Chen has over 31 years of experience in the financial accounting industry. He worked for accounting department of Yuan Cheng CCB House Credit (源城建行房信) in 1994, accounting department of Zhuhai Red Flag CCB (珠海紅旗建行) in 1997 and finance department of Shenzhen Mumianhua Hotel (深圳市木棉花酒店) in 2001. Mr. Chen obtained financial practice qualification from Ministry of Personnel of the People's Republic of China in 2000. He obtained intermediate certificate in accounting from Ministry of Finance of the People's Republic of China in 2006. Mr. Chen graduated from Foshan Agricultural and Animal Husbandry College (佛山農牧高等專科學校) in 1994. He joined SZ Kingworld in 2004.

Mr. Chen Yueyue (陳躍躍), aged 42, controller of SZ Kingworld in East China. He is primarily responsible for the sales management. Mr. Chen has over 12 years of experience in the medicine sales industry. He graduated from Nanjing University of Chinese Medicine in 1994. Mr. Chen joined SZ Kingworld in 2011.

Mr. Ceng Yun (曾澐), aged 53, is the sales controller (commerce) of SZ Kingworld. He is primarily responsible for the customer and sales management. Mr. Ceng has 24 years of experience as a sales manager in the pharmaceutical industry. Mr. Ceng completed a master degree in industrial economics from Nanchang University (南昌大學) in 2001. He joined SZ Kingworld in 1996.

Mr. Huang Ruozhong (黃若忠), aged 61, is the corporate finance controller of SZ Kingworld and is responsible for managing the matters relating to the Listing. He has 28 years of experience in handling securities and finance related matters. Mr. Huang worked in the securities department of the Shantou branch of the Bank of Communications Co. Ltd. from 1992 to 1999. Mr. Huang worked in the securities trading department of the Shantou Trust and Investment Company from 1999 to 2002, and worked for the Deheng Securities Company Limited (德恒證券有限公司) from 2002 to 2003. Since 2004, Mr. Huang has been the executive directors of 20 subsidiaries and served as a director of Zhuhai Jinming since 2006. In 1998, he obtained financial practice qualification (intermediate class) from Ministry of Personnel of the People's Republic of China. In 2001, Mr. Huang was presented with the qualification of handling securities business by the Securities Association of China (中國證券協會). He graduated from the Chinese People's Liberation Army Air Force Engineering University (中國人民解放軍空軍工程大學) and Chinese People's Liberation Army Guilin Air Force Academy (中國人民解放軍桂林空軍學院) in 1985 and 1989 respectively. In 2014, he completed the relevant courses of the Zhongda Kingworld EMBA Seminar (中大金活EMBA課程研修班) of Sun Yat-sen University. Mr. Huang joined SZ Kingworld in 2003.

The emoluments of each of the above senior management of the Group fall within the band of Nil to HK$1,000,000. Details of the emoluments of each of the above senior management of the Group are set out in Notes 11 and 12 to the consolidated financial statements.

Corporate Governance Report

The Board strives to uphold the principles of corporate governance set out in the Corporate Governance Code (the "**CG Code**") in force during the Year Under Review as set out in Appendix 14 (which has been re-numbered as Appendix C1 with effect from 31 December 2023) to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), and adopted various measures to enhance the internal control system, the Directors' continuing professional training and other areas of practice of the Company. While the Board strives to maintain a high level of corporate governance, it also works hard to create value and achieve maximum return for its Shareholders. The Board will continue to conduct review and improve the quality of corporate governance practices with reference to local and international standards.

During the Year Under Review, the Company complied with the code provisions as set out in the CG Code, in force during the Year Under Review other than code provisions C.2.1 and B.2.4(b) of the CG Code.

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

According to code provision B.2.4(b) of the CG Code, where all independent non-executive directors of an issuer have service more than nine years on the board, the issuer should appoint a new independent non-executive director on the board at the forthcoming annual general meeting starting from the financial year commencing on or after 1 January 2023.

The Company and the nomination committee of the Company are in the process of identifying a new independent non-executive director taking into account the candidate's experience and the factors prescribed under Rule 3.13 of the Listing Rules, with a view to fulfilling the requirements under Code provision B.2.4(b) in due course. Further announcement(s) will be made in this regard as and when appropriate.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 (which has been re-numbered to Appendix C3 with effect from 31 December 2023) to the Listing Rules (the "**Model Code**") as its own code governing securities transactions of the Directors. Each of the Directors has confirmed his/her compliance with the Model Code during the Year Under Review. The Company has also adopted written guidelines on no less exacting terms than the Model Code for the relevant employees. The senior management, who, because of their office in the Company, is likely to be in possession of unpublished inside information, has been requested to comply with the provisions of the Model Code and the Company's code of conduct regarding securities transactions by Directors. No incidence of non-compliance of the employees' written guidelines by the relevant employees was noted by the Company during the Year Under Review.

Corporate Governance Report

BOARD OF DIRECTORS

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

As at 31 December 2023, the Board comprises a total of six Directors, being three executive Directors (the "**Executive Directors**"), and three independent non-executive Directors (the "**Independent Non-executive Directors**"). Mr. Zhao Li Sheng, Ms. Chan Lok San and Mr. Zhou Xuhua served as Executive Directors and Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam served as Independent Non-executive Directors. These Independent Non-executive Directors, who have different business and professional backgrounds, have brought valuable experience and expertise for the best interests of the Group and its Shareholders. Each Independent Non-executive Director has been appointed for a 3-years term of services. Biographical details of and the relationship between the Directors are set out in the paragraph headed "Directors' and Senior Management's Biographies" of this annual report.

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

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

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

To ensure Directors are able to provide independent view and input, every Director is entitled to have access to Board papers and related materials and has access to the advice and services of the Company Secretary. The Board and each Director also have separate and independent access to the Company's senior management. Every Director can exercise independent judgment and provide his/her views and input to the Board. The Board can therefore be informed of such views and input and act in the best interest of the Group and Shareholders as a whole.

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

Accordingly, Mr. Zhao Li Sheng and Mr. Duan Jidong shall retire at the forthcoming annual general meeting of the Company. The retiring Directors, all being eligible, offer themselves for re-election.

BOARD DIVERSITY POLICY

We have adopted the board diversity policy (the "**Board Diversity Policy**") with a view to achieving a sustainable and balanced development. Our Board has a balanced composition comprising six Directors, including one female Director and five male Directors as at the date of this report. Our Directors aged between mid-fifty and mid-sixty as at the date of this report, and were from different backgrounds. Our Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. Selection of candidates of our Directors will be based on a range of diversity perspectives, including but not limited to gender, age, cultural, race, educational background, professional experience, skills and knowledge. We aim to achieve a balanced composition of our Board by ensuring appropriate balance of diversity in various aspects, including gender diversity, so as to enable our Board to discharge its duties and responsibilities effectively. The Company will continue to take gender diversity into consideration during recruitment and increase the female proportion at all levels over time with the ultimate goal of achieving gender parity, such that there is a pipeline of female senior management and potential successors to the Board in the future. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. We planned to identify female candidates and appoint at least one more female director on the Board by the end of 2026.

As at 31 December 2023, the Group employed a total of 1,002 employees, the overall gender ratio in the workforce for male to female was male 47.6% to female 52.4%.

In recognition of the importance of board diversity, we will continue to promote diversity of our Company at all levels, including at the Board and senior management level, to enhance the effectiveness of our corporate governance. We will continue to provide diversified career development opportunities to our staff and engage different training resources for our staff in order to develop future candidates for Director and senior management. Our nomination committee is responsible for the implementation of the Board Diversity Policy and compliance with relevant codes governing board diversity under the CG Code. Our nomination committee will review the board diversity policy and our diversity profile (including gender balance) on an annual basis to ensure its continued effectiveness.

BOARD COMMITTEES

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

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

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

AUDIT COMMITTEE

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

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

During the Year Under Review, the Audit Committee had held two meetings and all the members attended the meetings. The work performed by the Audit Committee during the Year Under Review included reviewing the audited consolidated financial statements of the Group for the year ended 31 December 2022, the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2023 and the effectiveness of the internal control practices of the Group. The Audit Committee has also reviewed the audit plan and approach of the external auditor and monitored the progress and results of the audit regularly.

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

The Audit Committee has, together with the management of the Company and external independent auditor, reviewed the consolidated financial statements for the year ended 31 December 2023, the results announcement, this annual report, the accounting principles and practices adopted by the Group, as well as the risk management and internal control systems of the Group for the Year Under Review, and agreed with the accounting treatments adopted by the Group, and was of the opinion that the preparation of the financial statements in this annual report complies with the applicable accounting standards and the requirements under the Listing Rules and adequate disclosures have been made.

REMUNERATION COMMITTEE

The Company established a remuneration committee (the "**Remuneration Committee**") on 5 November 2010 and has formulated its written terms of reference, which have from time to time been modified in accordance with the prevailing provisions of the CG Code. The terms of reference were updated on 30 December 2022, in accordance with the prevailing provision of the CG Code. The Remuneration Committee has three members, namely Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam, who are Independent Non-executive Directors. Mr. Zhang has been appointed as the chairman of the Remuneration Committee.

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

During the Year Under Review, in relation to the grant of share award dated 6 April 2023 pursuant to the Share Award Scheme, the Remuneration Committee reviewed, approved and recommended the share awards granted to the Directors and senior managers of the Group to the Administration Committee of the Share Award Scheme and the Board, respectively. The Remuneration Committee considered appropriate for the Company to grant share awards to the the Directors and senior managers of the Group with a vesting period less than 12 months as set out in rule 17.03(F) and without performance targets and clawback mechanism applied to the share awards granted to the Directors and senior managers of the Group. The Remuneration Committee was aware that the purposes of the Share Award Scheme were, including but not limited to, to recognise the past contributions, to provide incentives in retaining talents and to attract suitable personnel for further development of the Group. Having considered that (i) the Directors and senior managers of the Group contributed directly to the overall business performance of the Group, and (ii) the grant of share award was a recognition of their respective past contributions to the Group, the Remuneration Committee was of the view that the grant of share award to the Group's directors and senior managers on 6 April 2023 would be in line with the purposes of the Share Award Scheme.

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

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

NOMINATION COMMITTEE

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

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

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

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

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

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

BOARD/COMMITTEE MEETINGS AND INDIVIDUAL ATTENDANCE

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

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

Details of the attendance records of Directors on Board meetings and board committee meetings for the year ended 31 December 2023 are as follows:

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

Subsequent to the year ended 31 December 2023 and up to the date of this report, the Board held another Board meeting in March 2024 for the main purposes of approving the annual results of the Group for the year ended 31 December 2023 and this annual report for publication and formulating business development strategies. All Directors attended such meeting.

TRAINING AND SUPPORT OF DIRECTORS

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

The Directors confirmed that they have complied with Code Provision C.1.4 of the CG Code on Directors' training and have provided a record of the training they received to the Company. All Directors have participated in continuous professional development by the following means to develop and refresh their knowledge.

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

RESPONSIBILITIES OF THE DIRECTORS AND EXTERNAL AUDITORS

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

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

BUSINESS COMPLIANCE AND ANTI-CORRUPTION

We strive to maintain a high level of business integrity as it is vital to our reputation and the protection of our business partners and customers. To achieve so, the Group is in strict compliance with the Prevention of Bribery Ordinance (Cap. 201) in Hong Kong, and the Anti-Money Laundering Law and the Criminal Law of the PRC.

We do not, in any case, tolerate any business misconduct and malpractices, this includes any form of bribery, extortion, fraud and money laundering. As stated clearly in the Prevention of Bribery Ordinance incorporated in our Employee's Handbook, unethical business practices such as the offering and accepting of gifts are strictly prohibited. Once we discover any misconduct committed, the employees will be subject to termination of employment or disciplinary action.

Holding on to the values of openness, probity and accountability, we have formulated the Whistleblowing Policy which allows employees to voice their concerns or if they suspect any misconduct is being committed within the business. As the policy provides absolute anonymous reporting channels, it protects the whistleblowers from any unfair treatment and undesired consequences such as dismissal, victimization and disciplinary action, even for substantiated cases. At the same time, the Audit Committee has been tasked with handling the cases and delineating the investigation procedures. The Whistleblowing Policy not only apply to internal employees but also to our suppliers and contractors.

During the Year Under Review, there were no reported legal cases regarding the corrupt practices of our employees relating to bribery, extortion, fraud and/or money laundering. Though the Group did not provide any internal anti-corruption training to Directors and employees during the Year Under Review, they are encouraged to attend anti-corruption training provided by external parties at the Company's expenses.

REMUNERATION OF EXTERNAL AUDITORS

For the year ended 31 December 2023, the remuneration paid to the external auditors in Hong Kong and the PRC, for audit services amounted to approximately RMB1,490,000 (equivalent to approximately HK$1,666,000).

For the year ended 31 December 2023, the total remuneration for the permissible non-audit services provided by the external auditors amounted to RMB182,000 (equivalent to approximately HK$204,000), mainly represents remuneration for interim review services.

INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL COMPLIANCE GUIDELINES

The Board has to be fully responsible for the stability and effectiveness of the systems of internal control and risk management of the Group. Such systems were set up by the Group to fulfill specific needs of the Group and the risks that its management faces and are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Group has set up rigorous procedures to avoid unauthorised use or disposal of the Group's assets, ensure proper maintenance of accounting records, and provide reliable financial information for internal and external uses.

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

For the year ended 31 December 2023, through reviews conducted by the Audit Committee and study results from the internal audit department, the Board has conducted a review on the effectiveness of internal control system, the risk management system and the internal compliance guidelines, and has come to the conclusion that such systems and guidelines have been effectively and adequately executed and followed.

The Company has developed its disclosure policy which provides a general guide to the Directors, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

CORPORATE GOVERNANCE MEASURES

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

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

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

DIRECTORS' INSURANCE

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

COMPANY SECRETARY

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

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

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2023, there had been no significant change in the Company's constitutional documents, a copy of which is available on the websites of the Stock Exchange and the Company.

SHAREHOLDERS' RIGHTS

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

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

Procedures for directing Shareholders' enquiries to the Board

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

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

INVESTOR RELATIONS

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

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

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

Hong Kong, 26 March 2024

Report of the Directors

The Directors have pleasure in presenting the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2023 (the "**Financial Statements**").

PRINCIPAL BUSINESS

The Company is an investment holding company. The Group is principally engaged in (i) distribution of imported branded pharmaceutical and healthcare products in the PRC; and (ii) manufacturing and sales of electrotherapeutic, physiotherapeutic devices and general medical examination devices. As at 31 December 2023, the Group managed a portfolio of eleven categories with more than sixty products including pharmaceutical products, healthcare products, general foodstuffs and medical products from fourteen suppliers and/or manufacturers in Japan, United States, Canada, Hong Kong, Taiwan, Thailand and the PRC. Many of the products distributed by the Group are established brand names including Nin Jiom Chuan Bei Pei Pa Koa, Taiko Seirogan, Kingworld Imada Red Flower Oil, Culturelle probiotics product series, Lifeline Care product series and Mentholatum product series. Amongst these brands, Nin Jiom Chuan Bei Pei Pa Koa has always been the best-seller of the Group and is also the best-selling Chinese medical cough relieving product in the PRC, which is the leading product with the largest market share.

RESULTS AND DIVIDENDS

Profit of the Group for the year ended 31 December 2023 and the state of affairs of the Company and the Group as at that date are set out in the Financial Statements on pages 87 to 197 of this report.

To extend the Company's gratitude for the support of the Shareholders, the Board has recommended the distribution of a final dividend for the year ended 31 December 2023 of HK3.38 cents per share to Shareholders whose names appear on the register of members of the Company on Tuesday, 11 June 2024, amounting to approximately HK$21,041,000 (equivalent to approximately RMB19,049,000), subject to the approval of the Shareholders at the Company's forthcoming annual general meeting to be held on Wednesday, 29 May 2024. Total dividend payout ratio is approximately 50.0% of the profit for the year attributable to owners of the Company.

There is no arrangement under which a Shareholder has waived or agreed to waive any dividends, the above-mentioned final dividend is expected to be paid on or before Sunday, 30 June 2024.

POLICY ON PAYMENT OF DIVIDENDS

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

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

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

Report of the Directors

CLOSURE OF THE REGISTER OF MEMBERS

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

The register of members of the Company will be closed from Friday, 24 May 2024 to Wednesday, 29 May 2024 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for attending and voting at the forthcoming annual general meeting, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration no later than 4:30 p.m. on Thursday, 23 May 2024.

To qualify for the proposed final dividends

The register of members of the Company will be closed from Wednesday, 5 June 2024 to Tuesday, 11 June 2024 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for receiving the proposed final dividends, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration no later than 4:30 p.m. on Tuesday, 4 June 2024.

BUSINESS REVIEW

A review of the business of the Group for the Year Under Review and a discussion on the Group's future business development are provided in the "Management Discussion and Analysis" on pages 13 to 43. An analysis of the Group's performance during the Year Under Review using financial key performance indicators is provided in the five-year "Financial Summary" on page 198. No important event affecting the Group has occurred since the end of the Year Under Review.

ENVIRONMENTAL POLICY

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

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

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

RELATIONSHIPS WITH STAKEHOLDERS

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

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

KEY RISKS AND UNCERTAINTIES

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

Market Risk

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

Foreign exchange risk

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

Liquidity Risk

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

Operational Risk

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

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

LITIGATION AND CONTINGENT LIABILITIES

Save as disclosed in the paragraph headed "Litigation" on page 40 of this report, as at 31 December 2023, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

SHARE OPTION SCHEME

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

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

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

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

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

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

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

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

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

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

SHARE AWARD SCHEME

The Company has adopted the Share Award Scheme on 27 August 2019 for the purpose of recognising the contributions made by certain participants and providing incentives in retaining the participants for the continual operation and development of the Group and attracting suitable personnel for future development of the Group. Participants of the Share Award Scheme include (i) any full time or part time employee (including any executive directors) of the Company or any subsidiary of the Company; (ii) any non-executive director (including independent non-executive directors) of the Company or any subsidiary of the company; and (iii) any person who, in the sole discretion of the Board, has contributed or may contribute to the Group. Details of the Share Award Scheme are set out in the announcement of the Company dated 27 August 2019 (the "**August Announcement**").

In accordance with the announcement of the Company date 29 March 2022, the maximum entitlement of each participant (i.e. the increased Individual limit) of the Share Award Scheme in any 12-month period shall not exceed 0.1% of the issued share capital of the Company immediately preceding such allocation and award.

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

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

At the beginning and the end of the financial year ended 31 December 2023, the number of Shares available for grant under the scheme mandate of the Share Award Scheme were 46,000,000 and 46,000,000 respectively.

Up to 31 December 2022 and during the year ended 31 December 2023, the Trustee has purchased in aggregate of 24,484,000 and 10,624,000 shares of the Company, respectively, from the market for the purpose of the Share Award Scheme. The Board resolved to grant the Award with an aggregate of 3,504,000 Awarded Shares on 6 April 2023 to 79 Selected Participants under the Share Award Scheme at nil consideration, among 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 Non-connected Grantees. The Awarded Shares represent approximately 0.56% of the total issued share capital of the Company as at the Date of Grant (being 622,500,000 Shares). The closing price of the Shares on the Date of Grant was HK$0.740 per Share and the average closing price of the Share for the five business days immediately preceding the Date of Grant was HK$0.624 per Share. Subject to the acceptance by the Grantees, the Awarded Shares shall be vested in the Grantees on 6 April 2023. As such, at the beginning and the end of the financial year ended 31 December 2023, the Trustee holds 22,928,000 and 30,048,000 shares on trust for the Share Award Scheme, respectively. Please refer to the announcement of the Company dated 6 April 2023 and table below for further details.

Name of Grantee/a description of the category of the Grantee	Date of Grant	Number of awards granted in 2023	Vesting Period	The closing price of the shares immediately before the date on which the awards were granted (HK$ per share)	Number of awards vested in 2023	The number of awards cancelled in 2023 together with the purchase price of the cancelled awards	The number of awards which lapsed in accordance with the terms of the scheme in 2023
Directors							
Mr. Zhao Li Sheng (趙利生)	6 April 2023	156,000	6 April 2023	0.740	156,000	nil	nil
Ms. Chan Lok San (陳樂燊)	6 April 2023	132,000	6 April 2023	0.740	132,000	nil	nil
Mr. Zhou Xuhua (周旭華)	6 April 2023	88,000	6 April 2023	0.740	88,000	nil	nil
Mr. Zhang Jianbin (張建斌)	6 April 2023	72,000	6 April 2023	0.740	72,000	nil	nil
Mr. Duan Jidong (段繼東)	6 April 2023	72,000	6 April 2023	0.740	72,000	nil	nil
Mr. Wong Cheuk Lam (黃焯琳)	6 April 2023	72,000	6 April 2023	0.740	72,000	nil	nil
Employees/Other Grantees (Excluding the Directors)							
Employees/Other Grantees	6 April 2023	2,912,000	6 April 2023	0.740	2,912,000	nil	nil

The Share Award Scheme was adopted before the effective date (being 1 January 2023) of the new Chapter 17 of the Listing Rules. The adoption date of the Share Award Scheme was 27 August 2019. As such, the Share Award Scheme (effective for a term of six years commencing on the adoption date) shall remain valid and effective until 26 August 2025. The Company will comply with the new Chapter 17 in accordance with the transitional arrangement provided for the existing share schemes. Where any grant of the Awarded Shares (as defined in the August Announcement) is proposed to be made to any person who is a connected person of the Company, the Company shall comply with the relevant provisions of the Listing Rules.

BORROWINGS

Details of the Group's bank borrowings as at 31 December 2023 are set out in Note 27 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

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

PERMITTED INDEMNITY PROVISION

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

GOING CONCERN

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

PUBLIC FLOAT

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

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

For the year ended 31 December 2023, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

SHARE CAPITAL

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

RESERVES

Details of change in reserves of the Group and the Company are set out on page 91 of the "Consolidated Statement of Changes in Equity" and Note 30 to the consolidated financial statements.

CHARITY DONATIONS

Charity donations made by the Group during the Year Under Review was approximately RMB8,284,000 (2022: approximately RMB6,208,000).

PROPERTY, PLANT AND EQUIPMENT

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

INVESTMENT PROPERTIES

The Group's investment properties were revalued as at 31 December 2023, decrease in fair value of investment properties arising on revaluation amounting to approximately RMB1,364,000 has been charged to the consolidated statement of profit or loss. Details of the Group's investment properties as at 31 December 2023 are set out in Note 14 of the consolidated financial statements and on pages 199 to 200 of this report.

PRE-EMPTIVE RIGHTS

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

SUBSIDIARY COMPANIES

Details of the major subsidiary companies of the Company as at 31 December 2023 are set out in Note 15 to the consolidated financial statements.

DIRECTORS

The Directors of the Company during the year ended 31 December 2023 and up to the date of this report have been:

Executive Directors

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

Independent Non-executive Directors

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

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Company are set out on pages 44 to 48 under the section headed "Directors' and Senior Management's Biographies" in this annual report.

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

REMUNERATIONS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

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

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

The five highest paid individuals of the Group in the Year Under Review include 3 Directors (2022: 3 Directors). Details of the five highest paid individuals are set out in Note 12 to the consolidated financial statements.

SERVICE CONTRACTS OF DIRECTORS

Executive Directors

Each of the Executive Directors has entered into a service contract with the Company for a term of three years commencing from the Listing Date and may be terminated by not less than three months' prior notice in writing served by either party to the other. Subject to the retirement and re-election at the annual general meeting of the Company in accordance with (inter alia) the Articles of Association, the latest service contract was renewed on 25 November 2022 until being terminated pursuant to the terms of the service contract.

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

	RMB'000
Mr. Zhao Li Sheng	1,452
Ms. Chan Lok San	1,323
Mr. Zhou Xuhua	483

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

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

Independent Non-executive Directors

Each of the Independent Non-executive Directors (other than Mr. Zhang Jianbin) has signed a letter of appointment with the Company for a term of three years commencing on the Listing Date and may be terminated by giving three months' notice in writing thereof by either party to the other. Subject to the retirement and re-election at the annual general meeting of the Company in accordance with (inter alia) the Articles of Association, the latest letter of appointment was renewed on 25 November 2022 until being terminated pursuant to the terms of the letter of appointment. Mr. Zhang Jianbin has signed a letter of appointment with the Company for a term of three years commencing from 1 August 2013, which may be terminated by giving three months' notice in writing by either party to the other. Subject to the retirement and re-election at the annual general meeting of the Company in accordance with (inter alia) the Articles of Association, the letter of appointment was renewed on 1 August 2022 until being terminated pursuant to the terms of the letter of appointment.

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

	RMB'000
Mr. Duan Jidong	285
Mr. Wong Cheuk Lam	285
Mr. Zhang Jianbin	285

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

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed under the paragraph headed "Continuing Connected Transactions", during the year ended 31 December 2023, no Director is considered to have interests in the businesses which compete or are likely to compete directly or indirectly with the businesses of the Group.

DISCLOSURE OF INTERESTS

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

As at 31 December 2023, the interests and short positions held by the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

(I) Interest in the shares in the Company:

Name of Directors	Capacity/Nature of Interest	Number of shares in the Company held	Approximate percentage of the Company's total issued share capital
Zhao Li Sheng (Note 1)	Beneficial owner	22,416,000	3.60%
	Interest of spouse	90,192,000	14.49%
	Interest of a controlled corporation	297,812,250	47.84%
Chan Lok San (Note 2)	Beneficial owner	192,000	0.03%
	Interest of spouse	320,228,250	51.44%
	Interest of a controlled corporation	90,000,000	14.46%
Zhou Xuhua (Note 3)	Beneficial owner	124,000	0.02%
	Interest of spouse	2,380,000	0.38%
Zhang Jianbin	Beneficial owner	108,000	0.02%
Duan Jidong	Beneficial owner	72,000	0.01%
Wong Cheuk Lam	Beneficial owner	72,000	0.01%

Notes:

1. In addition to 22,416,000 shares which are beneficially owned by Mr. Zhao Li Sheng ("**Mr. Zhao**"), Mr. Zhao is deemed (by virtue of the SFO) to be interested in 388,004,250 shares in the Company. These shares are held in the following capacities:

   (a) 297,812,250 shares are held by Golden Land International Limited ("**Golden Land**"). Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Mr. Zhao is deemed to be interested in the 297,812,250 shares held by Golden Land. Mr. Zhao is also the sole director of Golden Land.

(b) 192,000 shares are held by Ms. Chan Lok San ("**Ms. Chan**"), the spouse of Mr. Zhao, in her own name and 90,000,000 shares are held by Golden Morning International Limited ("**Golden Morning**"). Ms. Chan, is the beneficial owner of the entire issued share capital of Golden Morning, therefore, Mr. Zhao is also deemed to be interested in the 192,000 shares held by Ms. Chan and 90,000,000 shares held by Golden Morning.

2. Ms. Chan is deemed (by virtue of the SFO) to be interested in 410,420,250 shares in the Company. These shares are held in the following capacities:

(a) 192,000 shares are held by Ms. Chan in her own name and 90,000,000 shares are held by Golden Morning. Ms. Chan is the beneficial owner of the entire issued share capital of Golden Morning, therefore, Ms. Chan is deemed to be interested in the 90,000,000 shares held by Golden Morning. Ms. Chan is also the sole director of Golden Morning.

(b) 22,416,000 shares are held by Mr. Zhao Li Sheng, the spouse of Ms. Chan, in his own name and 297,812,250 shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Ms. Chan is also deemed to be interested in the 22,416,000 shares held by Mr. Zhao and the 297,812,250 shares held by Golden Land.

3. 124,000 shares are held by Mr. Zhou Xuhua ("**Mr. Zhou**"), in his own name and Mr. Zhou is also deemed (by virtue of the SFO) to be interested in 2,380,000 shares in the Company held by his spouse, Ms. Huang Xiaoli.

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

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

As at 31 December 2023, save as disclosed above, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

Save as disclosed above, as at 31 December 2023, none of the Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

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

As at 31 December 2023, so far as was known to the Directors, the interests or short positions held by the following persons (other than the Directors) in the shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or the interests or short positions recorded in the register kept by the Company under section 336 of the SFO were as follows:

Interests in the Shares

Name of Shareholders	Capacity/Nature of Interest	Number of shares in the Company held	Approximate percentage of the Company's total issued share capital
Golden Land	Beneficial owner	297,812,250	47.84%
Golden Morning	Beneficial owner	90,000,000	14.46%
Zhao Li Sheng(Note 1)	Beneficial owner	22,416,000	3.60%
	Interest of spouse	90,192,000	14.49%
	Interest of a controlled corporation	297,812,250	47.84%
Chan Lok San(Note 2)	Beneficial owner	192,000	0.03%
	Interest of spouse	320,228,250	51.44%
	Interest of a controlled corporation	90,000,000	14.46%
Sinopharm Healthcare Fund L.P.	Beneficial owner	55,811,750	8.97%
Sinopharm Capital Limited(Note 3)	Interest of a controlled corporation	55,811,750	8.97%
Sun Hill Capital Investments Limited(Note 4)	Interest of a controlled corporation	55,811,750	8.97%
Wu Aimin(Note 5)	Interest of a controlled corporation	55,811,750	8.97%

Notes:

1. In addition to 22,416,000 shares which are beneficially owned by Mr. Zhao, Mr. Zhao is deemed (by virtue of the SFO) to be interested in 388,004,250 shares in the Company. These shares are held in the following capacities:

   (a) 297,812,250 shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Mr. Zhao is deemed to be interested in the 297,812,250 shares held by Golden Land. Mr. Zhao is also the sole director of Golden Land.

   (b) 192,000 shares are held by Ms. Chan, the spouse of Mr. Zhao, in her own name and 90,000,000 shares are held by Golden Morning. Ms. Chan is the beneficial owner of the entire Issued share capital of Golden Morning, therefore, Mr. Zhao is also deemed to be interested in the 192,000 shares held by Ms. Chan and 90,000,000 shares held by Golden Morning.

2. Ms. Chan is deemed (by virtue of the SFO) to be interested in 410,420,250 shares in the Company. These shares are held in the following capacities:

   (a) 192,000 shares are held by Ms. Chan in her own name and 90,000,000 shares are held by Golden Morning. Ms. Chan is the beneficial owner of the entire issued share capital of Golden Morning, therefore, Ms. Chan is deemed to be interested in the 90,000,000 shares held by Golden Morning. Ms. Chan is also the sole director of Golden Morning.

   (b) 22,416,000 shares are held by Mr. Zhao, the spouse of Ms. Chan, in his own name and 297,812,250 shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Ms. Chan is also deemed to be interested in the 22,416,000 shares held by Mr. Zhao and the 297,812,250 shares held by Golden Land.

3. The corporate substantial shareholder notice filed by Sinopharm Capital Limited indicated that it controlled 1.64% interest in Sinopharm Healthcare Fund L.P.

4. The corporate substantial shareholder notice filed by Sun Hill Capital Investments Limited indicated that it controlled 100% interest in Sinopharm Capital Limited and indirectly controlled 1.64% interest in Sinopharm Healthcare Fund L.P.

5. The individual substantial shareholder notice filed by Wu Aimin indicated that he controlled 70% interest in Sun Hill Capital Investments Limited, indirectly controlled 100% interest in Sinopharm Capital Limited, and 1.64% interest in Sinopharm Healthcare Fund L.P.

Save as disclosed above, to the best knowledge of the Directors of the Company, as at 31 December 2023, no person (other than the Directors) had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or any interest or short positions recorded in the register kept by the Company under section 336 of the SFO.

DIRECTORS' RIGHTS IN ACQUIRING SHARES AND DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the paragraph headed "Continuing Connected Transactions", as at 31 December 2023 and during any time for the year ended 31 December 2023, there was no contract of significance (as defined in Appendix 16 (which has been re-numbered as Appendix D2 with effect from 31 December 2023) to the Listing Rules) subsisting in which a Director is or was materially interested, whether directly or indirectly.

Save as disclosed under the paragraph headed "Continuing Connected Transactions", as at 31 December 2023 and during any time for the year ended 31 December 2023, there was no contract of significance in relation to the Company's business subsisting to which the Company, its subsidiary, its holding company or a subsidiary of its holding company was a party and in which a Director has or had, or at any time during that period, in any way, whether directly or indirectly, a material interest.

Save as disclosed under the paragraph headed "Continuing Connected Transactions", as at 31 December 2023 and during any time for the year ended 31 December 2023, none of the Directors was in any way, directly or indirectly, materially interested in any contract of significance entered into or proposed to be entered into with the Company in relation to the Company's business.

MANAGEMENT CONTRACTS

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

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2023, the Group entered into various transactions with certain individuals and entities that are regarded as connected persons of the Company (as defined under Chapter 14A of the Listing Rules). Details of these individuals and entities are set out in Note 35 to the consolidated financial statements.

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

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

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

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

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

Transaction	Member of the Group	Connected person	Actual transaction amounts for the year ended 31 December 2023 RMB'000	Approximate annual cap for the year ended 31 December 2023 RMB'000
Purchase and distribution of Pharmaceutical and Healthcare Products from SZ Kingworld Lifeshine	SZ Kingworld	SZ Kingworld Lifeshine	28,573	52,280
Purchase and distribution of Pharmaceutical and Healthcare Products from Yuen Tai	HK Kingworld/ SZ Kingworld	Yuen Tai	2,835	9,915

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

2021 SZ Kingworld Lifeshine Master Distribution Agreement

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

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

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

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

2021 Yuen Tai Master Distribution Agreement

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

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

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

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

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

(i) in the ordinary and usual course of business of the Group;

(ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

(iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

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

(i) have received the approval of the Board;

(ii) did not involve the provision of goods or services by the Group;

(iii) have been entered into in accordance with the relevant agreements governing the transactions; and

(iv) did not exceed the respective annual caps as disclosed in the Circular and announcement of the Company dated 1 April 2021.

PLEDGE OF ASSETS

As at 31 December 2023, the Group had pledged investment properties, right-of-use assets and property, plant and equipment to certain banks in the amount of approximately RMB99,990,000, RMB95,810,000 and RMB16,618,000, respectively. As at 31 December 2022, the Group 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.

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long and short-term bank borrowings. For the Year Under Review, the effective interest rate for the Group's bank loans ranged from 3.00% to 8.54%. Taking into account the cash flow generated from operations and the long and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 31 December 2023, the Group had cash and cash equivalents of approximately RMB173,678,000 (31 December 2022: approximately RMB242,155,000) which was mainly generated from operations of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year Under Review, the total revenue of the Group's five largest customers accounted for approximately 21.5% of the Group's revenue, in which revenue from the largest customer of the Group accounted for approximately 7.92% of the total revenue of the Group. During the same period, total purchases of the Group's five largest suppliers accounted for approximately 87.80% of the Group's total purchase, in which purchase from the largest supplier of the Group accounted for approximately 71.54% of the total purchase of the Group.

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

TAX RELIEF AND EXEMPTION

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

EMPLOYEE BENEFITS

Details of the employee benefits of the Group for the year ended 31 December 2023 are set out in Note 34 to the consolidated financial statements. No forfeited contributions (by the Group on behalf of employees who leave the defined contribution plans prior to vesting fully in such contributions) can be used by the Group to reduce the existing level of contributions. In order to continue to maintain the sustainable development of the Group's competitiveness, the Group has paid close attention to the external competitiveness, internal fairness of its remuneration structure and the cost-effectiveness of employee's remuneration and performance management with emolument policy in place. For the year ended 31 December 2023, employees' remuneration (including the directors and senior management of the Group) comprised of basic salary, bonus and shares awarded under the Share Award Scheme.

EVENT AFTER THE REPORTING PERIOD

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

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2023 have been audited by Crowe (HK) CPA Limited ("**Crowe**"). Crowe will retire as auditor at the conclusion of the forthcoming annual general meeting and being eligible, offer themselves for re-appointment. A resolution will be submitted to the forthcoming annual general meeting of the Company for the re-appointment of Crowe as the auditor of the Company.

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

Hong Kong, 26 March 2024

Crowe

國富浩華(香港)會計師事務所有限公司
Crowe (HK) CPA Limited
Member Crowe Horwath International

9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

TO THE SHAREHOLDERS OF KINGWORLD MEDICINES GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Kingworld Medicines Group Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 87 to 197, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

The Key Audit Matter	*How the matter was addressed in our audit*
(a) Impairment of goodwill (Refer to notes 2(j)(ii) and 16, to the consolidated financial statements) At 31 December 2023, the Group has goodwill of RMB90,693,000 arising from the acquisition of subsidiary in 2015. For the purpose of impairment testing, the goodwill was allocated to the manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices cash-generating unit ("CGU") and tested for impairment at least annually. The recoverable amount of the CGU has been determined based a value in use calculation using five-year cash flow projection, which requires management to make assumptions about the future including budgeted sales, gross profit ratio and growth rates and to determine an appropriate market discount rate. The Group appointed an independent professional valuer to perform valuation for the recoverable amount, being value in use, of the cash generating unit, to which goodwill is allocated, and made reference to the independent professional valuation.	We reviewed and challenged the impairment analysis prepared by the management as outlined below: With regard to the overall impairment assessments performed by the management, we evaluated the design of internal controls in place to determine any asset impairments. We reviewed and challenged the appropriateness of the models, key assumptions and estimates used by management and the valuers for determining the recoverable value of the goodwill and other intangible assets. We also assessed historical accuracy in management's forecasting process. We evaluated and challenged the key assumptions used in the valuation model and performed sensitivity analysis around key drivers of cash flow forecasts, including unit of sales, gross margins, growth rates and operating costs. We reviewed the calculation of discount rate used for determining the value in use, taking into account the cost of capital of the Group and comparable companies, and challenged the reasonableness of the methodology and assumptions applied in determining the discount rate.

KEY AUDIT MATTERS *(Continued)*

The Key Audit Matter	*How the matter was addressed in our audit*
(b) Impairment of trade receivables (Refer to notes 2(j)(i), 22, 31(a)(i) and 32(d) to the consolidated financial statements) At 31 December 2023, trade receivables amounted to approximately RMB87.3 million, net of allowance for expected credit losses of approximately RMB7.2 million, for which there was no collateral as security for settlement. In the normal ordinary course of its business, the Group grants its customers with credit period up to 120 days after billing. This may give rise to the risk of bad debt losses arising from unfavorable changes in the customers' abilities to settle their trade debts after year end. Lifetime expected credit losses of trade receivables are based on management's estimate of the lifetime expected credit losses to be incurred, which is estimated by taking into account the credit loss experience, ageing of overdue trade receivables, customers' repayment history and customers' financial position and an assessment of both the current and forecast of future economic conditions, all of which involve a significant degree of management judgement.	We reviewed and challenged the assumptions applied by management in estimating the provision for expected credit losses on trade receivables at the year end as outlined below: We reviewed the Group's credit control and debt recovery procedures and actions taken to monitor and collect the trade receivables. We reviewed historical settlement history of the customers and checked subsequent cash receipts from the customers after the year end. We enquired management of any disputes with customers, assessed the replies to the debtor confirmations directly obtained from the customers and reviewed correspondences with the customers for any dispute. We tested ageing analysis for trade receivables by customers, critically evaluated updated creditworthiness of the customers and assessed other forward looking information such as the future economic conditions. We assessed the reasonableness of the expected credit loss rates that were applied to calculate the lifetime expected credit losses of trade receivables and checked the calculation of the required provision for the lifetime expected credit losses of trade receivables. We also assessed the adequacy of the Group's disclosures in respect of trade receivables made in notes 22 and 31(a) to the consolidated financial statements.

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

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

– Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

– Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

– Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Crowe (HK) CPA Limited
Certified Public Accountants
Hong Kong, 26 March 2024

Liu Mok Lan, Cliny
Practising Certificate Number P07270

Consolidated Statement of Profit or Loss

For the year ended 31 December 2023

	Note	**2023**	2022
		RMB'000	RMB'000
Revenue	4	**1,078,659**	957,701
Cost of sales	7(c)	**(797,994)**	(680,074)
Gross profit		**280,665**	277,627
Other revenue and other income	6	**40,374**	21,545
Selling expenses		**(102,762)**	(100,452)
Administrative expenses		**(119,532)**	(104,573)
Amortisation of intangible assets	19	**(134)**	(13,569)
Valuation loss on investment properties	14	**(1,364)**	(7,300)
Impairment loss on trade receivables	7(c)	**(441)**	(1,043)
Profit from operations		**96,806**	72,235
Finance costs	7(a)	**(11,519)**	(12,292)
Share of profit of a joint venture	18	**8,212**	7,673
Share of profit/(loss) of associates	17	**387**	(32)
Profit before taxation	7	**93,886**	67,584
Income tax	8	**(32,292)**	(24,042)
Profit for the year		**61,594**	43,542
Attributable to:			
Owners of the Company		**38,096**	22,741
Non-controlling interests		**23,498**	20,801
Profit for the year		**61,594**	43,542
Earnings per share	10		
Basic and diluted (RMB cents)		**6.44**	3.75

The notes on pages 94 to 197 form part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2023

	2023 RMB'000	2022 RMB'000
Profit for the year	**61,594**	43,542
Other comprehensive loss for the year		
Items that will not be reclassified to profit or loss:		
Fair value loss on financial assets	**(17,885)**	(7,578)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside the PRC	**3,924**	1,115
	(13,961)	(6,463)
Total comprehensive income for the year	**47,633**	37,079
Attributable to:		
Owners of the Company	**24,135**	16,278
Non-controlling interests	**23,498**	20,801
	47,633	37,079

The notes on pages 94 to 197 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2023

	Note	2023 RMB'000	2022 RMB'000
Non-current assets			
Right-of-use assets	13	**107,438**	117,370
Property, plant and equipment	13	**278,279**	182,524
Investment properties	14	**120,619**	114,500
Goodwill	16	**90,693**	90,693
Interests in associates	17	**9,667**	8,584
Interest in a joint venture	18	**66,582**	83,370
Other intangible assets	19	**–**	134
Financial assets at fair value through other comprehensive income	20	**68,576**	35,076
Financial assets at fair value through profit or loss	23	**7,180**	6,792
		749,034	639,043
Current assets			
Inventories	21	**117,628**	84,764
Trade and other receivables	22	**276,959**	283,389
Financial assets at fair value through profit or loss	23	**20,351**	14,012
Cash and cash equivalents	24	**173,678**	242,155
		588,616	624,320
Current liabilities			
Contract liabilities	25	**57,172**	57,538
Trade and other payables	26	**192,954**	188,405
Bank loans	27	**191,663**	271,285
Lease liabilities	28	**6,366**	8,006
Income tax payable	29(a)	**15,377**	16,507
		463,532	541,741
Net current assets		**125,084**	82,579
Total assets less current liabilities		**874,118**	721,622
Non-current liabilities			
Bank loans	27	**150,467**	–
Lease liabilities	28	**5,930**	11,385
Deferred income		**–**	600
Deferred tax liabilities	29(b)	**18,369**	15,422
		174,766	27,407
NET ASSETS		**699,352**	694,215

The notes on pages 94 to 197 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2023

	Note	**2023**	2022
		RMB'000	RMB'000
CAPITAL AND RESERVES	30		
Share capital		**53,468**	53,468
Reserves		**565,566**	562,109
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**619,034**	615,577
NON-CONTROLLING INTERESTS		**80,318**	78,638
TOTAL EQUITY		**699,352**	694,215

Approved and authorised for issue by the board of directors on 26 March 2024.

Mr. Zhao Li Sheng	**Ms. Chan Lok San**
Director	*Director*

The notes on pages 94 to 197 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2023

	Attributable to owners of the Company									
	Share capital	Share premium	Statutory and discretionary reserves	Fair value reserve	Exchange reserve	Capital reserve	Retained profits	Total	Non-controlling interests	Total Equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note 30(a))	(note 30(b))	(note 30(c))	(note 30(d))	(note 30(e))	(note 30(f))				
At 1 January 2023	**53,468**	**139,408**	**48,641**	**(4,609)**	**(24,597)**	**(14,405)**	**417,671**	**615,577**	**78,638**	**694,215**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**38,096**	**38,096**	**23,498**	**61,594**
Other comprehensive income/(loss) for the year										
– Exchange difference arising from the translation of foreign operations	**–**	**–**	**–**	**–**	**3,924**	**–**	**–**	**3,924**	**–**	**3,924**
– Fair value change on financial assets	**–**	**–**	**–**	**(17,885)**	**–**	**–**	**–**	**(17,885)**	**–**	**(17,885)**
Total comprehensive income for the year	**–**	**–**	**–**	**(17,885)**	**3,924**	**–**	**38,096**	**24,135**	**23,498**	**47,633**
Dividend relating to 2022 (note 9(b))	**–**	**–**	**–**	**–**	**–**	**–**	**(13,921)**	**(13,921)**	**–**	**(13,921)**
Dividend paid to non-controlling interests of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(21,818)**	**(21,818)**
Shares purchased for the share award scheme (note 37)	**–**	**–**	**–**	**–**	**–**	**(8,713)**	**–**	**(8,713)**	**–**	**(8,713)**
Equity-settled share award transactions (note 37)	**–**	**–**	**–**	**–**	**–**	**1,956**	**–**	**1,956**	**–**	**1,956**
At 31 December 2023	**53,468**	**139,408**	**48,641**	**(22,494)**	**(20,673)**	**(21,162)**	**441,846**	**619,034**	**80,318**	**699,352**
At 1 January 2022	53,468	152,700	48,641	2,969	(25,712)	(10,099)	394,930	616,897	103,737	720,634
Profit for the year	–	–	–	–	–	–	22,741	22,741	20,801	43,542
Other comprehensive income/(loss) for the year										
– Exchange difference arising from the translation of foreign operations	–	–	–	–	1,115	–	–	1,115	–	1,115
– Fair value change on financial assets	–	–	–	(7,578)	–	–	–	(7,578)	–	(7,578)
Total comprehensive income for the year	–	–	–	(7,578)	1,115	–	22,741	16,278	20,801	37,079
Transfer for distribution	–	(13,292)	–	–	–	–	13,292	–	–	–
Dividend relating to 2021 (note 9(b))	–	–	–	–	–	–	(13,292)	(13,292)	–	(13,292)
Dividend paid to non-controlling interests of subsidiaries	–	–	–	–	–	–	–	–	(45,900)	(45,900)
Shares purchased for the share award scheme (note 37)	–	–	–	–	–	(5,037)	–	(5,037)	–	(5,037)
Equity-settled share award transactions (note 37)	–	–	–	–	–	731	–	731	–	731
At 31 December 2022	53,468	139,408	48,641	(4,609)	(24,597)	(14,405)	417,671	615,577	78,638	694,215

The notes on pages 94 to 197 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2023

	Note	**2023** **RMB'000**	2022 RMB'000
Operating activities			
Profit before taxation		**93,886**	67,584
Adjustments for:			
Depreciation of property, plant and equipment	7(c)	**9,710**	13,482
Depreciation of right-of use assets	7(c)	**10,231**	11,141
Finance costs	7(a)	**11,519**	12,292
Bank interest income	6	**(2,289)**	(1,347)
Interest income from a loan to an associate	6	**(106)**	(110)
Dividends received from financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss	6	**(9,126)**	(295)
Loss on disposal of property, plant and equipment	7(c)	**206**	48
Impairment loss on trade receivables	7(c)	**441**	1,043
Change in fair value of financial assets at fair value through profit or loss	6	**(12,937)**	(2,894)
Amortisation of intangible assets	7(c)	**134**	13,569
Share of profit of a joint venture	18	**(8,212)**	(7,673)
Share of (profit)/loss of associates	17	**(387)**	32
Valuation loss on investment properties	14	**1,364**	7,300
Write-down of inventories	21	**8,283**	514
Release of deferred income		**(600)**	–
Equity-settled share award expenses	7(b)	**1,956**	731
Changes in working capital			
(Increase)/decrease in inventories		**(41,147)**	21,466
Decrease in trade and other receivables		**5,650**	50,074
Decrease in contract liabilities		**(366)**	(14,192)
Increase in trade and other payables		**4,549**	35,915
Cash generated from operations		**72,759**	208,680
Income tax paid		**(30,475)**	(22,132)
Net cash generated from operating activities		**42,284**	186,548

The notes on pages 94 to 197 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2023

	Note	2023 RMB'000	2022 RMB'000
Investing activities			
Payment for purchase of property, plant and equipment		**(105,535)**	(93,513)
Payment for purchase of investment property		**(7,483)**	–
Payment for acquisition of financial assets at fair value through other comprehensive income		**(60,871)**	(3,000)
Refund of capital from financial assets at fair value through other comprehensive income		**10,000**	–
Proceeds from disposal of financial assets at fair value through profit or loss		**6,711**	–
Proceeds from disposal of property, plant and equipment		**23**	112
Grant received for capital expenditure		**–**	600
Bank interest received	6	**2,289**	1,347
Interest received from a loan to an associate	6	**106**	110
Dividend received from a joint venture		**25,000**	10,000
Dividends received from financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss	6	**9,126**	295
Net cash used in investing activities		**(120,634)**	(84,049)
Financing activities			
Proceeds from new bank loans	24	**327,507**	373,368
Repayment of bank loans	24	**(258,199)**	(337,905)
Capital element of lease rentals paid	24	**(8,965)**	(10,253)
Interest element of lease rentals paid	24	**(762)**	(815)
Interest on bank loans paid	24	**(10,757)**	(11,477)
Payments for shares purchased for the share award scheme	37	**(8,713)**	(5,037)
Dividend paid to owners of the Company	9(b)	**(13,921)**	(13,292)
Dividend paid to non-controlling interests of subsidiaries		**(21,818)**	(45,900)
Net cash generated from/(used in) financing activities		**4,372**	(51,311)
Net (decrease)/increase in cash and cash equivalents		**(73,978)**	51,188
Cash and cash equivalents at beginning of year		**242,155**	187,925
Effect of foreign exchange rate changes		**5,501**	3,042
Cash and cash equivalents at end of year	24	**173,678**	242,155

The notes on pages 94 to 197 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

1. GENERAL INFORMATION

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

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

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION

a) Statement of compliance

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

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

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

b) *Basis of preparation of the financial statements*

The consolidated financial statements for the year ended 31 December 2023 comprise the Company and its subsidiaries and the Group's interests in a joint venture and associates.

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

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

– investment properties (see note 2(f));

– derivative financial instruments (see note 2(y));

– financial instruments classified as financial assets at fair value through other comprehensive income (see note 2(e)); and

– financial assets at fair value through profit or loss (see note 2(e)).

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

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

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

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

c) *Subsidiaries and non-controlling interests*

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

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

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

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

In the Company's statement of financial position, an investment in subsidiary is stated at cost less impairment losses (see note 2(j)).

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

d) Associates and joint ventures

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

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

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted to recognise the Group's share of post-acquisition share of the profit or loss and other comprehensive income of the associate or joint venture and any impairment loss relating to the investment. Any acquisition date excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment (after reassessment) is recognised in the consolidated statement of profit or loss.

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

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

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

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

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

e) *Other investments equity securities*

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

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

i) *Non-equity investments*

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

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Expected credit loses, interest income calculated using the effective interest method (see note 2(t)(iv)), foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

– fair value through other comprehensive income (FVOCI) - recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

e) *Other investments equity securities (Continued)*

ii) Equity investments

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

f) *Investment properties*

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

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

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

g) *Property, plant and equipment*

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

– right-of-use assets arising from leases over freehold or leasehold properties where the Group is not the registered owner of the property interest; and

– items of plant and equipment, including right-of-use assets arising from leases of underlying plant and equipment (see note 2(h)).

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

– when a deficit arises on revaluation, it will be charged to profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and

– when a surplus arises on revaluation, it will be credited to profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to profit or loss.

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

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

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

g) *Property, plant and equipment (Continued)*

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

– buildings held for own use situated on leasehold land under operating leases are depreciated on a straight-line basis over the shorter of their estimated lives, being no more than 50 years and the unexpired term of the lease.

–	leasehold land	over the remaining lease terms
–	leasehold improvements	5 years or over the remaining term of the lease, if shorter
–	furniture, fixtures and office equipment	5 to 10 years
–	machineries	10 years
–	motor vehicles	5 years

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

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

h) Leased assets

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

i) As a lessee

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

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

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

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

– right-of-use assets that meet the definition of investment property are carried at fair value in accordance with note 2(f); and

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

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

h) *Leased assets (Continued)*

i) *As a lessee (Continued)*

The initial fair value of refundable rental deposits is accounted for separately from the right-of-use assets in accordance with the accounting policy applicable to financial asset measured carried at amortised. Any difference between the initial fair value and the nominal value of the deposits is accounted for as additional lease payments made and is included in the cost of right-of-use assets.

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

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

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

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

h) Leased assets (Continued)

ii) As a lessor

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

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

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

i) Inventories

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

Inventories are carried at the lower of cost and net realisable value.

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

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

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

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

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

j) Credit losses and impairment of assets

i) Credit losses from financial instruments and contract assets

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

– financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables and loans to associates);

– contract assets (see note 2(k)); and

– debt securities measured at FVOCI (recycling).

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

Measurement of ECLs

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

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

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

– variable-rate financial assets: current effective interest rate;

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

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

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

j) Credit losses and impairment of assets *(Continued)*

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

Measurement of ECLs ***(Continued)***

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

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

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

General approach

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

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

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

j) *Credit losses and impairment of assets (Continued)*

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

General approach *(Continued)*

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

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

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

Simplified approach

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

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

j) Credit losses and impairment of assets *(Continued)*

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

Significant increases in credit risk

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

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

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument’s external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor’s ability to meet its obligation to the Group.

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

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

j) *Credit losses and impairment of assets (Continued)*

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

Significant increases in credit risk *(Continued)*

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

Basis of calculation of interest income

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

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

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

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or past due event;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

j) Credit losses and impairment of assets (Continued)

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

Write-off policy

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

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

ii) Impairment of other non-current assets

Goodwill and intangible assets that have an indefinite life are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

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

– property, plant and equipment, including right-of-use assets;

– other intangible assets;

– goodwill; and

– investments in subsidiaries in the Company's statement of financial position.

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

– Calculation of recoverable amount

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

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

j) *Credit losses and impairment of assets (Continued)*

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

iii) *Interim financial reporting and impairment*

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

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

k) *Contract assets and contract liabilities*

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

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

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

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

l) *Trade and other receivables*

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

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

m) *Trade and other payables*

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

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

n) Interest-bearing borrowings

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

o) Cash and cash equivalents

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

p) Income tax

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

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

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

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

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

p) Income tax (Continued)

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

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

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

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

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

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

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

q) *Provisions and contingent liabilities*

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

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

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

r) *Borrowing costs*

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

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

s) *Translation of foreign currencies*

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

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

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

s) *Translation of foreign currencies (Continued)*

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

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

t) *Revenue and other income*

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

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

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

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

i) *Sale of goods*

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

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

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

t) *Revenue and other income (Continued)*

ii) *Rental income from operating leases*

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

iii) *Dividend income*

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

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

iv) *Interest income*

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

v) *Promotional income*

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

vi) *Government grants*

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

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

u) i) *Business combinations or asset acquisitions*

Optional concentration test

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

Asset acquisitions

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

Business combinations

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

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

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

u) i) *Business combinations or asset acquisitions (Continued)*

Business combinations (Continued)

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

– deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Incomes Taxes* and HKAS 19 *Employee Benefits* respectively;

– liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date;

– assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard; and

– lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

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

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

u) i) *Business combinations or asset acquisitions (Continued)*

Business combinations (Continued)

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

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

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

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

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

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

u) ii) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represents the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

v) Other intangible assets (other than goodwill)

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

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

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

– Customer relationships	8 years
– Patents	5 years

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

v) Other intangible assets (other than goodwill) *(Continued)*

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

w) Employee benefits

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

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

Defined benefit plan obligations

The Group has a defined benefit plan, representing long service payment ("LSP") under the Hong Kong Employment Ordinance. The Group's net defined benefit obligation is measured by discounting the estimated cost to the Group of the benefit that employees have earned in return for their service in the current and prior periods, after deducting the negative service cost arising from the accrued benefits derived from the Group's MPF contributions that have been vested with employees, which are deemed to be contributions from the relevant employees.

ii) Share-based payments

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

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

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

w) Employee benefits *(Continued)*

iii) Share award scheme

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

iv) Termination benefits

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

x) Research and development costs

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

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

y) Derivative financial instruments

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

z) Related parties

a) A person, or a close member of that person's family, is related to the Group if that person:

   i) has control or joint control over the Group;

   ii) has significant influence over the Group; or

   iii) is a member of the key management personnel of the Group or the Group's parent.

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

z) *Related parties (Continued)*

b) An entity is related to the Group if any of the following conditions applies:

i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

iii) Both entities are joint ventures of the same third party.

iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

vi) The entity is controlled or jointly controlled by a person identified in (a).

vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

aa) Segment reporting

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

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

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

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

HKFRS 17 and related amendments	Insurance Contracts
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform – Pillar Two Model Rules

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

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

Impact on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies

The Group has adopted the amendments for the first time in the current year. HKAS 1 Presentation of Financial Statements replace all instance of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information include in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that are accounting policy information may be material because of the nature of the related transactions, other events or conditions, is itself is material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

Amendments to HKFRS Practice Statement 2 Making Materiality Judgements provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has disclosed the material accounting policy information in note 2 to the financial statements. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's financial statements.

The Group has not adopted any new amendments to HKFRSs that is not yet effective for the current accounting period.

4. REVENUE

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

	2023 **RMB'000**	2022 RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products		
– pharmaceutical products	**735,018**	593,606
– healthcare products	**102,562**	95,053
– medical devices	**241,079**	269,042
	1,078,659	957,701
Timing of revenue recognition		
At a point in time	**1,078,659**	957,701

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

5. SEGMENT REPORTING

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

– Distribution sales of pharmaceutical and healthcare products: this segment distributes and sells branded imported pharmaceutical and healthcare products, primarily in Hong Kong and the PRC.

– Manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices: this segment manufactures and sells electrotherapeutic and physiotherapeutic devices and general medical examination devices, which are carried out by Dong Di Xin as defined in note 15 below. Currently, the Group's activities in this regard are primarily carried out in the PRC.

5. SEGMENT REPORTING *(Continued)*

a) *Segment results, assets and liabilities*

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

Segment assets include all tangible, intangible assets and current assets with the exception of investments in financial assets and other corporate assets. Segment liabilities include provisions and trade and other payables attributable to the activities of the individual segments and borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Segment profit includes the Group's share of profit arising from the activities of the Group's joint venture.

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 head office or corporate administration costs.

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

5. SEGMENT REPORTING *(Continued)*

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

Information regarding the Group's reportable segments as provided to the Group's directors for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2023 and 2022 is set out below.

	Distribution sales of pharmaceutical and healthcare products				Manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices		Total	
	Hong Kong		PRC		PRC			
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue from external customers	**55,239**	49,857	**898,022**	732,718	**240,936**	268,773	**1,194,197**	1,051,348
Inter-segment revenue	**–**	7,073	**1,825**	1,914	**–**	–	**1,825**	8,987
Reportable segment revenue	**55,239**	56,930	**899,847**	734,632	**240,936**	268,773	**1,196,022**	1,060,335
Reportable segment profit (adjusted EBITDA)	**(13,469)**	(19,333)	**54,057**	53,507	**79,304**	71,259	**119,892**	105,433
Write down of inventories	**1,660**	506	**6,623**	8	**–**	–	**8,283**	514
Research and development costs	**–**	–	**–**	–	**18,840**	15,519	**18,840**	15,519
Reportable segment assets	**49,448**	38,169	**544,851**	584,052	**349,144**	358,328	**943,443**	980,549
(including interest in a joint venture)	**–**	–	**66,582**	83,370	**–**	–	**66,582**	83,370
Additions to non-current segment assets during the year	**9,219**	–	**3,875**	205	**14,104**	13,130	**27,198**	13,335
Reportable segment liabilities	**28,896**	19,683	**317,951**	313,257	**63,521**	84,481	**410,368**	417,421

5. SEGMENT REPORTING *(Continued)*

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

	2023 RMB'000	2022 RMB'000
Revenue		
Reportable segment revenue	**1,196,022**	1,060,335
Elimination of inter-segment revenue	**(1,825)**	(8,987)
Elimination of Group's share of revenue of joint venture	**(115,538)**	(93,647)
Consolidated revenue (note 4)	**1,078,659**	957,701

	2023 RMB'000	2022 RMB'000
Profit		
Reportable segment profit (adjusted EBITDA) derived from the Group's external customers and joint venture	**119,892**	105,433
Other revenue and other income	**40,374**	21,545
Depreciation and amortisation	**(20,075)**	(38,192)
Finance costs	**(11,519)**	(12,292)
Unallocated head office and corporate expenses	**(34,786)**	(8,910)
Consolidated profit before taxation	**93,886**	67,584

5. SEGMENT REPORTING *(Continued)*

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

	2023	2022
	RMB'000	RMB'000
Assets		
Reportable segment assets	**943,443**	980,549
Elimination of inter-segment receivables	**–**	–
	943,443	980,549
Financial assets at fair value through other comprehensive income	**68,576**	35,076
Financial assets at fair value through profit or loss	**27,531**	49,088
Unallocated head office and corporate assets	**298,100**	198,650
Consolidated total assets	**1,337,650**	1,263,363

	2023	2022
	RMB'000	RMB'000
Liabilities		
Reportable segment liabilities	**410,368**	417,421
Elimination of inter-segment payables	**–**	–
	410,368	417,421
Current tax liabilities	**15,777**	16,507
Deferred tax liabilities	**18,369**	15,422
Unallocated head office and corporate liabilities	**193,784**	119,798
Consolidated total liabilities	**638,298**	569,148

5. SEGMENT REPORTING *(Continued)*

c) *Geographic Information*

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

	Revenues from external customers		**Specified non-current assets**	
	2023	2022	**2023**	2022
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC (excluding Hong Kong)	**808,629**	667,608	**663,132**	583,300
Hong Kong	**43,434**	36,227	**16,803**	13,875
	852,063	703,835	**679,935**	597,175
Other countries outside the PRC:				
The United States of America	**108,242**	124,326	**–**	–
The United Kingdom	**17,889**	18,245	**–**	–
Germany	**36,657**	31,720	**–**	–
Italy	**21,228**	28,132	**–**	–
Spain	**1,385**	1,982	**–**	–
Mexico	**6,732**	7,400	**–**	–
Others	**34,463**	42,061	**–**	–
	226,596	253,866	**–**	–
	1,078,659	957,701	**679,935**	597,175

d) *Information about major customers*

There was no customer accounted for 10% or more of the total revenue of the Group for the years ended 31 December 2023 and 2022.

6. OTHER REVENUE AND OTHER INCOME

	2023 **RMB'000**	2022 RMB'000
Other revenue:		
Total interest income on financial assets not at fair value through profit or loss:		
Bank interest income	**2,289**	1,347
Interest income from a loan to an associate	**106**	110
Gross rental income from investment properties	**2,745**	947
Dividend income from financial assets at fair value through other comprehensive income and through profit or loss	**9,126**	295
Promotional service income	**12,261**	15,656
	26,527	18,355
Other income:		
Government grants		
– HK (note i)	**369**	357
– PRC (note ii)	**4,087**	3,759
Change in fair value of financial assets at fair value through profit or loss	**12,937**	2,894
Exchange loss, net	**(4,966)**	(5,808)
Others	**1,420**	1,988
	40,374	21,545

Note:

i) In 2023, the Group successfully applied for funding support from the Research and Development Cash Rebate Scheme, set up by the Hong Kong Government. The purpose of the funding is to encourage more research and development (R&D) investment in the private sector and encourage local enterprises to establish stronger partnership with designated local public research institutions.

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

ii) Government grants were awarded to the Group by the local government agencies as incentives primarily to encourage the development of the Group and the contribution to the local economic development, production of epidemic prevention materials.

7. PROFIT BEFORE TAXATION

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

		2023 RMB'000	2022 RMB'000
a)	**Finance costs**		
	Total interest expense on financial liabilities not at fair value through profit or loss:		
	– Interest on bank loans	**10,757**	11,477
	– Interest on lease liabilities	**762**	815
		11,519	12,292
b)	**Staff costs (including directors' and chief executive's remuneration)**		
	Salaries and other benefits	**120,089**	134,546
	Contributions to defined contribution retirement plan	**11,073**	11,220
	Equity-settled share award expenses	**1,956**	731
		133,118	146,497
c)	**Other items**		
	Amortisation of other intangible assets (note 19)	**134**	13,569
	Auditor's remuneration		
	– Audit service	**1,490**	1,416
	– Non-audit services	**182**	221
	Costs of inventories recognised as expense:		
	– Cost of inventories sold (note 21)	**797,994**	680,074
	– Write-down of inventories (note 21)	**8,283**	514
	Depreciation (note 13)		
	– Property, plant and equipment	**9,710**	13,482
	– Right-of-use assets	**10,231**	11,141
	Impairment loss on trade receivables (note 22(c))	**441**	1,043
	Loss on disposal of property, plant and equipment	**206**	48
	Rental income from investment properties less direct outgoings of RMB156,000 (2022: RMB124,000)	**(2,589)**	(823)
	Research and development costs	**18,840**	15,519

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

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

	2023 **RMB'000**	2022 RMB'000
Hong Kong Profits Tax		
– Current year	**702**	440
– (Over-provision)/under-provision in prior year	**(312)**	242
PRC Enterprise Income Tax ("**EIT**")		
– Current year	**28,315**	23,544
– Under-provision in prior years	**640**	2,516
Deferred tax (note 29(b))		
– Origination and reversal of temporary differences	**2,947**	(2,700)
	32,292	24,042

Note:

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

ii) The provision for Hong Kong Profits Tax for 2023 is calculated at 16.5% (2022: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first HK$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2022.

The provision for Hong Kong Profits Tax for 2023 takes into account a reduction granted by the Hong Kong SAR Government of 100% of the tax payable for the year of assessment 2023/24 subject to a maximum reduction of HK$3,000 for each business (2022: a maximum reduction of HK$6,000 was granted for the year of assessment 2022/23).

iii) The PRC Enterprise Income Tax charge of the Group during the years ended 31 December 2023 and 2022 represented mainly the PRC Enterprise Income Tax charge from the Group's PRC subsidiaries, including **SZ Kingworld** and **Dong Di Xin** (as defined in note 15), and are based on a statutory rate of 25% (2022: 25%), except for Dong Di Xin, which is chargeable at a preferential income tax rate of 15% (2022: 15%).

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

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

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

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

	2023 **RMB'000**	2022 RMB'000
Profit before taxation	**93,886**	67,584
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdiction concerned	**40,343**	25,120
Tax effect of non-deductible expenses	**147**	227
Tax effect of non-taxable income	**(11,009)**	(12,880)
Tax effect of prior years' tax losses utilised	**(2,639)**	(741)
Tax effect of unrecognised temporary differences	**(937)**	(1,538)
Tax effect of unused tax losses not recognised	**6,059**	11,096
Under-provision in prior years	**328**	2,758
Actual tax expense	**32,292**	24,042

c) As at 31 December 2023, the undistributed profits of the Company's PRC subsidiaries amounted to approximately RMB267,600,000 (2022: RMB331,129,000) with potential deferred tax liabilities of approximately RMB13,380,000 (2022: RMB16,556,000). Deferred tax liabilities related to withholding tax on the distributable profits of the Company's PRC subsidiaries amounted to approximately RMB4,188,000 (2022: RMB1,128,000) (note 29(b)) has been provided for as at 31 December 2023 taking into account its future profit distribution policy.

9. DIVIDENDS

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

	2023 RMB'000	2022 RMB'000
Final dividend proposed after the end of the reporting period of HK3.38 cents (equivalent to RMB3.06 cents) (2022: HK2.47 cents (equivalent to RMB2.18 cents)) per ordinary share	**19,049**	13,571

The final dividend for the year ended 31 December 2023 proposed after the end of the reporting period is subject to approval by the Company's shareholders in its forthcoming annual general meeting. It has not been recognised as a liability at the end of the reporting period.

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

	2023 RMB'000	2022 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK2.47 cents (equivalent to approximately RMB2.24 cents) (2022: HK2.39 cents (equivalent to approximately RMB2.14 cents))	**13,921**	13,292

10. EARNINGS PER SHARE

a) *Basic earnings per share*

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

	2023	2022
	RMB'000	RMB'000
Earnings		
Profit for the year attributable to owners of the Company	**38,096**	22,741

	2023	2022
	'000	'000
Number of shares		
Weighted average number of ordinary shares in issue	**622,500**	622,500
Effect of shares purchased and held under share award scheme	**(30,873)**	(15,784)
Weighted average number of ordinary shares for the purpose of basic earnings per share	**591,627**	606,716

b) *Diluted earnings per share*

Diluted earnings per share for the years ended 31 December 2023 and 2022 was the same as the basic earnings per share since there was no outstanding share options during the years ended 31 December 2023 and 2022.

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	2023 Total RMB'000
Executive directors:					
Zhao Li Sheng (chief executive officer)	**–**	**1,430**	**–**	**22**	**1,452**
Chan Lok San	**–**	**1,214**	**89**	**20**	**1,323**
Zhou Xuhua	**–**	**400**	**51**	**32**	**483**
Independent non-executive directors:					
Duan Jidong	**285**	**–**	**–**	**–**	**285**
Wong Cheuk Lam	**285**	**–**	**–**	**–**	**285**
Zhang Jianbin	**285**	**–**	**–**	**–**	**285**
	855	**3,044**	**140**	**74**	**4,113**

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	2022 Total RMB'000
Executive directors:					
Zhao Li Sheng (chief executive officer)	–	1,365	–	29	1,394
Chan Lok San	–	1,159	73	17	1,249
Zhou Xuhua	–	400	51	52	503
Independent non-executive directors:					
Duan Jidong	276	–	–	–	276
Wong Cheuk Lam	276	–	–	–	276
Zhang Jianbin	276	–	–	–	276
	828	2,924	124	98	3,974

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

During the years ended 31 December 2023 and 2022, no amount was paid or payable to the directors or chief executive or any of the five highest paid individuals set out in note 12 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which any director or chief executive waived or agreed to waive any emolument during both years.

12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group include 3 directors (2022: 3 directors) during the year, whose emoluments are disclosed in note 11. The aggregate of the emoluments in respect of the remaining individuals are as follows:

	2023 **RMB'000**	2022 RMB'000
Salaries and other emoluments	**1,580**	1,341
Retirement scheme contributions	**34**	32
	1,614	1,373

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

	2023	2022
Nil to HK$1,000,000	**2**	2

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

	Property, plant and equipment									
	Buildings held for own use	Leasehold land and building	Leasehold improvements	Furniture, fixtures and office equipment	Machineries	Motor vehicles	Construction-in-progress	Sub-total	Right-of-use assets	Total
		(note (c))					(note (e))		(notes (a) and (b))	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost										
At 1 January 2022	24,259	6,975	18,365	31,112	34,594	12,903	36,151	164,359	127,776	292,135
Exchange adjustments	–	578	60	4	–	417	–	1,059	116	1,175
Additions	–	–	2,236	544	10,097	458	80,178	93,513	20,545	114,058
Disposals	–	–	–	(99)	(390)	(278)	–	(767)	(17,166)	(17,933)
At 31 December 2022	24,259	7,553	20,661	31,561	44,301	13,500	116,329	258,164	131,271	389,435
At 1 January 2023	24,259	7,553	20,661	31,561	44,301	13,500	116,329	258,164	131,271	389,435
Exchange adjustments	–	188	19	1	–	136	–	344	38	382
Additions	–	7,483	198	3,066	5,389	1,617	87,782	105,535	1,865	107,400
Disposals	–	–	–	(5,070)	(94)	(572)	–	(5,736)	(3,594)	(9,330)
At 31 December 2023	24,259	15,224	20,878	29,558	49,596	14,681	204,111	358,307	129,580	487,887
Accumulated depreciation										
At 1 January 2022	5,458	104	13,507	21,717	11,697	9,837	–	62,320	19,880	82,200
Exchange adjustments	–	15	10	4	–	417	–	446	46	492
Charge for the year	1,092	145	2,069	4,896	3,786	1,494	–	13,482	11,141	24,623
Disposals	–	–	–	(81)	(273)	(254)	–	(608)	(17,166)	(17,774)
At 31 December 2022	6,550	264	15,586	26,536	15,210	11,494	–	75,640	13,901	89,541
At 1 January 2023	6,550	264	15,586	26,536	15,210	11,494	–	75,640	13,901	89,541
Exchange adjustments	–	41	7	1	–	136	–	185	22	207
Charge for the year	1,092	177	1,022	2,219	4,300	900	–	9,710	10,231	19,941
Disposals	–	–	–	(4,867)	(76)	(564)	–	(5,507)	(2,012)	(7,519)
At 31 December 2023	7,642	482	16,615	23,889	19,434	11,966	–	80,028	22,142	102,170
Carrying amount										
At 31 December 2023	16,617	14,742	4,263	5,669	30,162	2,715	204,111	278,279	107,438	385,717
At 31 December 2022	17,709	7,289	5,075	5,025	29,091	2,006	116,329	182,524	117,370	299,894

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

Note:

a) Right-of-use assets

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

	Note	2023 RMB'000	2022 RMB'000
Ownership interests in leasehold land and buildings held for own use in PRC, carried at depreciated cost, with remaining lease term of:			
– between 10 and 50 years	(i)	**95,810**	97,174
Other properties leased for own use, carried at depreciated cost	(ii)	**11,628**	20,196
		107,438	117,370

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

	2023 RMB'000	2022 RMB'000
Depreciation charge of right-of-use assets by class of underlying asset:		
– Ownership interests in leasehold land and buildings	**1,365**	1,365
– Other properties leased for own use	**8,866**	9,776
	10,231	11,141
Interest on lease liabilities (note 7(a))	**762**	815

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

Note: *(Continued)*

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

During the year ended 31 December 2023, additions to right-of-use assets were RMB1,865,000 (2022: RMB20,545,000). This amount primarily related to the capitalised lease payments payable under new tenancy agreements.

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

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

ii) Other properties leased for own use

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

b) Included in right-of-use assets is the land use rights for a piece of land held for development situated in the PRC with a carrying amount of approximately RMB42,981,000 (2022: RMB42,981,000).

c) As at 31 December 2023, the Group held two office units (2022: one) for own use in Hong Kong, carried at depreciated cost, with lease term of 50 years.

d) As at 31 December 2023, certain right-of-use assets and buildings held for own use with a total carrying amount of RMB112,427,000 (2022: RMB114,883,000) were pledged in favour of banks for the banking facilities granted to the Group (note 27).

e) Construction-in-progress represent costs incurred by the Group on the construction of the Longde Health Industrial Park, a logistic centre with ancillary facilities and ancillary commercial property. Further details on the relevant outstanding capital commitment at the end of the reporting period are disclosed in note 33.

14. INVESTMENT PROPERTIES

	RMB'000
At fair value	
At 1 January 2022	121,800
Fair value adjustment	(7,300)
At 31 December 2022 and 1 January 2023	114,500
Addition	7,483
Fair value adjustment	(1,364)
At 31 December 2023	120,619

Note:

a) The investment properties, situated in the PRC and Hong Kong, were valued by Hong Kong Appraisal Advisory Limited, an independent firm of qualified valuers, who have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of properties being valued, at 31 December 2023, using (i) direct comparison method; or (ii) investment method of income approach, by taking into account the rental income from the existing tenancy agreements and reversionary property interest. For assessing the reversionary potential of the properties, the valuers based on the prevailing market information within the subject buildings and other comparable properties.

14. INVESTMENT PROPERTIES *(Continued)*

Note: (Continued)

b) At 31 December 2023, certain of the Group's investment properties with a total fair value of approximately RMB99,990,000 (2022: RMB100,480,000) were pledged in favour of the banks for the banking facilities granted to the Group (note 27).

c) Fair value measurement of properties

i) Fair value hierarchy

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

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

- Level 3 valuations: Fair value measured using significant unobservable inputs

		Fair value measurements as at 31 December 2023 categorised into		
	Fair value at 31 December 2023 RMB'000	**Level 1 RMB'000**	**Level 2 RMB'000**	**Level 3 RMB'000**
Group				
Recurring fair value measurement				
Investment properties:				
– Commercial	**120,619**	**–**	**–**	**120,619**

14. INVESTMENT PROPERTIES *(Continued)*

Note: (Continued)

c) Fair value measurement of properties (Continued)

i) Fair value hierarchy (Continued)

	Fair value at 31 December 2022 RMB'000	Fair value measurements as at 31 December 2022 categorised into Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Group				
Recurring fair value measurement				
Investment properties:				
– Commercial	114,500	–	–	114,500

During the years ended 31 December 2023 and 2022, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

ii) Information about Level 3 fair value measurements

	Valuation techniques	Unobservable input	Range
Investment properties: – Commercial	(i) Direct comparison method	Sales evidence of comparable properties (adjusted for the difference in the quality and location of the properties)	RMB34,972 - RMB68,485 per square meter (2022: RMB42,192 - RMB44,898)
	(ii) Discounted cash flow	Risk-adjusted discount rate (i.e. market rental yield)	4.81%-6.56% (2022: 5.1%-6.4%)
		Expected market rental growth	1% (2022: 1%)
		Expected occupancy rate	90%-100% (2022: 95%-100%)

14. INVESTMENT PROPERTIES *(Continued)*

Note: (Continued)

c) Fair value measurement of properties (Continued)

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

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

d) The Group leases out investment properties under operating leases. The leases run for an initial period of one to three years. None of the leases include contingent rentals.

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

	2023	2022
	RMB'000	RMB'000
Within 1 year	**3,124**	2,671
After 1 year but within 5 years	**5,050**	178
	8,174	2,849

15. SUBSIDIARIES

The following is a list of principal subsidiaries of the Group as at 31 December 2023.

Name	Place of incorporation/ operations	Proportion of ownership interest held by the Group at effective interest	Class of shares/ capital held	Particulars of issued and paid up capital	Principal activities
Kingworld Medicine and Healthcare Group Limited ("**BVI Kingworld**") (note (a))	BVI/Hong Kong	100%	Ordinary shares	111 shares of US$1 each	Investment holding
Kingworld Medicine Healthcare Limited	Hong Kong	100%	Ordinary shares	195,546,680 shares	Investment holding and distribution sale of branded imported pharmaceutical and healthcare products in Hong Kong
金活(香港)控股有限公司 Kingworld (Hong Kong) Holdings Limited	Hong Kong	100%	Ordinary shares	1 share	Investment holding
深圳市金活醫藥有限公司 SZ Kingworld Medicine Company Limited (note (b)) ("**SZ Kingworld**")	PRC	100%	Registered capital	RMB180,900,000	Distribution sale of branded imported pharmaceutical and healthcare products in the PRC

15. SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ operations	Proportion of ownership interest held by the Group at effective interest	Class of shares/ capital held	Particulars of issued and paid up capital	Principal activities
深圳市東迪欣科技有限公司 Shenzhen Dong Di Xin Technology Company Limited (note (c)) ("**Dong Di Xin**")	PRC	55%	Registered capital	RMB2,000,000	Manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices in the PRC
深圳市龍德健康有限公司 Shenzhen City Longde Jiankang Company Limited (note (c)) ("**Longde**")	PRC	90%	Registered capital	RMB28,800,000	Property investment
深圳市舒心堂藝術文化傳播有限公司 (note (c)) ("**舒心堂**")	PRC	41%	Registered capital	RMB3,000,000	Distribution sales of artwork and organization of art exhibition
深圳市金活中醫藥科技發展有限公司 (note (c))	PRC	85%	Registered capital	RMB5,000,000	Distribution sales of Chinese medicine and technology transfer
Innopharm S. A.	France	60%	Issued shares	EUR9,147	Inactive

15. SUBSIDIARIES *(Continued)*

Note:

a) Except for BVI Kingworld which is directly owned by the Company, all other principal subsidiaries are indirectly owned by the Company.

b) Wholly-foreign owned enterprise established in the PRC.

c) Limited liability company established in the PRC. 舒心堂 is regarded as an indirect non-wholly subsidiary of the Company since the Company can control the majority of votes of its board of director.

d) The English names of the above PRC subsidiaries are for identification purpose only.

e) The following table lists out the information relating to Dong Di Xin and Longde, being subsidiaries of the Group which have material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

	Longde		**Dong Di Xin***	
	2023	2022	**2023**	2022
	RMB'000	RMB'000	**RMB'000**	RMB'000
NCI Percentage	**10%**	10%	**45%**	45%
Current assets	**19,872**	11,960	**203,463**	206,513
Non-current assets	**247,089**	159,309	**54,998**	60,988
Current liabilities	**(58,983)**	(147,882)	**(76,486)**	(85,378)
Non-current liabilities	**(188,267)**	–	**(6,200)**	(10,708)
Net assets	**19,711**	23,387	**175,775**	171,415
Carrying amount of NCI	**1,971**	2,339	**79,260**	76,904
Revenue	**–**	–	**240,936**	268,773
Profit/(loss) for the year	**(3,676)**	(2,567)	**52,845**	60,057
Total comprehensive income/(loss)	**(3,676)**	(2,567)	**52,845**	60,057
Profit/(loss) allocated to NCI	**(368)**	(257)	**24,173**	21,454
Total comprehensive income/(loss) allocated to NCI	**(368)**	(257)	**24,173**	21,454
Dividend paid to NCI	**–**	–	**21,818**	45,900
Cash flows from operating activities	**(4,029)**	(7,358)	**40,955**	36,584
Cash flows from investing activities	**(87,780)**	(80,176)	**(3,477)**	(11,185)
Cash flows from financing activities	**91,941**	58,526	**(22,380)**	(55,115)

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

16. GOODWILL

	RMB'000
Carrying amount	
At 31 December 2022 and 31 December 2023	90,693

The goodwill arose from acquisition of Dong Di Xin during the year ended 31 December 2015. The goodwill represented the expected future profitability of Dong Di Xin as an established business at the acquisition date. The reportable segment adjusted EBITDA of Dong Di Xin was approximately RMB79,304,000 (2022: RMB71,259,000) for the year (note 5(a)).

Impairment testing on Dong Di Xin

The recoverable amount of Dong Di Xin as the identified cash-generating unit (the "**CGU**") has been determined based on value in use calculations. At 31 December 2023, the recoverable amount of the CGU, to which goodwill and other intangible assets (note 19) are allocated, is determined taking into account the valuation performed by Hong Kong Appraisal Advisory Limited, an independent firm of qualified valuers not connected to the Group and with qualification and experiences in valuing similar assets, based on the cash flows forecasts derived from the most recent financial budgets for the next 5 years (2022: 5 years) approved by the management using the pre-tax discount rate of 17.3% (2022: 18.7%) per annum which reflects current market assessments of the time value of money and the risks specific to the CGU. Other key assumptions for the value in use calculations are the budgeted growth rate of 3% to 7% (2022: 2% to 7%) and 3% (2022: 3%) for the next 5 years and beyond 5 years, respectively, and budgeted gross margin of 46% (2022: 45%), which are determined based on past performance, management's expectations for the market development and market growth forecasts.

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

The management believes that any reasonably possible change in the key assumptions would not cause the carrying amount of the goodwill to exceed its recoverable amount.

17. INTERESTS IN ASSOCIATES

	2023 RMB'000	2022 RMB'000
Share of net assets	**6,794**	6,089
Goodwill	**2,873**	2,495
Carrying amount of the Group's interests in associates	**9,667**	8,584

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

Name of associate	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital/ Registered capital	Proportion of ownership interest held by a subsidiary of the Group at effective interest	Principal activity
佛慈藥廠有限公司 Fat Chi Medicine Company Limited ("**Fat Chi Medicine**")	Limited liability company	Hong Kong	HKD320,000	48.4375%	Trading of medical products
深圳至元健康科技創新中心 Shenzhen Zhiyuan Healthcare Technology Innovation Center ("**Shenzhen Zhiyuan**")	Limited liability company	PRC	RMB22,220,000	45%	Marketing and promotion of healthcare and technology
Ming VitaMed Enterprise III Limited ("**Ming VitaMed**")	Limited liability company	BVI	USD1,000	24%	Inactive

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

17. INTERESTS IN ASSOCIATES *(Continued)*

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

Fat Chi Medicine

	2023	2022
	RMB'000	RMB'000
Gross amounts of the associate		
Current assets	**6,955**	9,465
Non-current assets	**4,602**	4,586
Current liabilities	**(2,510)**	(5,993)
Non-current liabilities	**(740)**	(736)
Equity	**8,307**	7,322
Revenue	**6,800**	6,144
Profit for the year	**801**	1,130
Other comprehensive income	**184**	486
Total comprehensive income	**985**	1,616
Dividend received from the associate	**–**	–
Reconciled to the Group's interest in the associate		
Gross amounts of net assets of the associate	**8,307**	7,322
Group's effective interest	**48.4375%**	45.3125%
Group's share of net assets of the associate	**4,024**	3,318
Goodwill	**2,873**	2,495
Carrying amount of the Group's interest	**6,897**	5,813
Aggregate amounts of the Group's share of the associate		
Profit for the year	**388**	512
Other comprehensive income for the year	**89**	221
Total comprehensive income shared by the Group	**477**	733

17. INTERESTS IN ASSOCIATES *(Continued)*

Shenzhen Zhiyuan

	2023 **RMB'000**	2022 RMB'000
Gross amounts of the associate		
Current assets	**7,226**	7,228
Non-current assets	**–**	–
Current liabilities	**(1,073)**	(1,073)
Non-current liabilities	**–**	–
Equity	**6,153**	6,155
Revenue	**–**	–
Loss for the year	**(2)**	(1,208)
Other comprehensive income	**–**	–
Total comprehensive loss	**(2)**	(1,208)
Dividend received from the associate	**–**	–
Reconciled to the Group's interest in the associate		
Gross amounts of net assets of the associate	**6,153**	6,155
Group's effective interest	**45%**	45%
Group's share of net assets of the associate	**2,769**	2,770
Carrying amount of the Group's interest	**2,769**	2,770
Loss shared by the Group	**(1)**	(544)

Aggregate information of an associate that is individually not material:

	2023 **RMB'000**	2022 RMB'000
Aggregate carrying amount of individually immaterial associate in the consolidated financial statements	**1**	1
Aggregate amounts of the Group's share of the associate's		
Profit from continuing operations	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**–**	–

18. INTEREST IN A JOINT VENTURE

	2023 **RMB'000**	2022 RMB'000
Share of net assets	**66,582**	83,370

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

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

Note:

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

b) The English name of the above PRC joint venture is for identification purpose only.

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

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

18. INTEREST IN A JOINT VENTURE *(Continued)*

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

	2023 **RMB'000**	2022 RMB'000
Gross amounts of Zhuhai Jinming		
Current assets	**101,823**	82,568
Non-current assets	**177,736**	181,963
Current liabilities	**(116,822)**	(66,840)
Non-current liabilities	**(29,573)**	(30,951)
Equity	**133,164**	166,740
Included in the above assets and liabilities:		
Cash and cash equivalents	**28,107**	44,619
Current financial liabilities (excluding trade and other payables)	**(45,616)**	(8,924)
Non-current financial liabilities (excluding deferred tax liabilities)	**(933)**	(1,461)
Revenue	**230,947**	187,294
Profit from continuing operations	**16,424**	15,345
Other comprehensive income	**–**	–
Total comprehensive income	**16,424**	15,345
Included in the above profit:		
Valuation loss on investment property	**(3,402)**	(2,061)
Depreciation	**(2,565)**	(2,983)
Interest income	**53**	14
Interest expense	**(791)**	(337)
Income tax expense	**(4,629)**	(4,289)
Reconciled to the Group's interest in the joint venture		
Gross amounts of net assets of the joint venture	**133,164**	166,740
Group's effective interest	**50%**	50%
Carrying amount of the Group's interest	**66,582**	83,370
Profit shared by the Group	**8,212**	7,673

18. INTEREST IN A JOINT VENTURE *(Continued)*

The fair value of Zhuhai Jinming's investment properties as at 31 December 2023 and 2022 were determined on an open market value basis calculated by reference to net rental income allowing for reversionary income potential, which is categorised under Level 3 fair value measurements. The valuations at 31 December 2023 and 2022 were carried out by an independent firm of qualified valuers, Hong Kong Appraisal Advisory Limited, who amongst their staff have members of the Hong Kong Institute of Surveyors with recent experience in the location and category of properties being valued.

Information about Level 3 fair value measurements is as follows:

	Valuation techniques	Unobservable input	Range
Investment properties: – Commercial – PRC	Discounted cash flow	Risk-adjusted discount rate (i.e. market rental yield)	5.8% (2022: 5.8%)
		Expected market rental growth	1% (2022: 5.8%)
		Expected occupancy rate	90% (2022: 100%)

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

19. OTHER INTANGIBLE ASSETS

	Customer relationships RMB'000	Patents RMB'000	Total RMB'000
Cost			
At 1 January 2022, 31 December 2022, 1 January 2023 and 31 December 2023	104,727	28,700	133,427
Accumulated amortisation			
At 1 January 2022	91,024	28,700	119,724
Charge for the year	13,569	–	13,569
At 31 December 2022	104,593	28,700	133,293
At 1 January 2023	104,593	28,700	133,293
Charge for the year	134	–	134
At 31 December 2023	104,727	28,700	133,427
Carrying amount			
At 31 December 2023	–	–	–
At 31 December 2022	134	–	134

Note:

a) Customer relationships have a finite useful life and are amortised on a straight-line basis over 8 years.

b) Patents represent the patent rights and know-how of the Group in relation to the manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices which are amortised on a straight-line basis over 5 years.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2023	2022
	RMB'000	RMB'000
Equity securities:		
– Unlisted (note (a))	**20,281**	35,076
– Listed in Japan (note (b))	**48,295**	–
	68,576	35,076

Note:

a) As at 31 December 2023, the Group held four (2022: four) unlisted investments with fair values of RMB14,396,000 (2022: RMB20,712,000), RMB300,000 (2022: RMB300,000), RMB2,817,000 (2022: RMB11,064,000) and RMB2,768,000 (2022: RMB3,000,000), representing 5.99%, 17%, 88.5% and 24.79% equity interests in four corporate entities in the PRC. The Group engaged Hong Kong Appraisal Advisory Limited, an independent qualified professional valuer not connected to the Group, to determine the fair values of the Group's certain unlisted equity investments and the carrying amount of these investments is RMB19,981,000 (2022: RMB34,776,000). Details of the valuation of these investments are set out in note 31(f).

The above unlisted equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

b) As at 31 December 2023, the Group held 3,185,900 shares in Taiko Pharmaceutical Co Ltd ("**Taiko**"), representing approximately 6.42% of the issued share capital of Taiko. As at 31 December 2023, the fair value of the investment in the shares of Taiko was RMB48,295,000 (2022: Nil).

At the date of initial recognition, the Group irrevocably designated the equity investment at fair value through other comprehensive income because the equity security represented investment that the Group intends to hold for long-term strategic purposes. The fair value of the listed equity investment is derived from quoted price in an active market.

During the year ended 31 December 2023, the net fair value losses of RMB17,885,000 (2022: RMB7,578,000) in respect of the Group's equity investments designated at fair value through other comprehensive income were recognised as other comprehensive loss in the consolidated statement of profit or loss and other comprehensive income.

21. INVENTORIES

	2023 RMB'000	2022 RMB'000
Raw materials	**11,319**	16,335
Work in progress	**1,536**	3,093
Finished goods	**104,773**	65,336
	117,628	84,764

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

	2023 RMB'000	2022 RMB'000
Carrying amount of inventories sold (note 7(c))	**797,994**	680,074
Write-down of inventories (note 7(c))	**8,283**	514

During the year ended 31 December 2023, write-down on slow moving inventories of approximately RMB8,283,000 (2022: RMB514,000) were recognised, taking into account their remaining valid period due to short expiry after the reporting period end.

22. TRADE AND OTHER RECEIVABLES

	2023	2022
	RMB'000	RMB'000
Trade receivables	**94,437**	79,818
Less: Allowance for credit losses (note (c))	**(7,179)**	(6,922)
	87,258	72,896
Bills receivables (note (e))	**65,276**	110,279
Other receivables (note 31(a))	**46,216**	48,214
Amount due from a related party (note 35(c))	**416**	398
Amount due from an associate (note 35(c))	**4,744**	4,855
Amount due from a joint venture (note 35(c))	**15,002**	2
Financial assets at amortised cost	**218,912**	236,644
Prepayments	**11,677**	13,801
Trade and other deposits	**7,914**	8,127
Trade deposits paid to related parties	**22,566**	24,817
Value-added tax recoverable	**15,890**	–
	276,959	283,389

Note:

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

b) ***Ageing analysis of trade receivables***

The ageing analysis of trade receivables (net of allowance for credit losses) based on invoice date at the end of the reporting period is as follows:

	2023	2022
	RMB'000	RMB'000
0-90 days	**87,093**	65,774
91-120 days	**–**	5,108
121-180 days	**105**	1,881
181-365 days	**60**	133
	87,258	72,896

The Group generally granted credit terms ranging from 30 days to 120 days to its customers. Further details on the Group's credit policy are set out in note 31(a).

The Group does not hold any collateral over these balances.

22. TRADE AND OTHER RECEIVABLES *(Continued)*

Note: (Continued)

c) Impairment of trade receivables

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

Movements in loss allowance account in respect of trade receivables during the year are as follows:

	2023	2022
	RMB'000	RMB'000
At 1 January	**6,922**	6,185
Impairment loss recognised during the year (note 7(c))	**441**	1,043
Bad debt written off during the year	**(184)**	(306)
At 31 December	**7,179**	6,922

d) As at 31 December 2022, trade receivables amounted to RMB32,610,000 were pledged for a bank loan of the Group amounted to RMB45,000,000 (note 27).

e) Bills receivables represent the irrevocable bills with maturity within one year issued by the banks with high credit rating. The directors of the Company considered the default risk of these bank bills to be insignificant and no impairment was necessary at the reporting period end.

f) The amount due from an associate included a loan of RMB4,200,000 (2022: RMB4,200,000), which is unsecured, interest bearing at 2.75% per annum and repayable on demand.

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2023	2022
	RMB'000	RMB'000
Non-current		
Unlisted equity investment (note (a))	**7,180**	6,792
Current		
Listed in Hong Kong (note (b))	**20,351**	14,012

Note:

a) The Group invested 10% equity interest in Shenzhen Qianhai Industry Internet Co., Ltd.. With the preferential rights under a put option, the Group has the right to require the investee to redeem all of the shares held by the Group at a guaranteed predetermined fixed amount. Hence, the investment is accounted for and measured as financial assets at fair value through profit or loss. The Group does not intend to dispose of them in the near future. The major assumptions used in the valuation of the investment are set out in note 31(f).

b) As at 31 December 2023, the Group held 1,735,000 shares (2022: 2,302,000 shares) in Chuangmei Pharmaceutical Co., Ltd ("**Chuangmei**") representing 1.61% (2022: 2.13%) of the issued share capital of Chuangmei. The listed equity investment classified as current asset is intended to be held for trading and is measured as financial assets at fair value through profit or loss. The fair value of the listed equity investment is derived from quoted price in an active market.

24. CASH AND CASH EQUIVALENTS

	2023	2022
	RMB'000	RMB'000
Bank balances	**173,500**	241,944
Cash on hand	**178**	211
Cash and cash equivalents in the consolidated statement of cash flows and consolidated statement of financial position	**173,678**	242,155

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

24. CASH AND CASH EQUIVALENTS *(Continued)*

Reconciliation of liabilities arising from financing activities

	Dividend payable to NCI RMB'000	Accrued interest RMB'000	Lease liabilities RMB'000	Bank loans RMB'000	Total liabilities from financing activities RMB'000
At 1 January 2023	**–**	**–**	**19,391**	**271,285**	**290,676**
Interest recognised in profit or loss	**–**	**10,757**	**762**	**–**	**11,519**
Dividend declared and payable to non-controlling interests of subsidiaries	**21,818**	**–**	**–**	**–**	**21,818**
Changes from financing cash flows					
– Proceeds from new bank loans	**–**	**–**	**–**	**327,507**	**327,507**
– Repayment of bank loans	**–**	**–**	**–**	**(258,199)**	**(258,199)**
– Capital element of lease rental paid	**–**	**–**	**(8,965)**	**–**	**(8,965)**
– Dividend paid to non-controlling interests of subsidiaries	**(21,818)**	**–**	**–**	**–**	**(21,818)**
Finance costs paid	**–**	**(10,757)**	**(762)**	**–**	**(11,519)**
Increase in lease liabilities from entering into new leases during the year	**–**	**–**	**1,865**	**–**	**1,865**
Exchange adjustments	**–**	**–**	**5**	**1,537**	**1,542**
At 31 December 2023	**–**	**–**	**12,296**	**342,130**	**354,426**
At 1 January 2022	–	–	9,034	229,922	238,956
Interest recognised in profit or loss	–	11,477	815	–	12,292
Dividend declared and payable to non-controlling interests of subsidiaries	45,900	–	–	–	45,900
Changes from financing cash flows					
– Proceeds from new bank loans	–	–	–	373,368	373,368
– Repayment of bank loans	–	–	–	(337,905)	(337,905)
– Capital element of lease rental paid	–	–	(10,253)	–	(10,253)
– Dividend paid to non-controlling interests of subsidiaries	(45,900)	–	–	–	(45,900)
Finance costs paid	–	(11,477)	(815)	–	(12,292)
Increase in lease liabilities from entering into new leases during the year	–	–	20,545	–	20,545
Exchange adjustments	–	–	65	5,900	5,965
At 31 December 2022	–	–	19,391	271,285	290,676

Major non-cash transactions

During the year ended 31 December 2023, the Group entered into lease arrangements with a total present value of future lease payments at the inception of the leases of approximately RMB1,865,000 (2022: RMB20,545,000), which were included in right-of-use assets.

25. CONTRACT LIABILITIES

	2023	2022
	RMB'000	RMB'000
Trade deposits received from customers:		
– Security deposits received	**37,778**	31,245
– Receipts in advance	**19,394**	26,293
	57,172	57,538

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

	2023	2022
Movements in contract liabilities	**RMB'000**	RMB'000
Balance at 1 January	**57,538**	71,730
Increase in contract liabilities as a result of receiving deposits from the customers during the year	**52,471**	49,387
Decrease in contract liabilities as a result of recognising revenue during the year that was included in contract liabilities at the beginning of the year	**(52,848)**	(63,593)
Exchange difference	**11**	14
Balance at 31 December	**57,172**	57,538

26. TRADE AND OTHER PAYABLES

	2023	2022
	RMB'000	RMB'000
Trade payables (note (b))	**148,663**	138,787
Accruals	**6,683**	6,652
Other payables	**33,826**	38,447
Amount due to an associate (note 35(c))	**158**	177
Amounts due to related parties (note 35(c))	**3,624**	3,536
Financial liabilities measured at amortised cost	**192,954**	187,599
Value-added tax payable	**–**	806
	192,954	188,405

Note:

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

b) Ageing analysis of trade payables

The ageing analysis of trade payables (presented based on invoice date) at the end of the reporting period is as follows:

	2023	2022
	RMB'000	RMB'000
0–90 days	**139,202**	134,188
91–180 days	**9,461**	4,599
	148,663	138,787

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

27. BANK LOANS

At 31 December 2023, the secured bank loans are scheduled to be repaid as follows:

Secured bank loans	**2023 RMB'000**	2022 RMB'000
Within 1 year	**191,663**	271,285
After 1 year but within 2 years	**7,162**	–
After 2 years but within 5 years	**42,974**	–
After 5 years	**100,331**	–
Total	**342,130**	271,285
Less: Amount shown under current liabilities	**191,663**	271,285
Amount shown under non-current liabilities	**150,467**	–

Note:

a) The ranges of effective interest rates on the Group's secured bank loans are as follows:

	2023	2022
Effective interest rates:		
Fixed rate loans	**3.00%-6.66%**	3.98%–6.78%
Variable rate loans	**8.54%**	8.35%

At 31 December 2023, bank borrowings amounted to approximately RMB161,664,000 (2022: RMB137,759,000) were denominated in Hong Kong dollar.

b) The following assets were pledged to secure the banking facilities granted to the Group:

	2023 RMB'000	2022 RMB'000
Investment properties (note 14)	**99,990**	100,480
Property, plant and equipment (note 13)	**16,618**	17,709
Right-of-use assets (note 13)	**95,810**	97,174
Trade receivables (note 22)	**–**	32,610

In addition to the above, as at 31 December 2023 and 2022, the Group has pledged 90% equity interest in a subsidiary to secure a banking facility granted to the Group.

Such banking facilities amounted to RMB410,000,000 (2022: RMB370,000,000) were utilised to the extent of RMB287,810,000 (2022: RMB155,612,000).

At 31 December 2023, certain of the Group's bank borrowings in the total amount of RMB204,788,000 (2022: RMB129,199,000) were guaranteed by two directors of the Company.

28. LEASE LIABILITIES

At 31 December 2023, the lease liabilities were payable as follows:

	2023	2022
	RMB'000	RMB'000
Within 1 year	**6,366**	8,006
After 1 year but within 2 years	**3,341**	6,236
After 2 years but within 5 years	**2,589**	5,149
	5,930	11,385
	12,296	19,391

29. CURRENT AND DEFERRED TAX

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

	2023 RMB'000	2022 RMB'000
At 1 January	**16,507**	11,897
Provision for the year		
– Hong Kong Profits Tax	**390**	682
– PRC Enterprise Income Tax	**28,955**	26,060
	29,345	26,742
Paid during the year	**(30,475)**	(10,235)
At 31 December	**15,377**	16,507

b) *Deferred tax liabilities recognised*

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

	Withholding tax on distributable profits of PRC subsidiaries RMB'000	Amortisation of intangible assets RMB'000	Revaluation of investment properties RMB'000	Total RMB'000
At 1 January 2022	–	2,056	16,066	18,122
Credited to consolidated statement of profit or loss (note 8(a))	1,128	(2,035)	(1,793)	(2,700)
At 31 December 2022	1,128	21	14,273	15,422
At 1 January 2023	**1,128**	**21**	**14,273**	**15,422**
Charged to consolidated statement of profit or loss (note 8(a))	**3,060**	**(21)**	**(92)**	**2,947**
At 31 December 2023	**4,188**	**–**	**14,181**	**18,369**

c) *Deferred tax assets and liabilities not recognised*

There were no significant unrecognised deferred tax assets and liabilities of the Group and the Company as at 31 December 2023 and 2022.

30. SHARE CAPITAL AND RESERVES

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

	Share capital RMB'000 (note a)	Share premium RMB'000 (note b)	Exchange reserve RMB'000 (note e)	Capital reserve RMB'000 (note f)	Accumulated losses RMB'000	Total RMB'000
At 1 January 2023	**53,468**	**139,408**	**(9,634)**	**(16,861)**	**(53,461)**	**112,920**
Change in equity:						
Loss for the year	**–**	**–**	**–**	**–**	**(16,591)**	**(16,591)**
Other comprehensive income for the year	**–**	**–**	**(3,157)**	**–**	**–**	**(3,157)**
Total comprehensive loss for the year	**–**	**–**	**(3,157)**	**–**	**(16,591)**	**(19,748)**
Dividend relating to 2022 (note 9(b))	**–**	**–**	**–**	**–**	**(13,921)**	**(13,921)**
Shares purchased for the share award scheme (note 37)	**–**	**–**	**–**	**(8,713)**	**–**	**(8,713)**
Equity-settled share award expenses	**–**	**–**	**–**	**1,956**	**–**	**1,956**
At 31 December 2023	**53,468**	**139,408**	**(12,791)**	**(23,618)**	**(83,973)**	**72,494**
At 1 January 2022	53,468	152,700	(2,425)	(12,555)	(40,033)	151,155
Change in equity:						
Loss for the year	–	–	–	–	(13,428)	(13,428)
Other comprehensive income for the year	–	–	(7,209)	–	–	(7,209)
Total comprehensive loss for the year	–	–	(7,209)	–	(13,428)	(20,637)
Transfer for distribution	–	(13,292)	–	–	13,292	–
Dividend relating to 2021 (note 9(b))	–	–	–	–	(13,292)	(13,292)
Shares purchased for the share award scheme (note 37)	–	–	–	(5,037)	–	(5,037)
Equity-settled share award expenses	–	–	–	731	–	731
At 31 December 2022	53,468	139,408	(9,634)	(16,861)	(53,461)	112,920

30. SHARE CAPITAL AND RESERVES *(Continued)*

Note:

a) *Share Capital*

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

b) *Share premium*

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

c) *Statutory and discretionary reserves*

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

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

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

30. SHARE CAPITAL AND RESERVES *(Continued)*

Note: (Continued)

d) Fair value reserve

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

e) Exchange reserve

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

f) Capital reserve

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

g) Capital management

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

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

30. SHARE CAPITAL AND RESERVES *(Continued)*

Note: (Continued)

h) Capital management (Continued)

The Group's net debt to equity ratio at 31 December 2023 and 2022 were as follows:

	2023	2022
	RMB'000	RMB'000
Current liabilities		
Bank loans	**191,663**	271,285
Lease liabilities	**8,006**	8,006
	199,669	279,291
Non-current liabilities		
Bank loans	**150,467**	–
Lease liabilities	**5,930**	11,385
Total debt	**356,066**	290,676
Less: Cash and bank balances	**(173,678)**	(242,155)
Adjusted net debt	**182,388**	48,521
Total equity	**699,352**	694,215
Net debt to equity ratio	**26.10%**	6.99%

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

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

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

Financial instruments by categories

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

	2023 **RMB'000**	2022 RMB'000
Trade receivables	**87,258**	72,896
Bills receivables	**65,276**	110,279
Other loan and other receivables (excluding deposits and prepayments and value-added tax receivable)	**46,216**	48,214
Amount due from a related party	**416**	398
Amount due from an associate	**4,744**	4,855
Amount due from a joint venture	**15,002**	2
Cash and cash equivalents	**173,678**	242,155
Financial assets at amortised cost	**392,590**	478,799
Financial assets at fair value through profit or loss	**27,531**	20,804
Financial assets at fair value through other comprehensive income	**68,576**	35,076
Financial assets at fair value	**96,107**	55,880

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

	2023 **RMB'000**	2022 RMB'000
Bank loans	**342,130**	271,285
Trade payables	**148,663**	138,787
Accruals and other payables (excluding value-added tax payable, receipts in advance and warranty provision)	**40,509**	45,099
Amount due to an associate	**158**	177
Amounts due to related parties	**3,624**	3,536
Lease liabilities	**12,296**	19,391
Financial liabilities at amortised cost	**547,380**	478,275

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

a) *Credit risk*

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

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

Maximum exposure and year-end staging as at 31 December 2023

	2023				
	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables	–	–	–	87,258	87,258
Bills receivables	65,276	–	–	–	65,276
Other receivables	46,216	–	–	–	46,216
Amount due from a related party	416	–	–	–	416
Amount due from an associate	4,744	–	–	–	4,744
Amount due from a joint venture	15,002	–	–	–	15,002
Cash and cash equivalents	173,678	–	–	–	173,678
	305,332	–	–	87,258	392,590

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

a) Credit risk (Continued)

Maximum exposure and year-end staging as at 31 December 2022

	2022				
	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables	–	–	–	72,896	72,896
Bills receivables	110,279	–	–	–	110,279
Other receivables	48,214	–	–	–	48,214
Amount due from a related party	398	–	–	–	398
Amount due from an associate	4,855	–	–	–	4,855
Amount due from a joint venture	2	–	–	–	2
Cash and cash equivalents	242,155	–	–	–	242,155
	405,903	–	–	72,896	478,799

Note:

i) Trade receivables

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

The Group has no significant concentration of credit risk in industries or countries in which the customers operate. Significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 19.4% (2022: 21.8%) and 54.9% (2022: 60.6%) of the total trade receivables were due from the Group's largest debtor and the five largest debtors respectively.

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

a) *Credit risk (Continued)*

Note: (Continued)

i) *Trade receivables (Continued)*

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

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

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

	As at 31 December 2023				
	Lifetime ECL %	**Gross carrying amount RMB'000**	**Lifetime ECL RMB'000**	**Net carrying amount RMB'000**	**Credit impaired Yes/NO**
Not past due	**0.25%**	**65,259**	**(163)**	**65,096**	**No**
Past due:					
0-90 days	**2.16%**	**22,482**	**(485)**	**21,997**	**No**
91-180 days	**32.19%**	**155**	**(50)**	**105**	**No**
181-365 days	**50.20%**	**120**	**(60)**	**60**	**No**
Over 365 days	**100%**	**6,421**	**(6,421)**	**–**	**Yes**
		94,437	**(7,179)**	**87,258**	

	As at 31 December 2022				
	Lifetime ECL %	Gross carrying amount RMB'000	Lifetime ECL RMB'000	Net carrying amount RMB'000	Credit impaired Yes/No
Not past due	0.01%	53,934	(7)	53,927	No
Past due:					
0-90 days	0.17%	17,894	(31)	17,863	No
91-180 days	43.55%	1,729	(753)	976	No
181-365 days	34.03%	197	(67)	130	No
Over 365 days	100%	6,064	(6,064)	–	Yes
		79,818	(6,922)	72,896	

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

a) *Credit risk (Continued)*

Note: (Continued)

i) Trade receivables (Continued)

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

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

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

ii) In respect of other receivables, amounts due from a related party, an associate and a joint venture, for which there was no significant increase in credit risk as at 31 December 2023 and 2022 by reference to the information available on the financial position of the respective debtors, past payment history, current conditions and other forward looking factors. No allowance for ECLs of these receivables was required as at 31 December 2023 and 2022, as the probability of default for these receivables is considered as low.

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

b) *Liquidity risk*

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

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

	Within 1 year or on demand RMB'000	After 1 year but within 2 years RMB'000	After 2 years but within 5 years RMB'000	After 5 years RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amount RMB'000
2023						
Non-derivative financial liabilities						
Trade payables	**148,663**	**–**	**–**	**–**	**148,663**	**148,663**
Accruals	**6,683**	**–**	**–**	**–**	**6,683**	**6,683**
Other payables (excluding value-added tax payable)	**33,826**	**–**	**–**	**–**	**33,826**	**33,826**
Amount due to an associate	**158**	**–**	**–**	**–**	**158**	**158**
Amounts due to related parties	**3,624**	**–**	**–**	**–**	**3,624**	**3,624**
Bank loans	**198,054**	**7,648**	**49,271**	**133,362**	**388,335**	**342,130**
Lease liabilities	**6,753**	**6,041**	**215**	**–**	**13,009**	**12,296**
	397,761	**13,689**	**49,486**	**133,362**	**594,298**	**547,380**
2022						
Non-derivative financial liabilities						
Trade payables	138,787	–	–	–	138,787	138,787
Accruals	6,652	–	–	–	6,652	6,652
Other payables (excluding value-added tax payable)	38,447	–	–	–	38,447	38,447
Amount due to an associate	177	–	–	–	177	177
Amounts due to related parties	3,536	–	–	–	3,536	3,536
Bank loans	302,078	–	–	–	302,078	271,285
Lease liabilities	8,732	6,729	5,400	–	20,861	19,391
	498,409	6,729	5,400	–	510,538	478,275

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

c) *Interest rate risk*

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

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

i) *Interest rate risk profile*

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

	2023 Effective interest rates %	**2023** RMB'000	2022 Effective interest rates %	2022 RMB'000
Fixed rate borrowings:				
Lease liabilities	**4.30%-8.00%**	**12,296**	4.30%-6.00%	19,391
Bank loans	**3.00%-6.66%**	**287,809**	3.98%-6.78%	200,613
		300,105		220,004
Variable rate borrowings:				
Bank loans	**8.54%**	**54,321**	8.35%	70,672
Total borrowings		**354,426**		290,676
Net fixed rate borrowings as a percentage of total borrowings		**84.7%**		75.7%
Fixed rate bank balances	**4.50%-5.10%**	**43,353**	–	–
Variable rate bank balances		**130,147**		241,944
		173,500		241,944

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

c) *Interest rate risk (Continued)*

ii) *Sensitivity analysis*

Fixed rate borrowings including fixed rate bank loans and lease liabilities are insensitive to any change in interest rates. A change in interest rates at the end of the reporting period would not affect profit or loss.

At 31 December 2023, it is estimated that a general increase/decrease of 100 basis points in interest rates for variable rate bank loans and bank balances, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately RMB1,845,000 (2022: RMB1,713,000). Other components of consolidated equity would not change in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until end of next annual reporting period. The analysis is performed on the same basis for the 2022.

d) *Currency risk*

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

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

d) *Currency risk (Continued)*

i) *Exposure to currency risk*

	2023	2022
	RMB'000	RMB'000
Assets/(liabilities)		
Cash and cash equivalents		
US$	**123,109**	88,043
HK$	**8,561**	4,699
RMB	**1,088**	28,295
Euro	**6,979**	1,989
Trade and other receivables		
US$	**24,219**	35,314
Euro	**3,968**	–
Trade and other payables		
US$	**(22,909)**	(16,769)
HK$	**(109,557)**	(105,227)
NOK	**(265)**	(259)
Bank loans		
HK$	**(107,343)**	(67,086)
Total assets		
US$	**147,328**	123,357
HK$	**8,561**	4,699
RMB	**1,088**	28,295
Euro	**10,947**	1,989
Total liabilities		
US$	**(22,909)**	(16,769)
HK$	**(216,900)**	(172,313)
NOK	**(265)**	(259)

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

d) *Currency risk (Continued)*

ii) *Sensitivity analysis*

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

	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
At 31 December 2023			
US$	**5%**	**6,221**	**–**
	(5%)	**(6,221)**	**–**
HK$	**5%**	**(10,417)**	**–**
	(5%)	**10,417**	**–**
RMB	**5%**	**54**	**–**
	(5%)	**(54)**	**–**
Euro	**5%**	**547**	**–**
	(5%)	**(547)**	**–**
NOK	**5%**	**(13)**	**–**
	(5%)	**13**	**–**
At 31 December 2022			
US$	5%	4,042	–
	(5%)	(4,042)	–
HK$	5%	(8,381)	–
	(5%)	8,381	–
RMB	5%	1,415	–
	(5%)	(1,415)	–
Euro	5%	99	–
	(5%)	(99)	–
NOK	5%	(13)	–
	(5%)	13	–

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

d) *Currency risk (Continued)*

ii) Sensitivity analysis (Continued)

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

e) *Business risk*

The Group has certain concentration of business risk as 55.3% (2022: 46.5%) of its total turnover during the year were derived from a principal product, Nin Jiom Pei Pa Koa (京都念慈菴蜜煉川貝枇杷膏), which was purchased from a sole supplier that is the designated distributor of the manufacturer of Nin Jiom Pei Pa Koa. In November 2013, the Group entered into a four-year period distribution agreement with the manufacturer and the supplier of Nin Jiom Pei Pa Koa, pursuant to which the Group is entitled the non-exclusive distribution right to sell Nin Jiom Pei Pa Koa in certain provinces in the PRC and is granted credit terms of 60 days. The distribution agreement was renewed in April 2017 for a four-year period, which was further renewed in 2021 to a period up to 26 January 2026. If there is any change in consumer taste and demand of the product, or the supplier does not further renew the purchase agreement, the Group's turnover and profitability will be adversely affected.

f) *Fair value measurements*

Fair value hierarchy

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

- Level 1 valuations: Fair value measured using only Level 1 inputs, that is, unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: Fair value measured using Level 2 inputs, that is, observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

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

f) *Fair value measurements (Continued)*

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

	Fair value at 31 December 2023	Fair value measurements as at 31 December 2023 categorised into			Fair value at 31 December 2022	Fair value measurements as at 31 December 2022 categorised into		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurements								
Assets:								
Financial assets at fair value through other comprehensive income								
– Unlisted equity investments	**20,281**	**–**	**–**	**20,281**	35,076	–	–	35,076
– Listed securities	**48,295**	**48,295**	**–**	**–**	–	–	–	–
Financial assets at fair value through profit or loss								
– Unlisted equity investments	**7,180**	**–**	**–**	**7,180**	6,792	–	–	6,792
– Listed securities	**20,351**	**20,351**	**–**	**–**	14,012	14,012	–	–

During the years ended 31 December 2023 and 2022, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of the fair value hierarchy as at the end of the reporting period in which they occur.

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

f) *Fair value measurements (Continued)*

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

Level 3 fair value measurement as at 31 December 2023 and 2022

Financial assets	Fair value as at		Valuation technique	Significant unobservable input	Range
	31 December 2023	31 December 2022			
Unlisted equity investments classified as FVTOCI	**5.99% equity interest in Sinopharm Healthcare Fund L. P. RMB14,396,000**	5.99% equity interest in Sinopharm Healthcare Fund L. P. RMB20,712,000	Asset-based approach	Discount of lack of control Discount of lack of marketability	24.81% (2022: 24.81%) 20.60% (2022: 20.60%)
	17% equity interest in a private entity established in the PRC RMB300,000	17% equity interest in a private entity established in the PRC RMB300,000	Cost approach	Net asset value	N/A
	88.5% equity interest in a limited partnership established in the PRC RMB2,817,000	88.5% equity interest in a limited partnership established in the PRC RMB11,064,000	Asset-based approach	N/A	N/A
	24.79% equity interest in a limited partnership established in the PRC RMB2,768,000	24.79% equity interest in a limited partnership established in the PRC RMB3,000,000	Asset-based approach	N/A	N/A
Unlisted equity investment classified as FVTPL	**10% equity interest in a private entity established in the PRC RMB7,180,000**	10% equity interest in a private entity established in the PRC RMB6,792,000	Asset-based approach	Discount of lack of control Discount of lack of marketability	21.26% (2022: 21.26%) 20.50% (2022: 20.60%)

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

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

f) *Fair value measurements (Continued)*

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

	Unlisted equity investments at fair value through other comprehensive income RMB'000	**Unlisted equity investments at fair value through profit or loss RMB'000**
At 1 January 2022	37,490	6,461
Addition	3,000	–
Change in fair value recognised in other comprehensive income	(7,578)	–
Change in fair value recognised in profit or loss	–	331
Exchange adjustment	2,164	–
At 31 December 2022	35,076	6,792
At 1 January 2023	**35,076**	**6,792**
Change in fair value recognised in other comprehensive income	**(5,309)**	**–**
Change in fair value recognised in profit or loss	**–**	**388**
Exchange adjustment	**514**	**–**
Refund of capital	**(10,000)**	**–**
At 31 December 2023	**20,281**	**7,180**

32. ACCOUNTING JUDGEMENTS AND ESTIMATES

The critical accounting judgements in applying the Group's accounting policies and key sources of estimation uncertainty are as follows:

a) *Depreciation and amortisation*

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

b) *Impairment of assets*

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

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

32. ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

c) *Valuation of investment properties*

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

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

d) *Provision for ECLs on trade receivables*

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

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

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in notes 22 and 31(a) to the consolidated financial statements.

e) *Net realisable value of inventories*

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

f) *PRC corporate income tax*

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

32. ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

g) *Investments in subsidiaries*

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

h) *Fair value of financial instruments*

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

i) *Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2023 was RMB90,693,000 (2022: RMB90,693,000). Further details of impairment testing of goodwill are disclosed in note 16 to the financial statements.

j) *Leases – Estimating the incremental borrowing rate*

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

k) *Functional currency of the Company*

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

33. COMMITMENTS

Capital commitments outstanding at 31 December 2023 not provided for in the financial statements:

	2023 **RMB'000**	2022 RMB'000
Property, plant and equipment:		
Contracted but not provided	**26,983**	96,358
Authorised but not contracted for	**114,695**	136,427
	141,678	232,785

34. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

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

The Group also operates a Mandatory Provident Fund Scheme ("**the MPF scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000 (2022: HK$30,000). Contributions to the plan vest immediately.

The total expense recognised in profit or loss of RMB11,073,000 (2022: RMB11,220,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

Long service payment obligation

Pursuant to the Hong Kong Employment Ordinance, the Group has the obligation to pay long service payment ("**LSP**") to qualifying employees in Hong Kong upon retirement, subject to a minimum of 5 years' employment period, based on the formula of "last monthly wages (before termination of employment) × 2/3 × years of service". Last monthly wage is capped at $22,500 while the amount of long service payment shall not exceed $390,000. This obligation is accounted for as a post-employment defined benefit plan. The Mandatory Provident Fund Schemes Ordinance permits the withdrawal of accrued benefits derived from an employer's MPF contributions for the purpose of offsetting LSP payable to an employee under the Employment Ordinance. The LSP obligation, if any, is presented on a net basis.

The Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the "**Amendment Ordinance**") was gazetted in June 2022 and will take effect on 1 May 2025 (the "**Transition Date**"). Under the Amended Ordinance, accrued benefits derived from an employer's mandatory MPF contributions after the Transition Date can only be applied to offset the pre-Transition Date LSP obligation but no longer eligible to offset the post-Transition Date LSP obligation. Furthermore, the LSP obligation before the Transition Date will be calculated based on the last monthly wages immediately preceding the Transition Date.

As at 31 December 2023 and 2022, the Group did not have material net LSP obligation as the estimated LSP obligations up to the end of the reporting period did not exceed the accrued benefits derived from the employer's MPF contributions.

35. RELATED PARTY TRANSACTIONS

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

Name of related parties	Relationship
Mr. Zhao Li Sheng ("**Mr. Zhao**")	The Company's director and the ultimate controlling party of the Group
Ms. Chan Lok San ("**Ms. Chan**")	The Company's director and the spouse of Mr. Zhao
Morning Gold Medicine Company Limited ("**Morning Gold**")	Mr. Zhao and Ms. Chan have beneficial interests
Yuen Tai Pharmaceuticals Limited ("**Yuen Tai**")	Subsidiary of Morning Gold
Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited ("**SZ Kingworld Lifeshine**")	Subsidiary of Morning Gold
Shenzhen Kingworld Industry Company Limited ("**SZ Industry**")	Mr. Zhao and Ms. Chan have beneficial interests
Kingkok International Enterprises Limited ("**Kingkok**")	Mr. Zhao and Ms. Chan have beneficial interests
Golden Morning International Limited ("**Golden Morning**")	Ms. Chan has beneficial interest
Golden Land International Limited ("**Golden Land**")	Mr. Zhao has beneficial interest
Ming VitaMed	Associate of the Group
Fat Chi Medicine	Associate of the Group
Zhuhai Jinming	Joint venture of the Group

Note:

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

35. RELATED PARTY TRANSACTIONS *(Continued)*

b) *Related party transactions*

Recurring transactions

	2023 **RMB'000**	2022 RMB'000
Purchase of goods		
SZ Kingworld Lifeshine	**28,573**	31,959
Yuen Tai	**2,835**	97
	31,408	32,056
Rental expenses		
SZ Industry	**235**	235
Advertising expenses		
SZ Industry	**138**	138
Interest income from a loan to an associate		
Ming VitaMed	**106**	110
Management fee income		
Fat Chi Medicine	**244**	–

c) *Balances with related parties*

	2023 **RMB'000**	2022 RMB'000
Amount due from a related party		
Kingkok	**416**	398
Amounts due to related parties		
Golden Morning	**658**	642
Golden Land	**2,966**	2,894
	3,624	3,536
Amount due from an associate		
Ming VitaMed	**4,744**	4,855
Amount due to an associate		
Fat Chi Medicine	**158**	177
Amount due from a joint venture		
Zhuhai Jinming	**15,002**	2

The balances with related parties are unsecured, interest free and repayable on demand.

35. RELATED PARTY TRANSACTIONS *(Continued)*

d) *Key management personnel remuneration:*

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

	2023	2022
	RMB'000	RMB'000
Short-term employee benefits	**6,650**	6,066
Post employment benefits	**468**	277
	7,118	6,343

36. IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

The directors consider the immediate holding company of the Group as at 31 December 2023 to be Golden Land International Limited, a company incorporated in the BVI which does not produce consolidated financial statements available for public use, and the ultimate controlling party of the Group as at 31 December 2023 to be Zhao Li Sheng, an executive director of the Company.

37. EQUITY-SETTLED SHARE-BASED TRANSACTIONS

Share option scheme

The Company has a share option scheme which was adopted on 5 November 2010 whereby the directors of the Company are authorised, at their discretion, to grant options to subscribe for shares in the Company to eligible participants ("**Eligible Participants**"), including directors, eligible employees, consultants, suppliers, customers, and shareholders of any member of the Group or associated company or any of their respective associates, who contributed to the success of the Group. The share option scheme shall be valid and effective for a period of ten years ending on 4 November 2020, after which no further options will be granted. During the years ended and at 31 December 2023 and 2022, there was no outstanding share option granted under the share option scheme.

Share award scheme

On 27 August 2019, the Company's board of directors (the "**Board**") approved and adopted a share award scheme for eligible senior management and eligible employees of the Company and its subsidiaries (the "**Selected Employees**") (the "**Share Award Scheme**"). The Share Award Scheme shall be subject to the administration of the Board and the trustee as appointed by the Company in accordance with the rules of the Share Award Scheme (the "**Award Scheme Rules**") and the trust deed. The trustee shall hold the shares awarded or to be awarded to the employees (the "**Awarded Shares**") in accordance with the terms of the trustee deed. Unless early terminated by the Board, the Share Award Scheme shall be valid and effective for a period of six years commencing on 27 August 2019.

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

Share award scheme (Continued)

Movements in the number of shares held for the Share Award Scheme for the year were as follows:

	Awarded Shares	Shares to be awarded	Total
As at 1 January 2022	–	16,000,000	16,000,000
Granted	1,556,000	(1,556,000)	–
Vested	(1,544,000)	–	(1,544,000)
Purchased	–	8,484,000	8,484,000
As at 31 December 2022	12,000	22,928,000	22,940,000
As at 1 January 2023	**12,000**	**22,928,000**	**22,940,000**
Granted	**3,504,000**	**(3,504,000)**	**–**
Vested	**(3,516,000)**	**–**	**(3,516,000)**
Purchased	**–**	**10,624,000**	**10,624,000**
As at 31 December 2023	**–**	**30,048,000**	**30,048,000**

On 6 April 2023, the Board resolved to grant 3,504,000 Awarded Shares to 79 Selected Employees. All of the shares were vested on 6 April 2023. The fair value of 3,504,000 Awarded Shares on the grant date based on market price of the Company's shares was HK$0.74 each share. A total expense of RMB1,956,000 (2022: RMB731,000) was recognised as share-based payments for the year ended 31 December 2023.

As at 31 December 2023, a total of 30,048,000 shares (2022: 22,940,000 shares) of the Company were held by the trustee and there were no unvested Awarded Shares under the Share Award Scheme.

38. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	2023 RMB'000	2022 RMB'000
Non-current assets		
Investments in subsidiaries	**231,733**	231,733
Property, plant and equipment	**7,749**	7,867
Right-of-use assets	**495**	194
	239,977	239,794
Current assets		
Other receivables	**10,203**	3,253
Amounts due from subsidiaries	**297,712**	281,433
Cash and cash equivalents	**2,641**	2,823
	310,556	287,509
Current liabilities		
Other payables	**1,597**	1,554
Amounts due to subsidiaries	**421,652**	341,862
Bank loans	**54,321**	70,672
Lease liabilities	**279**	146
	477,849	414,234
Net current liabilities	**(167,293)**	(126,725)
Total assets less current liabilities	**72,684**	113,069
Non-current liabilities		
Lease liabilities	**190**	149
NET ASSETS	**72,494**	112,920
CAPITAL AND RESERVES		
Share capital	**53,468**	53,468
Reserves	**19,026**	59,452
TOTAL EQUITY	**72,494**	112,920

39. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2023

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments which are not yet effective for the year ended 31 December 2023 and which have not been adopted in these consolidated financial statements.

Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 and Non-current Liabilities with Covenants[1]
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements[1]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback[1]
Amendments to HKAS 21	Lack of Exchangeability[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

[1] Effective for annual periods beginning on or after 1 January 2024
[2] Effective for annual periods beginning on or after 1 January 2025
[3] Effective for annual periods beginning on or after a date to be determined

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

Financial Summary

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

	For the year ended 31 December				
	2023	2022	2021	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results					
Revenue	**1,078,659**	957,701	847,386	745,383	977,928
Profit before taxation	**93,886**	67,584	69,434	70,891	69,809
Income tax	**(32,292)**	(24,042)	(18,223)	(20,002)	(19,538)
Profit for the year	**61,594**	43,542	51,211	50,889	50,271
Attributable to:					
Owners of the Company	**38,096**	22,741	30,319	11,716	43,427

	As at 31 December				
	2023	2022	2021	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Asset and Liabilities					
Total assets	**1,337,650**	1,263,363	1,213,829	1,255,372	1,280,366
Total liabilities	**638,298**	569,148	493,195	576,862	607,176
Equity attributable to owners of the Company	**619,034**	615,577	616,897	591,803	603,343
Non-controlling interests	**80,318**	78,638	103,737	86,707	69,847

Particulars of Key Properties

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

Particulars of Key Properties

Address	Use	Lease Term	Approximate gross floor area	Group's interest
Unit 1002, 10th Floor Goodluck Industrial Centre 808 Lai Chi Kok Road Kowloon Hong Kong	Industrial	Long-term lease	1,203sqm	100%
Unit 1011, 10th Floor Goodluck Industrial Centre 808 Lai Chi Kok Road Kowloon Hong Kong	Industrial	Long-term lease	1,265sqm	100%