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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 01110)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2013

RESULTS HIGHLIGHTS

- Turnover decreased by 13.5% to approximately RMB254,586,000 (2012 : RMB294,417,000 restated).
- Gross profit decreased by 9.8% to approximately RMB62,018,000 (2012 : RMB68,753,000 restated).
- Gross profit margin reached 24.4%, representing an increase of 1.0% (2012 : 23.4% restated).
- Profit for the six months ended 30 June 2013 decreased by 5.1% to approximately RMB18,655,000 (2012 : RMB19,667,000).
- Basic earnings per share decreased by 5.1% to approximately RMB3.00 cents (2012 : RMB3.16 cents).

The board (the "Board") of directors (the "Directors") of Kingworld Medicines Group Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2013 (the "Reporting Period") together with the comparative figures for the six months ended 30 June 2012 with the selected notes as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2013 — UNAUDITED
(Expressed in Renminbi)

		Six months ended 30 June	
	Note	**2013**	2012
		RMB'000	*RMB'000*
			(restated)
Turnover	3	**254,586**	294,417
Cost of sales		**(192,568)**	(225,664)
Gross profit		**62,018**	68,753
Valuation gain on investment properties		**—**	2,000
Other revenue	5(a)	**8,736**	3,125
Other net income/(loss)	5(b)	**5,792**	(2,293)
Selling and distribution costs		**(31,752)**	(33,380)
Administrative expenses		**(20,037)**	(18,401)
Profit from operations		**24,757**	19,804
Finance costs		**(1,996)**	(2,037)
Share of profit of a joint venture	10	**1,850**	3,774
Profit before taxation		**24,611**	21,541
Income tax	7	**(5,956)**	(1,874)
Profit for the period		**18,655**	19,667
Attributable to:			
Owners of the Company		**18,655**	19,667
Earnings per share	9		
Basic (RMB cents)		**3.00**	3.16
Diluted (RMB cents)		**3.00**	3.15

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2013 — UNAUDITED
(Expressed in Renminbi)

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
		(restated)
Profit for the period	**18,655**	19,667
Other comprehensive (loss)/income for the period		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	**(1,736)**	529
Change in tax rate on deferred tax liabilities relating to property revaluation	**—**	(7)
	(1,736)	522
Total comprehensive income for the period (net of tax)	**16,919**	20,189
Attributable to:		
Owners of the Company	**16,919**	20,189

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE SIX MONTHS ENDED 30 JUNE 2013 — UNAUDITED

(Expressed in Renminbi)

	Note	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000 (restated)	At 1 January 2012 RMB'000 (restated)
Non-current assets				
Property, plant and equipment		**4,998**	4,640	5,548
Investment properties		**76,750**	76,750	68,600
Interest in a joint venture	10	**26,347**	24,497	18,434
Deposit paid for property, plant and equipment	11	**75,000**	60,000	10,000
		183,095	165,887	102,582
Current assets				
Inventories		**50,920**	21,325	40,952
Trade and other receivables	12	**243,679**	300,011	319,394
Pledged bank deposits		**54,000**	29,842	9,890
Cash and bank balances		**124,101**	123,262	133,833
		472,700	474,440	504,069
Current liabilities				
Trade and other payables	13	**158,151**	141,626	144,315
Bank loans	14	**58,540**	59,880	47,168
Current taxation		**7,349**	9,604	12,051
		224,040	211,110	203,534
Net current assets		**248,660**	263,330	300,535
Total assets less current liabilities		**431,755**	429,217	403,117
Non-current liabilities				
Deferred tax liabilities		**6,387**	6,387	8,620
NET ASSETS		**425,368**	422,830	394,497
CAPITAL AND RESERVES				
Share capital		**53,468**	53,468	53,468
Reserves		**371,900**	369,362	341,029
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**425,368**	422,830	394,497

NOTES TO THE INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2013 — UNAUDITED
(EXPRESSED IN RENMINBI)

1. BASIS OF PREPARATION

The interim financial results for the six months ended 31 June 2013 are unaudited, but have been reviewed by the auditors of the Company in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. In addition, these financial results have also been reviewed by the Company's Audit Committee.

The condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the 2012 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2013 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties, which are measured at fair values.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to HKAS 1, Presentation of financial statements — Presentation of items of other comprehensive income
- HKFRS 10, Consolidated financial statements
- HKFRS 11, Joint arrangements
- HKFRS 12, Disclosures of interests in other entities
- HKFRS 13, Fair value measurement
- Revised HKAS 19, Employee benefits
- Annual Improvements to HKFRSs 2009-2011 Cycle
- Amendment to HKFRS 7- Disclosures-Offsetting financial assets and financial liabilities

The adoption of the above new standards and amendments did not have any significant effect on the Group's financial statements, except for the adoption of HKFRS 11.

HKFRS 11, which replaces HKAS 31 "Interests in joint ventures", divides joint arrangements into joint operations and joint ventures. Entities are required to determine the type of an arrangement by considering the structure, legal form, contractual terms and other facts and circumstances relevant to their rights and obligations under the arrangement. Joint arrangements which are classified as joint operations under HKFRS 11 are recognised on a line-by-line basis to the extent of the joint operator's interest in the joint operation. All other joint arrangements are classified as joint ventures under HKFRS 11 and are required to be accounted for using the equity method. Proportionate consolidation is no longer allowed as an accounting policy choice.

The adoption of HKFRS 11 has changed the Group's accounting policy for its joint venture which was previously accounted for using proportionate consolidation. The financial effects on the Group's consolidated statement of financial position as at 1 January 2012 and 31 December 2012 and its condensed consolidated statement of income statement for the six months ended 30 June 2012 as restated comparatives of the Group's unaudited condensed consolidated financial results for the six months ended 30 June 2013, are as follows:

	Impact on financial position as at 1 January 2012		
	As previously stated	Retrospective effect of change in accounting policy	As restated
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets	91,347	11,235	102,582
Current assets	529,103	(25,034)	504,069
Current liabilities	(217,333)	13,799	(203,534)
Non-current liabilities	(8,620)	—	(8,620)
Net assets	394,497	—	394,497

	Impact on financial position as at 31 December 2012		
	As previously stated	Retrospective effect of change in accounting policy	As restated
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets	159,409	6,478	165,887
Current assets	498,103	(23,663)	474,440
Current liabilities	(228,295)	17,185	(211,110)
Non-current liabilities	(6,387)	—	(6,387)
Net assets	422,830	—	422,830

	Impact on results for the six months ended 30 June 2012		
	As previously stated	Retrospective effect of change in accounting policy	As restated
	RMB'000	*RMB'000*	*RMB'000*
Turnover	337,166	(42,749)	294,417
Gross profit	78,328	(9,575)	68,753
Share of profit of a joint venture	—	3,774	3,774
Profit before taxation	22,833	(1,292)	21,541
Profit for the period	19,667	—	19,667

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

3. TURNOVER

Turnover represents sales of branded imported pharmceutical and healthcare products at net invoiced value of goods sold, less value-added and sales taxes, returns and discounts, during the period.

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
		(restated)
Sales of		
— pharmaceutical products	**242,437**	273,656
— healthcare products	**12,149**	20,761
	254,586	294,417

4. SEGMENT INFORMATION

Operating segments, and the amounts of each segment item reported in the interim condensed consolidated 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, 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 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.

The Group is principally engaged in distribution sale of branded imported pharmaceutical and healthcare products in the PRC. The revenue, results and assets of pharmaceutical products were more than 90% of the Group's revenue, results and assets during the six months ended 30 June 2013 and 2012. No business segment analysis is presented accordingly.

The Group's turnover and results from operations mainly derived from activities in the PRC. The principal assets of the Group were located in the PRC during the six months ended 30 June 2013 and 2012. Accordingly, no analysis by geographical information is provided.

During the reporting period, there is no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

5. OTHER REVENUE AND OTHER NET INCOME/(LOSS)

a) Other revenue

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
		(restated)
Total interest income on financial assets not at fair value through profit or loss:		
Bank interest income	**3,451**	352
Commission income	**2,850**	1,232
Gross rental income from investment properties	**1,459**	939
Others	**976**	602
	8,736	3,125

b) Other net income/(loss)

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
		(restated)
Net gain on financial assets at fair value through profit or loss	**—**	308
Net foreign exchange gain/(loss)	**5,792**	(2,601)
	5,792	(2,293)

6. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
		(restated)
a) Finance costs		
Total interest expense on financial liabilities not at fair value through profit or loss:		
Interest on bank loans wholly repayable within five years	**1,996**	2,037
b) Other items		
Auditor's remuneration	**336**	307
Cost of inventories	**192,568**	225,664
Depreciation	**688**	731
Impairment loss on other receivables	**56**	6
Impairment loss on trade receivables	**75**	51
Loss on disposal of property, plant and equipment	**22**	18
Operating lease charges in respect of land and buildings	**2,500**	2,185
Write-down of inventories	**2,474**	—
Rental income from investment properties less direct outgoings of RMB183,000 (2012: RMB198,000)	**(1,276)**	(741)

7. INCOME TAX IN THE CONDENSED CONSOLIDATED INCOME STATEMENT

Income tax in the condensed consolidated income statement represents:

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
		(restated)
Current tax - PRC income tax		
Provision for the period	**5,961**	5,675
Over-provision in prior year	**(5)**	(24)
	5,956	5,651
Deferred tax		
— current period	**—**	(3,945)
— attributable to a change in tax rate	**—**	168
	—	(3,777)
	5,956	1,874

Notes:

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

ii) No provision for Hong Kong Profits Tax has been provided as the Group did not have assessable profits subject to Hong Kong Profits Tax during the six months ended 30 June 2013 and 2012.

iii) The PRC income tax charge of the Group during the six months ended 30 June 2013 represents the PRC income tax charge from the Group's subsidiary, Shenzhen Kingworld Medicine Company Limited ("SZ Kingworld") and is based on a statutory rate of 25% (six months ended 30 June 2012: 25%).

8. DIVIDENDS

a) The Company's directors do not recommend the payment of an interim dividend for the six months ended 30 June 2013 and 2012.

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

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year ended, approved and paid during the reporting period, of HK2.90 cents (equivalent to approximately RMB2.31 cents) (2012: HK4.04 cents (equivalent to approximately RMB3.28 cents))	**14,381**	20,439

9. EARNINGS PER SHARE

a) **Basic earnings per share**

During the six months ended 30 June 2013, the calculation of basic earnings per share is based on the profit attributable to owners of the Company of RMB18,655,000 (six months ended 30 June 2012: RMB19,667,000) and the weighted average number of 622,500,000 (six months ended 30 June 2012: 622,500,000) ordinary shares in issue.

b) **Diluted earnings per share**

During the six months ended 30 June 2013, the calculation of diluted earnings per share is based on the profit attributable to owners of the Company of RMB18,655,000 (six months ended 30 June 2012: RMB19,667,000) and on the weighted average number of 622,500,000 (six months ended 30 June 2012: 624,853,000) ordinary shares in issue.

Weighted average number of ordinary shares (diluted):

	Number of shares	
	2013	2012
	'000	*'000*
Weighted average number of ordinary shares at 30 June	**622,500**	622,500
Adjustment for warrants	**—**	2,353
Weighted average number of ordinary shares (diluted) at 30 June	**622,500**	624,853

During the six months ended 30 June 2013, there was no potential dilutive ordinary shares in issues, the diluted earnings per share is same as the basic earnings per share.

10. INTEREST IN A JOINT VENTURE

At 30 June 2013, the Group had interest in the following joint venture:

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

The summarised financial statements in respect of the Group's interest in the joint venture, which is accounted for using the equity method is set out below:

	At 30 June 2013 *RMB'000*	At 31 December 2012 *RMB'000*	At 31 December 2011 *RMB'000*
Non-current assets	**22,225**	18,019	7,199
Current assets	**19,330**	23,664	25,033
Current liabilities	**(15,208)**	(17,186)	(13,798)
Net assets	**26,347**	24,497	18,434

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
Income	**34,298**	42,885
Expenses	**(31,611)**	(37,820)
Profit before taxation	**2,687**	5,065
Income tax	**(837)**	(1,291)
Profit for the period	**1,850**	3,774
Other comprehensive income	**—**	—

	At 30 June 2013	At 31 December 2012	At 31 December 2011
	RMB'000	*RMB'000*	*RMB'000*
Share of the joint venture's capital commitments at end of the reporting period:			
Contracted but not provided for:			
Capital expenditure for construction of office premise and warehouse	**3,267**	7,383	16,590

11. DEPOSIT PAID FOR PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2011, the Group and an independent third party ("the Vendor") entered into an agreement and a supplementary agreement ("the Agreements"), pursuant to which the Group agreed to acquire and the Vendor agreed to sell certain properties ("the Properties") in Shenzhen, in the PRC. The Properties are to be constructed by the Vendor and will be delivered to the Group before September 2013 and used as the Group's office. The proposed consideration is RMB75,000,000 which is subject to adjustment when the details of the Properties are fixed. The Group paid total deposits of RMB75,000,000 as at 30 June 2013 (31 December 2012: RMB60,000,000).

12. TRADE AND OTHER RECEIVABLES

	At 30 June 2013 *RMB'000*	At 31 December 2012 *RMB'000* (restated)	At 1 January 2012 *RMB'000* (restated)
Trade and bills receivables (notes (b) to (e))	**219,315**	275,357	293,853
Less: Allowance for doubtful debts (note (c))	**(3,936)**	(3,861)	(3,882)
	215,379	271,496	289,971
Other receivables	**12,043**	8,969	4,660
Loans and receivables	**227,422**	280,465	294,631
Prepayments	**11,712**	9,851	9,199
Trade and other deposits	**1,125**	916	968
Trade deposit to a related party	**3,420**	8,779	14,596
	243,679	300,011	319,394

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

b) Ageing analysis

Included in trade and other receivables are trade and bills receivables (net of allowance for doubtful debts) with the following ageing analysis presented based on invoice date as of the end of the reporting period. The Group generally granted credit terms ranging from 30 days to 90 days to its customers.

	At 30 June 2013 *RMB'000*	At 31 December 2012 *RMB'000* (restated)	At 1 January 2012 *RMB'000* (restated)
1-90 days	**186,816**	235,246	265,399
91-180 days	**17,663**	25,299	21,110
181-365 days	**10,299**	10,082	1,544
More than 1 year	**601**	869	1,918
	215,379	271,496	289,971

c) Impairment of trade and bills receivables

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

Movements in the allowance for doubtful debts:

	At 30 June 2013 *RMB'000*	At 31 December 2012 *RMB'000* (restated)	At 1 January 2012 *RMB'000* (restated)
At beginning of the reporting period	**3,861**	3,882	2,814
Impairment losses recognised	**75**	—	1,150
Uncollectible amounts written off	**—**	—	(17)
Impairment losses reversed	**—**	(21)	(65)
At end of the reporting period	**3,936**	3,861	3,882

As at 30 June 2013, the Group's trade receivables of RMB3,936,000 (31 December 2012: RMB3,861,000) were individually determined to be impaired and full provision had been made. These individually impaired receivables were outstanding over a long period and management assessed that receivables are expected to be irrecoverable. Accordingly, specific allowances for doubtful debts of RMB3,936,000 (31 December 2012: RMB3,861,000) were recognised as at 30 June 2013. The Group does not hold any collateral over these balances.

d) Trade and bills receivables that are not impaired

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

	At 30 June 2013 *RMB'000*	At 31 December 2012 *RMB'000* (restated)	At 1 January 2012 *RMB'000* (restated)
Neither past due nor impaired	**186,816**	235,246	265,399
Past due but not impaired			
— 91-180 days	**17,663**	25,299	21,110
— 181 - 365 days	**10,299**	10,082	1,544
— More than 1 year	**601**	869	1,918
	28,563	36,250	24,572
	215,379	271,496	289,971

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

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 balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

e) As at 30 June 2013, bills receivables of RMB4,579,000 (31 December 2012: Nil) were pledged to banks for banking facilities granted to the Group.

13. TRADE AND OTHER PAYABLES

	At 30 June 2013	At 31 December 2012	At 1 January 2012
	RMB'000	*RMB'000*	*RMB'000*
		(restated)	(restated)
Trade and bills payables (notes (b) and (c))	**137,860**	111,305	108,545
Accruals	**3,645**	3,759	2,874
Other payables	**15,436**	24,447	21,382
Financial liabilities measured at amortised cost	**156,941**	139,511	132,801
Trade deposits received	**1,210**	2,115	11,514
	158,151	141,626	144,315

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

b) Ageing analysis

Included in trade and other payables are trade and bills payables with the following ageing analysis presented based on invoice date as of the end of the reporting period. The credit terms granted by the suppliers were generally ranging from 45 days to 90 days.

	At 30 June 2013	At 31 December 2012	At 1 January 2012
	RMB'000	*RMB'000*	*RMB'000*
		(restated)	(restated)
1 - 90 days	**100,940**	111,305	100,053
91 - 180 days	**36,920**	—	8,492
	137,860	111,305	108,545

c) As at 1 January 2012, bills payables of RMB8,492,000 were pledged by the Group's bank deposits.

14. BANK LOANS

The bank loans are secured and repayable as follows:

	At 30 June 2013 *RMB'000*	At 31 December 2012 *RMB'000* (restated)	At 1 January 2012 *RMB'000* (restated)
Within 1 year or on demand	**58,540**	59,880	47,168

a) All of the bank loans are carried at amortised cost.

b) The range of effective interest rates on the Group's bank loans are as follows:

	At 30 June 2013	At 31 December 2012 (restated)	At 1 January 2012 (restated)
Effective interest rates:			
Fixed rate loans	**1.5%-2.08**	2.4%-4.4%	6.7%-12.9%
Variable rate loans	**—**	—	4.9%

c) As at 30 June 2013, the bank loan was secured by bills receivables and pledged bank deposit of the Group. As at 31 December 2012, the bank loans were secured by investment deposit and pledged bank deposits of the Group.

16. EVENT AFTER THE REPORTING PERIOD

On 22 July 2013, the Company entered into a non-legally binding memorandum of understanding ("MOU") with an independent third party (the "Vendor") to acquire 60% direct or indirect equity interest in Chang De Shi Min Kang Pharmaceutical Chain Stores Limited Company (the "Target Company"), which is incorporated in the PRC with limited company, at a consideration for no less than RMB30 million. No cash deposit has been paid by the Company on 22 July 2013 upon signing of the MOU.

17. COMPARATIVE FIGURES

As a result of the application of HKFRS 11, certain comparative figures have been adjusted to conform to current period's presentation. Further details of these developments are disclosed in note 2.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET AND INDUSTRY REVIEW

1. **Development of the pharmaceutical industry remained steady from January to June in 2013**

   From January to June in 2013, the pharmaceutical industry in China realized a revenue of RMB949.29 billion and a profit of RMB91.69 billion, representing an increase of 19.6% and 16.6% respectively, as compared to the corresponding period of last year. In recent years, driven by greater medical investments by the state, the pharmaceutical industry maintained a considerable growth rate of more than 20.0% each year. However, as influenced by various negative factors, such as rising medical insurance fees, increased production costs and declined tender price, the gross profit of the pharmaceutical industry has gradually decreased over the past years, which directly caused the profit of the pharmaceutical industry increased at a rate lower than that of its revenue during the past two years. The above situation has last for three years since October 2010. In recent years, the growth rates of both revenue and profit of the pharmaceutical industry have significantly slowed down as compared to other relevant indicators such as sales revenue and gross profit of pharmaceutical manufacturing products from a few years ago.

2. **Innovative changes in national pharmaceutical policies**

   The social security scheme in China has advanced and medical insurance coverage has transformed from "full-covered medical insurance" to "upgrading medical insurance". As "full-covered medical insurance" has been achieved, upgrade of medicare level will become a policy focus in China for the next ten years.

   Outside the medical insurance coverage, pharmaceutical consumption will extend and upgrade into broader areas, which will become a golden growth point for the pharmaceutical industry. High-end innovative drugs with high price still remain marketable in the absence of medical insurance as a result of increased incidence of major diseases and new technology breakthroughs in major therapeutic areas. Healthcare consumer products will continue to achieve great development for the next ten years driven by the heightened consumption of high-end drugs and the enhancement of health consciousness. Some pillar products of the Group are mid-to-high end consumer products and have already established their market position, the general development trend of consumer products will benefit the sales of the Group's products.

3. **Growth of the pharmaceutical retail market remained steady with intensive competition**

As at the end of 2012, there were 3,107 pharmaceutical retail chain enterprises with 153,000 outlets and 271,000 retail drug stores, totaling 424,000 pharmaceutical retail outlets in China. In 2012, the pharmaceutical retail market increased by around 13.4% as compared to the corresponding period of last year with its overall size amounted to RMB226.8 billion. The market size reached approximately RMB58.0 billion for the first quarter of 2013, representing an increase of 13.2% as compared to the corresponding period of last year, but the growth rate decreased slightly.

BUSINESS REVIEW

1. **The Group has substantially increased the sales of several pillar products through deepened and diversified administration of product categories**

In the beginning of this year, the Group has formulated the strategy on administration of product categories and has formed categories administration in cough relieving medication category, diarrhea medication category and medication for external use category. Targeted on these different product categories, the Group has adopted various strategies in terms of personnel deployment, channel management and terminal marketing model, and has achieved effective results.

For the cough relieving medication category, the Group has already fostered consumption groups in large and medium-sized cities in China while focusing on deeply developing and exploring new consumption groups in the first-tier and second-tier cities who demand for sore throat soothing products. However, due to the effect of terminal market price, the profit margin of pharmaceutical retail outlets was narrowed, which in turn affected the sales of Nin Jiom Mi Lian Chuan Bei Pei Pa Koa (京都念慈菴蜜煉川貝枇杷膏). The sales of Nin Jiom Mi Lian Chuan Bei Pei Pa Koa and the Nin Jiom Chuan Bei Pei Pa Candies (京都念慈菴川貝枇杷糖) decreased by 17.8% and 48.2% respectively, as compared with the corresponding period of last year.

The diarrhea medication category comprises of Taiko Seirogan (喇叭牌正露丸) in quantity of 50 tablets, 100 tablets and 200 tablets and further sub-categorizes into portable size, regular size and family size. Based on the strategy formulated at the beginning of the year, the Group has implemented various strategies targeted on regular and loyal customers in Fujian and Guangdong with Taiko Seirogan in quantity of 50 tablets targeted for business travelers, 100 tablets targeted for traditional customers and 200 tablets targeted for family while also deeply developing the markets in the second-tier and third-tier cities with a focus on the maintenance of terminal displays and price. At the same time, the Group also vigorously explored markets in Beijing, Zhejiang, Jiangsu and Wuhan and put more efforts into advertising and channel expansion in these markets. As of 30 June 2013, the sales of Taiko Seirogan increased by 17.1% as compared with the corresponding period of last year.

The medication for external use category comprises of Flying Eagle Wood Lok Medicated Oil (飛鷹活絡油), Kingworld Imada Red Flower Oil (金活依馬打正紅花油) and Mentholatum Product Series (曼秀雷敦系列產品). The Group has not imported any Flying Eagle Wood Lok Medicated Oil during the first half of the year due to the lack of import registration licence, and the Group's sales work focused on the maintenance of terminal price system and the promotion of brand image so as to establish reasonable price system and channel management for the next batch of newly-imported products.

By virtue of the Group's reinforced channel management and the established management model from primary channels to secondary and tertiary channels for the Kingworld Imada Red Flower Oil, the Group has already established a few primary channels and has vigorously explored secondary and tertiary channels in major provinces and municipalities in China. The implementation of such strategy has greatly increased the market share and sales efforts of the Group's Kingworld Imada Red Flower Oil. As of 30 June 2013, the sales of the Group's Kingworld Imada Red Flower Oil increased by 36.2% as compared with the corresponding period of last year.

In relation to the Mentholatum Product Series, the Group mainly focused on the cooperation and maintenance of key terminals. Due to limited brand promotion resources and price competition from similar products, as of 30 June 2013, the sales of the Mentholatum Product Series decreased slightly by 0.6% as compared with the corresponding period of last year.

2. **Establishment of management system adaptable to business development**

During the Reporting Period, under the guidance of the third phase of our strategic plan, the Group has intensified its distribution networks, strengthened its business guidance and examination for its sales staffs, and realigned its national sales regions by re-dividing the original four sales regions into five sales regions so as to enhance service and support of our sales staffs for distributors and to further explore markets in the third-tier cities in China. At the same time, the Group strengthened the administration of product categories and reallocated the market center's functions and duties and divided the market into

Market I, Market II and Market III by product categories to fully leverage on channel resources, promotion resources and human resources between similar products. This created marketing of product categories combination and enhanced market competition for product categories combination.

3. **Strengthening information construction to provide sufficient and reliable data support for decision making**

   As the future is an era of large data, in order to adapt to the technological development, during the Reporting Period, the Group had decided to upgrade its information system and will establish a SAP information system in the future, which will be implemented step-by-step based on its overall planning. During the Reporting Period, the Group had decided to first install the BI system under the SAP information system to uniform the analysis on various types of sales statements in order to provide a faster and more comprehensive data analysis for decision making. Currently, analysis on process and demand has been completed in preparation for the installation of the BI system.

4. **Strengthening the introduction of talents and enhancing the staff's skills and comprehensive quality through holding various types of training**

   The Group fully recognizes the importance of talents for the Company's development, and always emphasizes on creating a well-established platform for attracting all kinds of talents. On one hand, the Group accelerated the introduction of various external talents required for the development of the Company. On the other hand, the Group accelerated cultivation and construction of its own talents. During the Reporting Period, the Group and Lingnan (University) College of Sun Yat-Sen University co-founded the "Kingworld EMBA" class. Further, the Group and Guangdong Food and Drug Vocational College (廣東食品藥品學院) co-founded a "Kingworld Class" for joining Kingworld after graduation. Other than the above, the Group also worked with higher education institutions from time to time to organize some professional skills training, such as "CRM" training targeted on customer management.

5. **To continue to optimize the operating quality of "Kingworld Health Family" (金活健康之家) display booths**

   During the Reporting Period, the Group realigned and optimized display booths in a number of provinces and municipalities in China. On the one hand, the Group removed or realigned display booths with store location, sales and display that were not meeting the expectations. On the other hand, the Group focused on the expansion and development of outlets with competitive edge and gradually enhancing cooperation with existing end-user stores that have substantial flow and promising single-store sale. The Group also enhanced the quality of promotion activities in order to increase product sales of the outlets and display booths. In addition, the Group also required sales representatives to conduct daily maintenance for the "Kingworld Health Family" display booths and has taken into consideration of such work and the net sales of the display booths when examining their performance. As of 30 June 2013, there were 2,518 "Kingworld Health Family" display booths.

6. **To speed up the process of mergers and acquisitions**

The Group has conducted selection and analysis on distribution enterprises and terminal enterprises nationwide and has established a "target enterprise database" to further enhance the selection mechanism and process of the merger and acquisition of enterprises and speed up the process of mergers and acquisitions. During the Reporting Period, the Group entered into a memorandum of understanding for the acquisition of a target enterprise in Hunan province and has started conducting due diligence investigation and negotiation.

FINANCIAL REVIEW

As a result of the application of HKFRS 11, certain comparative figures have been adjusted to conform to current period's presentation. Further details of these developments are disclosed in note 2 to the financial statements.

1. **Turnover**

Turnover of the Group for the six months ended 30 June 2013 amounted to approximately RMB254,586,000, representing a decrease of approximately RMB39,831,000 or 13.5% compared to approximately RMB294,417,000 for the six months ended 30 June 2012. The decrease was mainly as a result of the slowdown in China market for the medicines to relieve cough and sputum symptoms. During the Reporting Period, the sales of Nin Jiom Mi Lian Chuan Bei Pei Pa Koa and the Nin Jiom Chuan Bei Pei Pa Candies decreased by 17.8% and 48.2% respectively, as compared with the corresponding period of last year. At the same time, the Group endeavoured to increase the number of sales counters for Kingworld Imada Red Flower Oil and Taiko Seirogan such that the sales volume of these two products achieved a satisfactory growth. During the Reporting Period, the sales of Kingworld Imada Red Flower Oil and Taiko Seirogan reached approximately RMB22,487,000 and RMB33,868,000 respectively, representing an increase of 36.2% and 17.1% respectively when compared with the corresponding period of last year.

2. **Cost of sales**

For the six months ended 30 June 2013, cost of sales for the Group amounted to approximately RMB192,568,000, decreased by approximately RMB33,096,000 or 14.7% when compared to approximately RMB225,664,000 for the six months ended 30 June 2012. The decrease in cost of sales was consistent with the decrease in turnover. Gross profit margin increased from 23.4% for the six months ended 30 June 2012 to 24.4% for the six months ended 30 June 2013, which was mainly caused by the increase in sales of products with a higher gross profit margin, such as Kingworld Imada Red Flower Oil and Taiko Seirogan.

3. **Other revenue**

Other revenue mainly included rental income, commission income and interest income. For the six months ended 30 June 2013, other revenues amounted to approximately RMB8,736,000, increased by approximately RMB5,611,000 or 179.6% when compared to approximately RMB3,125,000 for the six months ended 30 June 2012. This increase was mainly due to the increase in commission income by approximately RMB1,618,000, interest income by approximately RMB3,099,000 and rental income by approximately RMB520,000 respectively.

4. **Other net income/(loss)**

Other net income/(loss) mainly comprised net foreign exchange gain/(loss). For the six months ended 30 June 2013, other net income amounted to approximately RMB5,792,000, greatly increased by approximately RMB8,085,000 when compared to the other net loss of approximately RMB(2,293,000) for the six months ended 30 June 2012. This increase was mainly caused by the substantial increase in net foreign exchange gain.

5. **Selling and distribution costs**

For the six months ended 30 June 2013, selling and distribution costs amounted to approximately RMB31,752,000, decreased by approximately RMB1,628,000 or 4.9% when compared to approximately RMB33,380,000 for the six months ended 30 June 2012. This decrease was mainly due to a decrease in advertising and activities expenses by approximately RMB2,368,000 or 29.3% from RMB8,071,000 for the six months period ended 30 June 2012 to RMB5,703,000 during the Reporting Period.

6. **Administrative expenses**

For the six months ended 30 June 2013, administrative expenses amounted to approximately RMB20,037,000, increased by approximately RMB1,636,000 or 8.9% when compared to approximately RMB18,401,000 for the six months ended 30 June 2012. This increase was mainly due to the increase in salaries and staff welfare expenses during the Reporting Period.

7. **Profit from operations**

For the six months ended 30 June 2013, profit from operations for the Group amounted to approximately RMB24,757,000, increased by approximately RMB4,953,000 or 25.0% when compared to approximately RMB19,804,000 for the six months ended 30 June 2012. Increase in profit from operations was mainly due to an increase in other revenue of approximately RMB5,611,000 and other net income of approximately RMB8,085,000 during the Reporting Period.

8. **Finance costs**

For the six months ended 30 June 2013, finance costs amounted to approximately RMB1,996,000, decreased slightly by approximately RMB41,000 or 2.0% when compared to approximately RMB2,037,000 for the six months ended 30 June 2012. The decrease was mainly due to the decrease in interest expenses charged on bank loans.

9. **Profit before taxation**

For the six months ended 30 June 2013, profit before taxation for the Group amounted to approximately RMB24,611,000, increased by approximately RMB3,070,000 or 14.3% when compared to approximately RMB21,541,000 for the six months ended 30 June 2012. Increase in profit before taxation was mainly due to an increase in other revenue and other net income during the Reporting Period.

10. **Income tax expenses**

For the six months ended 30 June 2013, income tax expenses for the Group amounted to approximately RMB5,956,000, substantially increased by approximately RMB4,082,000 or 217.8% when compared to approximately RMB1,874,000 for the six months ended 30 June 2012. This increase was mainly due to an increase in profit before taxation and in last year the reversal of provision for withholding tax in the previous year of approximately RMB4,445,000. The effective tax rate, during the Reporting Period was 24.8% when compared to 29.3% (excluding the reversal of provision for withholding tax), for the six months ended 30 June 2012.

11. **Profit for the period**

For the six months ended 30 June 2013, profit attributable to owners of the Company amounted to approximately RMB18,655,000, decreased by approximately RMB1,012,000 or 5.1% when compared to approximately RMB19,667,000 for the six months ended 30 June 2012.

12. **Liquidity and capital resources**

The Group has met its working capital needs mainly through cash generated from operations and various short-term bank borrowings. During the Reporting Period, the effective interest rate for fixed rate loans was from 1.5% to 2.1%. Taking into account the cash flow generated from operations and the bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least twelve months from the date of this announcement.

As at 30 June 2013, the Group had cash and cash equivalents of RMB124,101,000 mainly generated from operations of the Group and funds raised by the Company in November 2010.

13. **Cash flows**

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

Net cash generated from operating activities

The Group's cash inflow from operations primarily derives from payments for the sale of the Group's products. During the Reporting Period, the Group's net cash generated from operating activities amounted to approximately RMB57,067,000, representing a decrease of net cash generated from operating activities of approximately RMB40,266,000 from approximately RMB97,333,000 for the six months ended 30 June 2012. The decrease was primarily due to the substantial increase in the balance of inventory in the amount of approximately RMB29,595,000.

Net cash used in investing activities

The Group's net cash outflow used in investing activities amounted to approximately RMB12,654,000 during the Reporting Period, representing a decrease of approximately RMB7,244,000 as compared with the cash outflow used in investing activities of approximately RMB19,898,000 for the six months ended 30 June 2012. The decrease is mainly due to the decrease in payment of deposit for the purchase of property, plant and equipment and increase in interest received during the Reporting Period.

Net cash used in financing activities

The Group's net cash used in financing activities amounted to approximately RMB41,875,000 during the Reporting Period, representing a decrease of approximately RMB33,889,000 as compared with net cash used in financing activities of approximately RMB75,764,000 for the six months ended 30 June 2012. The decrease was primarily due to the decrease in repayment of bank borrowings during the Reporting Period.

14. **Capital structure**

Indebtedness

All the borrowings of the Group as at 30 June 2013 was approximately RMB58,540,000, which will be due within one year. During the Reporting Period, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

Asset - liability ratio

As at 30 June 2013, the Group's asset - liability ratio was 8.9% (31 December 2012: 9.3%), calculated as the total bank borrowings divided by total assets multiplied by 100%. The decrease was mainly due to the decrease in bank borrowings and increase in total assets.

Pledge of assets

As at 30 June 2013, the Group has pledged assets of bank deposits and bills receivables to the banks with the total carrying amount of approximately RMB58,579,000 (31 December 2012: RMB101,712,000).

Capital expenditure

The capital expenditures of the Group primarily included purchases of plant and equipment, leasehold improvements and purchases of motor vehicles. The Group's capital expenditures amounted to RMB1,121,000 and RMB249,000 for the Reporting Period and the six months ended 30 June 2012 respectively.

Foreign exchange risk

The major business of the Group has used RMB and HK$ as the functional and operational currencies. The Group expects that RMB will maintain a stable development. The Group has no major risks in changes in other currency exchange.

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

As at 30 June 2013, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

16. **Major acquisitions and disposals**

For the six months ended 30 June 2013, the Group did not make any material acquisition and disposal.

17. **Ongoing concern**

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

FUTURE OUTLOOK

1. **To enhance channel management, solidify network foundation and improve sales of the pillar products**

   The Group will continue to place emphasis on conducting commercial alignment and business planning for the existing channel comprising tier 2 distributors and tier 3 distributors and will request sales staffs and work to be adjusted and arranged in accordance with the commercial alignment of those tier 2 and tier 3 distributors. The sales volume of the Group's several pillar products will be better promoted in second-tier and third-tier cities due to the deepening of the commercial network and the improvement of staff management.

2. **To speed up the online operation of BI system and enhance the information technology for management decisions**

   The Group has formulated a plan for the BI system project and will implement the BI system project based on the plan content and the project schedule in order to solve the current problems such as information islands and data separation.

3. **To improve the incentive and assessment system of sales staffs**

   The Group will further refine the incentive plans and evaluation elements for the performance review of its sales staffs based on its business adjustment in the commercial alignment, motivating sales staffs to work hard and stimulating their work enthusiasm.

4. **To speed up the trial run of e-Commerce business**

   With the rapid development of e-Commerce in the pharmaceutical industry, the Group will try to develop its pharmaceutical e-Commerce business for its mainstream products through the co-operation with third party's e-Commerce platforms and will try to establish an information service platform for the "Kingworld Health Family" e-Commerce official website, in order to improve the brand image and expand new business channels.

5. **To accelerate the introduction of new products**

   It is crucial for the Group's future development to possess more new pharmaceutical products. Therefore, the Group will continue to place emphasis on meeting the changes in demand of the domestic consumers by exploiting the Group's own advantages and introducing more quality products from abroad to meet the needs of the market. In the future, the Group is likely to introduce more new pharmaceutical products for sale.

6. **Industry development trend**

Although the state will continue to invest in medical and health services this year and the 2013 budget announced in the beginning of the year estimated that investment will be increased by 10% as compared with previous year, as the medical insurance system in China is expected to be strictly controlled and tenders for essential medicine and medical insurance will be conducted during the second half of the year, the Group will be prone to price reduction on its products. The Group expects the industry revenue growth rate will maintain at around 20%, while the annual growth level of its profit is expected to maintain at 15-18% due to the effect of increased cost and expense ratio. The products distributed by the Group are over-the-counter products and have strictly complied with market standards during their operation. As the state has implemented strict regulation and control on the prescription drug market, favorable conditions will be created for the sales of over-the-counter drugs.

For the above plans for future development, the Group will utilise the internal resources of the Group and/or the proceeds that the Company obtained from listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 25 November 2010.

HUMAN RESOURCES AND TRAINING

As at 30 June 2013, the Group had a total of 406 employees, of which 84 worked at the Group's headquarters in Shenzhen, and 322 stationed in 34 zones, mainly responsible for sales and marketing. Total staff cost (including directors' remuneration) during the Reporting Period amounted to approximately RMB12,755,000 (2012: RMB11,087,000). The Group releases an annual sales guideline on a yearly basis, setting out the annual sales target and formulating quarterly sales strategies, so as to provide sales and marketing guidelines for all representative offices and their staff to observe. The Group has a management team with extensive industry experience (including the Sales Director and Product Manager). They are responsible for coordinating front-line sales and marketing teams to meet the annual sales target.

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

USE OF PROCEEDS FROM THE LISTING OF THE COMPANY

The net proceeds from the listing of the shares of the Company on the Stock Exchange on 25 November 2010, after deduction of related expenses, was approximately HK$241,862,000 (equivalent to approximately RMB206,167,000). As at 30 June 2013, the Group had used net proceeds of approximately RMB35,000,000, of which RMB14,400,000 had been applied for expanding the product display booth scheme and RMB20,600,000 as working capital. The remaining net proceeds have been deposited into banks which are intended to be applied in accordance with the proposed application set forth in the Company's prospectus dated 12 November 2010.

CAPITAL COMMITMENT

As at 30 June 2013, apart from sharing the capital commitment of jointly controlled entity, Zhuhai City Jinming Medicine Company Limited, amounted to approximately RMB3,267,000 (31 December 2012: RMB7,383,000), the Group had nil capital commitment (31 December 2012 : RMB15,000,000).

PUBLIC FLOAT

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

DIVIDENDS

Pursuant to a resolution passed by the shareholders of the Company on 16 May 2013, the Company declared the audited distributable profits as at 31 December 2012 amounting to approximately HK$18,053,000 (equivalent to approximately RMB14,381,000) to the shareholders of the Company. The dividend was fully paid on 18 June 2013 by the internal cash resources of the Company.

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2013 (2012: Nil).

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

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

CORPORATE GOVERNANCE PRACTICES

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code governing securities transactions of the Directors. Each of the Directors has confirmed his/her compliance with the Model Code during the Reporting Period. 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 Reporting Period.

AUDIT COMMITTEE

The Company formed its audit committee on 5 November 2010 and has formulated its written terms of reference, which have from time to time been modified, in accordance with the prevailing provisions of the CG Code. The primary duties of the audit committee are (among other things) to provide an independent review and supervision of financial reporting, and examine the effectiveness of the internal controls of the Group and to ensure the external auditor 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. The audit committee currently comprises of three members, namely Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam. Mr. Wong Cheuk Lam has been appointed as the chairman of the audit committee.

The audit committee has reviewed the Company's unaudited condensed consolidated interim financial information for the six months ended 30 June 2013 and agreed with the accounting treatment adopted by the Company.

DISCLOSURE OF INFORMATION

The interim report for the six months ended 30 June 2013 will be duly dispatched to shareholders of the Company and published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.kingworld.com.cn).

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

Hong Kong, 26 August 2013

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