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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 01110)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

RESULTS HIGHLIGHTS

- Turnover decreased by 11.5% to approximately RMB554,763,000 (2012: RMB626,840,000 restated).
- Gross profit margin reached 23.6%, increased slightly by 0.1% (2012: 23.5% restated).
- Profit before taxation increased by 3.3% to approximately RMB63,214,000 (2012: RMB61,191,000 restated).
- Profit for the year ended 31 December 2013 decreased slightly by 2.8% to approximately RMB47,177,000 (2012: RMB48,535,000).
- Basic earnings per share decreased slightly by 2.8% to approximately RMB7.58 cents (2012: RMB7.80 cents).
- The Board recommended the distribution of a final dividend of HK3.86 cents per share for the year ended 31 December 2013 (2012: HK2.90 cents), subject to the approval of the shareholders of the Company in the forthcoming annual general meeting to be held on Friday, 30 May 2014.

The board (the "Board") of directors (the "Directors") of Kingworld Medicines Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2013 (the "Year Under Review") and selected explanatory notes, together with the comparative figures of the corresponding year in 2012 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2013

	Note	2013	2012
		RMB'000	RMB'000
			(restated)
Turnover	4	**554,763**	626,840
Cost of sales		**(423,584)**	(479,770)
Gross profit		**131,179**	147,070
Valuation gain on investment properties		**12,060**	8,150
Other revenue	5 (a)	**14,526**	9,070
Other net income/(loss)	5 (b)	**10,767**	(242)
Selling and distribution costs		**(70,286)**	(70,654)
Administrative expenses		**(41,512)**	(35,683)
Profit from operations		**56,734**	57,711
Finance costs	6 (a)	**(3,330)**	(2,583)
Share of profit of a joint venture		**9,810**	6,063
Profit before taxation	6	**63,214**	61,191
Income tax	7	**(16,037)**	(12,656)
Profit for the year		**47,177**	48,535
Attributable to:			
Owners of the Company		**47,177**	48,535
Earnings per share	9		
Basic (RMB cents)		**7.58**	7.80
Diluted (RMB cents)		**7.58**	7.79

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Note	2013 RMB'000	2012 RMB'000 (restated)
Profit for the year		**47,177**	48,535
Other comprehensive income/(loss) for the year			
Items that will not be reclassified to profit or loss:			
Share of other comprehensive income of a joint venture (net of tax: RMB1,495,000)		**4,486**	—
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements		**(2,688)**	244
Change in tax rate on deferred tax liabilities relating to property valuation reserve		**—**	(7)
		1,798	237
Total comprehensive income for the year (net of tax)		**48,975**	48,772
Attributable to:			
Owners of the Company		**48,975**	48,772

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Note	**At 31 December 2013 RMB'000**	At 31 December 2012 RMB'000 (restated)	At 1 January 2012 RMB'000 (restated)
Non-current assets				
Property, plant and equipment		**4,888**	4,640	5,548
Investment properties		**88,810**	76,750	68,600
Interest in a joint venture	10	**38,793**	24,497	18,434
Deposit paid for property, plant and equipment	11	**75,000**	60,000	10,000
		207,491	165,887	102,582
Current assets				
Inventories		**39,917**	21,325	40,952
Trade and other receivables	12	**373,156**	300,011	319,394
Pledged bank deposits		**18,103**	29,842	9,890
Cash and bank balances		**91,416**	123,262	133,833
		522,592	474,440	504,069
Current liabilities				
Trade and other payables	13	**154,370**	141,626	144,315
Bank loans		**98,378**	59,880	47,168
Current taxation		**10,509**	9,604	12,051
		263,257	211,110	203,534
Net current assets		**259,335**	263,330	300,535
Total assets less current liabilities		**466,826**	429,217	403,117
Non-current liabilities				
Deferred tax liabilities		**9,402**	6,387	8,620
NET ASSETS		**457,424**	422,830	394,497

	At 31 December 2013 RMB'000	At 31 December 2012 RMB'000 (restated)	At 1 January 2012 RMB'000 (restated)
CAPITAL AND RESERVES			
Share capital	**53,468**	53,468	53,468
Reserves	**403,956**	369,362	341,029
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	**457,424**	422,830	394,497

Notes to the Financial Statements

1. GENERAL INFORMATION

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

The Company is an investment holding company. The Company and its subsidiaries (the "Group") are principally engaged in distribution sale of branded imported pharmaceutical and healthcare products in the People's Republic of China (the "PRC").

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The 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 ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These 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. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting year of the Group and the Company. 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 years reflected in these financial statements.

b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2013 comprise the Company and its subsidiaries and the its interest in a joint venture.

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 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 British Virgin Islands (the "BVI") and Hong Kong have adopted Hong Kong dollars ("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 are stated at their fair values:

— investment properties; and

— financial assets at fair value through profit or loss

c) 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 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. The revenue, results and assets of pharmaceutical products were more than 90% of the Group's revenue, results and assets during the year. 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 year. Accordingly, no analysis by geographical information is provided.

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

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied the following new and revised HKFRSs issued by the HKICPA.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures

Except as described below, the application of other new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Annual Improvement to HKFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, HKAS 1 has been amended to clarify that an opening statement of financial position is required only when a retrospective application of an accounting policy, a retrospective restatement or a reclassification has a material effect on the information presented in the opening statement of financial position. The amendments also remove the requirement to present related notes to the opening statement of financial position when such statement is presented.

Since the Group considers that the restatement resulting from the adoption of HKFRS 11 has a material impact on the opening financial position, an additional statement of financial position as at 1 January 2012 has been presented in these financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of comprehensive income in these financial statements has been modified accordingly.

HKFRS 10 Consolidated Financial Statements

HKFRS 10 replaces the requirements in HKAS 27 Consolidated and Separate Financial Statements relating to the preparation of consolidated financial statements and HK-SIC 12 Consolidation – Special purpose entities. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

HKFRS 11 Joint Arrangements

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 in the Group's consolidated financial statements. 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 consolidated income statement for the year ended as restated comparatives of the Group's consolidated financial results for the year ended 31 December 2013, are as follows:

	Impact on financial position as at 1 January 2012		
	As previously reported RMB'000	**Retrospective effects of adoption of HKFRS 11 RMB'000**	**As restated RMB'000**
Non-current assets			
Property, plant and equipment	8,943	(3,395)	5,548
Investment property	68,600	—	68,600
Deposit paid for property, plant and equipment	10,000	—	10,000
Interest in a joint venture	—	18,434	18,434
Prepaid lease payments	3,804	(3,804)	—
	91,347	11,235	102,582
Current assets			
Inventories	49,140	(8,188)	40,952
Trade and other receivables	329,032	(9,638)	319,394
Pledged bank deposits	9,890	—	9,890
Cash and bank balance	141,041	(7,208)	133,833
	529,103	(25,034)	504,069
Current liabilities			
Trade and other payables	157,324	(13,009)	144,315
Bank loans	47,168	—	47,168
Current taxation	12,841	(790)	12,051
	217,333	(13,799)	203,534
Non-current liabilities			
Deferred tax liabilities	8,620	—	8,620
Net assets	394,497	—	394,497

	Impact on financial position as at 31 December 2012		
	As previously reported RMB'000	Retrospective effects of adoption of HKFRS 11 RMB'000	As restated RMB'000
Non-current assets			
Property, plant and equipment	18,938	(14,298)	4,640
Investment property	76,750	—	76,750
Deposit paid for property, plant and equipment	60,000	—	60,000
Interest in a joint venture	—	24,497	24,497
Prepaid lease payments	3,721	(3,721)	—
	159,409	6,478	165,887
Current assets			
Inventories	32,948	(11,623)	21,325
Trade and other receivables	309,774	(9,763)	300,011
Pledged bank deposits	29,842	—	29,842
Cash and bank balance	125,539	(2,277)	123,262
	498,103	(23,663)	474,440
Current liabilities			
Trade and other payables	156,973	(15,347)	141,626
Bank loans	61,120	(1,240)	59,880
Current taxation	10,202	(598)	9,604
	228,295	(17,185)	211,110
Non-current liabilities			
Deferred tax liabilities	6,387	—	6,387
Net assets	422,830	—	422,830

	Impact on results for the year ended 31 December 2012		
	As previously reported RMB'000	Retrospective effects of adoption of HKFRS 11 RMB'000	As restated RMB'000
Turnover	705,519	(78,679)	626,840
Cost of sales	(541,674)	61,904	(479,770)
Gross profit	163,845	(16,775)	147,070
Valuation gain on investment properties	8,150	—	8,150
Other revenue	9,111	(41)	9,070
Other net loss	(21)	(221)	(242)
Selling and distribution costs	(78,377)	7,723	(70,654)
Administration expenses	(36,832)	1,149	(35,683)
Finance costs	(2,619)	36	(2,583)
Share of profit of a joint venture	—	6,063	6,063
Income tax	(14,722)	2,066	(12,656)
Profit for the year	48,535	—	48,535

This change in accounting policy did not have a material impact on current or deferred taxation, and earnings per share.

HKFRS 12, Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards.

HKFRS 13 Fair Value Measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments.

4. TURNOVER

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

	2013	2012
	RMB'000	RMB'000
		(restated)
Sales of		
– pharmaceutical products	**532,690**	588,053
– healthcare products	**22,073**	38,787
	554,763	626,840

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

a) Other revenue

	2013	2012
	RMB'000	RMB'000
		(restated)
Total interest income on financial assets not at fair value through profit or loss:		
Bank interest income	**4,958**	1,671
Gross rental income from investment properties	**2,610**	1,037
Promotional service income	**4,673**	3,604
Others	**2,285**	2,758
	14,526	9,070

b) Other net income/(loss)

	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)	**10,767**	(550)
	10,767	(242)

6. PROFIT BEFORE TAXATION

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

	2013 RMB'000	2012 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	**3,330**	2,583
b) Staff costs (including directors' remuneration)		
Salaries and other benefits	**25,093**	20,803
Contributions to defined contribution retirement plan	**5,722**	4,772
	30,815	25,575
c) Other items		
Auditors' remuneration		
– audit service	**662**	671
– non-audit service	**286**	312
Cost of inventories	**423,584**	479,770
Depreciation	**1,519**	1,487
Impairment losses on trade receivables (note 12(c))	**755**	—
Reversal of impairment loss on trade receivables (note 12(c))	**—**	(21)
Write-off of other receivables	**233**	14
Loss on disposal of property, plant and equipment	**26**	18
Operating lease charges in respect of land and buildings	**5,090**	4,598
Rental income from investment properties less direct outgoings of RMB431,000 (2012: RMB356,000)	**(2,179)**	(681)

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

Income tax in the consolidated income statement represents:

	2013	2012
	RMB'000	RMB'000
		(restated)
PRC Income tax		
– Current year	**13,051**	14,920
– Over-provision in respect of prior years	**(29)**	(24)
	13,022	14,896
Deferred tax		
– Origination and reversal of temporary differences	**3,015**	(2,408)
– Attributable to a change in tax rate	**—**	168
	3,015	(2,240)
	16,037	12,656

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) 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 years ended 31 December 2013 and 2012.

iii) The PRC income tax charge of the Group during the years ended 31 December 2013 and 2012 represented mainly 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% (2012: 25%)

8. DIVIDENDS

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

	2013	2012
	RMB'000	RMB'000
Final dividend proposed after the end of the reporting period of HK3.86 cents (equivalent to RMB3.03 cents) (2012: HK2.90 cents (equivalent to RMB2.34 cents)) per ordinary share	**18,862**	14,567
	18,862	14,567

The final dividend for 2013 proposed after the end of the reporting period is subject to approval by the Company's shareholders in the 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

	2013	2012
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, 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 year, the calculation of basic earnings per share is based on the profit attributable to owners of the Company of RMB47,177,000 (2012: RMB48,535,000) and the weighted average number of 622,500,000 (2012: 622,500,000) ordinary shares in issue.

b) Diluted earnings per share

During the year, the calculation of diluted earnings per share is based on the profit attributable to owners of the Company of RMB47,177,000 (2012: RMB48,535,000) and on the weighted average number of 622,500,000 (2012: 623,040,000) 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 31 December	**622,500**	622,500
Adjustment for warrants	**—**	540
Weighted average number of ordinary shares (diluted) at 31 December	**622,500**	623,040

All the Company's warrants expired and lapsed on 21 March 2013. During the period from 1 January to 21 March 2013, the Company's warrants had anti-dilutive effect as the exercise price was above the weighted average market price of the Company's shares. Therefore, the diluted earnings per share for the current year is the same as the basic earnings per share (2012: RMB7.79 cents).

10. INTEREST IN A JOINT VENTURE

	2013	2012
	RMB'000	RMB'000 (restated)
Share of net assets	**38,793**	24,497

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**	**Registered 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	The PRC	RMB5,000,000	50%	Distribution sale of branded imported pharmaceutical and healthcare products in the PRC

Note 1: Zhuhai Jinming was established by the Company with a pharmaceutical and healthcare products distributor in Mainland China, the other investor to this joint venture, to carry out the Group's distribution sales of pharmaceutical and healthcare products in Guangdong province in the PRC.

Zhuhai Jinming, the only joint venture in which the group participates, is an unlisted corporate entity whose quoted market price is not available.

Summarised financial information of Zhuhai Jinming and a reconciliation to the carrying amount in the consolidated financial statements, are disclosed below:

	2013 RMB'000	2012 RMB'000
Gross amounts of Zhuhai Jinming		
Current assets	**47,445**	47,326
Non-current assets	**76,269**	36,038
Current liabilities	**(39,246)**	(34,370)
Non-current liabilities	**(6,882)**	—
Equity	**77,586**	48,994
Included in the above assets and liabilities:		
Cash and cash equivalents	**2,346**	4,555
Current financial liabilities (excluding trade and other payable)	**(13,304)**	(4,166)
Non-current financial liabilities	**(6,882)**	—
Revenue	**126,902**	157,359
Profit from continuing operations	**19,620**	12,126
Other comprehensive income	**8,972**	—
Total comprehensive income	**28,592**	12,126
Included in the above profit:		
Depreciation	**(90)**	(207)
Interest income	**109**	83
Income tax expense	**(7,005)**	(4,132)
Reconciled to the Group's interest in Zhuhai Jinming		
Gross amounts of Zhuhai Jinming's net assets	**77,586**	48,994
Group's effective interest	**50%**	50%
Carrying amount in the consolidated financial statements	**38,793**	24,497

	2013 RMB'000	2012 RMB'000
Share of the joint venture's capital commitments at the end of the reporting period:		
Contracted but not provided for:		
Capital expenditure for construction of office premise and warehouse	**1,990**	7,383

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 June 2014 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. As at 31 December 2013, the Group paid an aggregate deposit of RMB75,000,000 (2012: RMB60,000,000).

12. TRADE AND OTHER RECEIVABLES

	2013	2012
	RMB'000	RMB'000
		(restated)
Trade and bills receivables (notes (b) to (e))	**347,293**	275,357
Less: Allowance for doubtful debts (note (c))	**(4,636)**	(3,861)
	342,657	271,496
Other receivables	**6,819**	8,969
Amount due from a subsidiary	**—**	—
Loans and receivables	**349,476**	280,465
Prepayments	**16,098**	9,851
Trade and other deposits	**1,034**	916
Trade deposits to related parties (note 15(b))	**6,548**	8,779
	373,156	300,011

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 as of the end of the reporting period:

	2013 RMB'000	2012 RMB'000 (restated)
0-90 days	**270,413**	235,246
91-180 days	**28,047**	25,299
181-365 days	**43,519**	10,082
More than 1 year	**678**	869
	342,657	271,496

The Group generally granted credit terms ranging from 30 days to 90 days to its customers.

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:

	2013 RMB'000	2012 RMB'000 (restated)
At 1 January	**3,861**	3,882
Impairment losses recognised (note 6(c))	**775**	—
Impairment losses reversed (note 6(c))	**—**	(21)
At 31 December	**4,636**	3,861

As at 31 December 2013, the Group's trade and bills receivables of RMB4,636,000 (2012 restated: 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 RMB4,636,000 (2012 restated: RMB3,861,000) were recognised as at 31 December 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:

	2013	2012
	RMB'000	RMB'000
		(restated)
Neither past due nor impaired	**270,413**	235,246
Past due but not impaired		
– 91-180 days	**28,047**	25,299
– 181-365 days	**43,519**	10,082
– More than 1 year	**678**	869
	72,244	36,250
	342,657	271,496

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 31 December 2013, bills receivables of RMB26,076,000 (2012: nil) were pledged for bank loans and banking facilities granted to the Group.

13. TRADE AND OTHER PAYABLES

	2013	2012
	RMB'000	RMB'000
		(restated)
Trade payables (notes (b))	**122,105**	111,305
Accruals	**4,677**	3,759
Other payables	**25,339**	24,447
Financial liabilities measured at amortised cost	**152,121**	139,511
Trade deposits received	**2,249**	2,115
	154,370	141,626

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

b) Ageing analysis

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

	2013	2012
	RMB'000	RMB'000
		(restated)
0-90 days	**109,558**	111,305
91-180 days	**12,547**	—
	122,105	111,305

14. COMMITMENTS

Capital commitments

Save as disclosed in note 10, the Group had the following capital commitments as at 31 December 2013:

	2013	2012
	RMB'000	RMB'000
Contracted but not provided for property, plant and equipment	**—**	15,000

15. 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. Mr. Zhao is the sole shareholder of the ultimate holding company of the Company.
Ms. Chan Lok San ("Ms. Chan")	The Company's director and the wife of Mr. Zhao
Morning Gold Medicine Company Limited ("Morning Gold")	Wholly owned by both Mr. Zhao and Ms. Chan
Yuen Tai Pharmaceuticals Limited ("Yuen Tai")	Subsidiary of Morning Gold
深圳金活利生藥業有限公司 Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited ("SZ Kingworld Lifeshine")	Subsidiary of Morning Gold
深圳市金活實業有限公司 Shenzhen Kingworld Industry Company Limited ("SZ Industry")	Indirectly wholly owned by both Mr. Zhao and Ms. Chan
Pearl Shining Co. ("Pearl Shining")	Note (i)

Notes:

i) The related party is owned and controlled by a close family member of Ms. Chan.

ii) The English names of the above PRC incorporated entities are for identification purpose only.

b) Related party transactions and balances

The Group had the following related party transactions and balances during the year:

	Note	**2013**	2012
		RMB'000	RMB'000
Purchases of goods			
SZ Kingworld Lifeshine	(i)	**7,227**	18,932
Yuen Tai	(i)	**1,358**	890
Pearl Shining	(i)	**—**	398
		8,585	20,220
Rental expenses			
SZ Industry	(i)	**668**	775

	Note	**As at 31 December**	
		2013	2012
		RMB'000	RMB'000
Yuen Tai			
Trade deposit	(ii)	**594**	162
SZ Kingworld Lifeshine			
Trade deposit	(ii)	**5,954**	8,617
Trade deposits to related parties included in trade and other receivables (note 12)		**6,548**	8,779

Notes:

i) The transactions were based on the terms mutually agreed between the Group and the respective related parties. In the opinion of the Company's directors, these related party transactions were conducted in the ordinary course of business.

ii) The amounts are unsecured and interest-free and will be set-off against the Group's purchases from the respective related parties in next twelve months after the end of the reporting period.

c) Key management personnel remuneration:

Remuneration for key management personnel, including amounts paid to the Company's directors and certain of the highest paid employees, is as follows:

	2013	2012
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**6,490**	5,671
Post employment benefits	**283**	229
	6,773	5,900

16. IMMEDIATE AND ULTIMATE HOLDING COMPANY

The Company's directors consider the immediate and ultimate holding company of the Company as at 31 December 2013 to be Golden Land International Limited, a company incorporated in the BVI.

17. EVENTS AFTER REPORTING PERIOD

In February 2014, SZ Kingworld and Kingworld (Hong Kong) Holdings Limited ("Kingworld Holdings"), both being subsidiaries of the Company, entered into a non-legally binding memorandum of understanding ("MOU") with Wu Hu ZhangHengChun Medicine Co., Limited ("Wu Hu Medicine") (蕪湖張恒春藥業有限公司), which was incorporated in the PRC with limited liability, and Mr. Wang Wei Jie (王偉杰) and Ms. Wang Yu Xia (王玉霞). Under the MOU, inter alia, SZ Kingworld proposed to acquire the entire equity interest in Wu Hu ZhangHengChun Pharmaceuticals Co., Limited ("Wu Hu Pharmaceuticals") (蕪湖張恒春醫藥有限公司) and the entire equity interest of Wu Hu ZhangHengChun Dispensary Co., Limited ("Wu Hu Dispensary") (蕪湖張恒春大藥房有限公司), which were incorporated in the PRC with limited liability. Kingworld Holdings and Wu Hu Medicine proposed to establish a joint venture company in the PRC in which Kingworld Holdings will own 55% equity interest. The registered capital of the joint venture company is intended to be RMB145 million, which will be contributed as to 55% by Kingworld Holdings in cash, and as to the other 45% by Wu Hu Medicine by way of injection of its assets. The joint venture company will then acquire the entire equity interest in Wu Hu Pharmaceuticals and Wu Hu Dispensary from SZ Kingworld. Pursuant to the MOU, SZ Kingworld has paid an earnest money in the amount of RMB5 million to Ms. Wang Yu Xia (王玉霞) on 17 March 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

1. **The Third Plenary Session of the 18th Central Committee of the Communist Party of China deepened the reform of the medical and health system**

   The "Decision of the Central Committee of the Communist Party of China on Certain Issues for Comprehensively Deepening Reform" coordinated the promotion of comprehensive reform of medicare, medical services, public health, medicine supplies and the regulatory system. It deepened the comprehensive reform of primary medical and healthcare institutions and improved the operation mechanism of urban and rural network for primary medical and healthcare services. It accelerated the reform of public hospitals, implementation of government responsibilities, establishment of scientific medical evaluation mechanism and personnel training and remuneration system tailored to specific industry. It improved and reasonably classified treatment model and established service contract relations between community doctors and the residents. Information technology will be fully utilised so as to promote the vertical flow of quality medical resources. The reorganization of the resources for district public health services will be enhanced. The practice of using "medicine to fund medical service" will be abolished, for which the price of medicine will be rationalized and scientific compensation mechanisms will be set up. The payment method of medical insurance system will be reformed so to strengthen the "full-covered medical insurance" system. The strengthening of medical insurance and relief mechanism on chronic diseases will be accelerated. Policies and mechanisms relating to the development of traditional Chinese medicine industry will be enhanced.

2. **Further upgrade and enhancement of the national medical insurance policy**

   From "full-covered medical insurance" to "upgrading medical insurance", ensuring the continuous service upgrades will be the main policy objective for the next ten years, on the basis that universal coverage over medical insurance has been achieved .

   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 spending consciousness in the healthcare area by the public. Some pillar products of the Group are mid to high-end consumer products and have already established their brand position, the general development trend of consumer products will benefit the sales of the Group's products.

3. Pharmaceutical retail market showed signs of stable growth and intensive competition

As of December 2013, there were 423,723 pharmaceutical retail stores in China, of which 271,143 were stand-alone drug stores, accounting for 64% of total pharmaceutical stores, dropping slightly from 2012. The China Food and Drug Administration officially implemented the revised Good Supply Practice for Pharmaceutical Products ("GSP") on 1 June 2013, and stand-alone drug stores will face problems such as increasing quality management cost, insufficient management capability and purchasing price disadvantage. Hence the reorganization and advancement of the industry were imperative with intensive competition.

There is an insufficiency of licensed pharmacists, and there is room for improvement of their professional standards. As of December 2013, there were 231,488 licensed pharmacists in China and close to 200,000 job vacancies. The revised GSP requires all pharmaceutical retail stores to have a licensed pharmacist, which also intensifies the mergers and acquisitions within the pharmaceutical industry.

BUSINESS REVIEW

1. Administration of product categories was impressively effective with trends of stable growth

During the Year Under Review, the Group has implemented the strategy of administration of product categories at the beginning of the year, and formed categories administration in cough relieving medication category, diarrhea medication category and medication for external use category. Focusing on these different product catagories, the Group has adopted different strategies in terms of employment of personnel, sales channel management and terminal promotion models and achieved effective results. For the cough relieving medication category, other than fostering consumption groups in large and medium-size cities in China, the Group still mainly focused on deeply developing the distribution market in the first-tier and second-tier cities and exploring new consumer groups who demand for sore throat soothing products, and will target seasonal climate changes, smog and haze, and the youth consumer groups as new growth point.

However, as the implementation of the essential drugs policy diverted some of the clientele of the terminal pharmaceutical stores and affected the price in the terminal market, the sales and profit of Nin Jiom Chuan Bei Pei Pa Koa (京都念慈菴蜜煉川貝枇杷膏) contracted. Comparing to that of 2012, the sales of Nin Jiom Chuan Bei Pei Pa Koa dropped 9.8% and the sales of Nin Jiom Chuan Bei Pei Pa Candies (京都念慈菴川貝枇杷糖) dropped 47.5%.

Taiko Seirogan (喇叭牌正露丸) is one of the main products of the Group, with three specifications of 50, 100 and 200 tablets, sub-categorizing into "portable size, regular size and family size". During the Year Under Review, other than deeply exploring second-tier and third-tier cities in Fujian and Guangdong, which are the major markets, and maintaining the terminal display and price in major cities, the Group also vigorously explored markets such as Beijing, Shanghai, Hainan, Kunming, Zhejiang, Jiangsu and Wuhan and more investments were made to the terminal promotion of these markets and channel development. During the Year Under Review, the sales of Taiko Seirogan amounted to RMB43,339,000, representing a decrease of 23.4% as compared with the same period in 2012.

The third major category of the Group's products is the medication for external use category, which includes Imada Red Flower Oil (金活依馬打正紅花油), Flying Eagle Wood Lok Medicated Oil (飛鷹活絡油) and Mentholatum menthol cream (曼秀雷敦薄荷膏). During the Year Under Review, the Group adopted integrated marketing strategies for Flying Eagle Wood Lok Medicated Oil and Imada Red Flower Oil, conducted an impactful marketing campaign and hence this product category maintained continuous steady development. In the second half of the Year Under Review, Flying Eagle Wood Lok Medicated Oil received one-off import approval, which was a significant favourable factor bringing tremendous impetus to integrated marketing of the Group's medication for external use category. That product attracted huge attention from both new consumers and loyal consumers, achieving sales of RMB29,397,000, representing an increase of 71.8% as compared with the same period in 2012.

As a result of enhanced channel management, Imada Red Flower Oil established management model from first-tier to second-tier, third-tier distributors. A small number of first-tier channels were set up in major provinces and cities, whilst vigorously developing those in second-tier and third-tier. The implementation of this strategy greatly enhanced the coverage and sales efforts of Imada Red Flower Oil. For the year ended 31 December 2013, Imada Red Flower Oil recorded a sales of RMB23,410,000, representing an increase of 14.2% as compared with the same period in 2012.

Since August, the Mentholatum Product Series (曼秀雷敦系列產品) could not be procured normally due to warehouse GSP inspections reason. Although there were inventories in second-tier distributors and chain stores, as sales channel contributions were lowered, product sales being driven purely by retail sales remained sluggish. For the year ended 31 December 2013, the Mentholatum Product Series recorded a sales of RMB22,579,000, representing a decrease of 13.6% as compared with the same period in 2012.

2. Revamp and improve operation quality of product display booths

In order to empower the promotion and marketing of the branded products of the Group, and to further enhance our corporate and brand image, the Group exercised stricter control over the selection of premises for the "Kingworld Health Family"(金活健康之家) product display booths, and conducted refinement and optimisation over the product display booths at different provinces and cities in China. Due to intensive competition and mismanagement of a number of pharmaceutical chain stores, the Group restructured some of the product display booths that were not meeting the expectations. Further, some of the product display booths which franchise were due to expire during the Year Under Review were terminated during the contract period because their input-output ratio failed to meet the Group's average sales standard. As at 31 December 2013, there were a total of 2,500 "Kingworld Health Family" product display booths, representing a slight decrease of 2.6% as compared to the same period of last year. The percentage of input-output ratio of "Kingworld Health Family" product display booths increased, reflecting that their operation quality was greatly elevated.

3. Expedite the introduction of quality new products

During the Year Under Review, the Group procured from an American company, i-Health, Inc., two leading probiotic supplement products series, being Culturelle and DHA product Brainstrong, so as to penetrate into the probiotic and health supplement product market. Furthermore, the Group has signed an agreement in relation to the distribution of Kingworld version cooling pads with Jiangsu Daya Biotech Pharmaceutical Company Limited (江蘇達亞生技醫藥有限公司). The Group will take advantage of the favourable terms offered by China's "milk power sold in pharmacies" policy by exploring opportunities in distribution of imported milk powder from overseas milk powder manufacturers.

MANAGEMENT REVIEW

1. Formulate management system suitable for business development

During the Year Under Review, the Group continued to deepen its distribution network, strengthen sales staff training and assessments, and restructure its sales regions in China by rearranging the existing four main sales regions into five sales regions. This allowed the sales force to provide better sales service and support for distributors, thereby further expanding the market in third-tier cities. At the same time, the Group strengthened the administration of product categories and reallocated the market centers functions and duties by dividing into market I, market II and market III divisions by product categories, along with the establishment of an e-Commerce department that is responsible for on-line marketing. Hence by fully utilising the channel resources, promotion resources and human resources between similar products, it created combined marketing of product categories and enhanced market competition of product categories.

2. **Strengthen informationization construction to provide sufficient and reliable data support for decision making**

As the future is an era of Big Data, in order to adapt to such technological development, during the Year Under Review, the Group had decided to implement informationization upgrades and will establish an SAP information system in the future, which will be implemented step-by-step based on its overall planning. During the Year Under Review, the Group was in the process of implementing the BI system in 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, the blueprint design for the installation of the BI system has been completed.

3. **Strengthen the introduction of talents and enhance the staff's skills and comprehensive quality through holding various types of training**

The Group fully recognizes the importance of talents for the Group'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 Group. On the other hand, the Group accelerated cultivation and construction of its internal talents. During the Year Under Review, the Group and Lingnan (University) College of Sun Yat-Sen University cooperated to hold "Kingworld EMBA" class. Further, the Group and Guangdong Food and Drug Vocational College (廣東食品藥品職業學院) continued to cooperate and hold the "Kingworld Class", the graduates of which may apply to be recruited by Kingworld.

Higher education internship base was founded. The Group is currently collaborating with Shenzhen University, Shenzhen Polytechnic (深圳職業技術學院) and Guangdong Food and Drug Vocational College as a designated internship programme provider. The Company admits up to 30 interns per year from tertiary institutions.

Corporate training base was developed. The Group collaborated with the Guangdong Food and Drug Vocational College and set up corporate training base at the college where the college students would have the opportunity to "apply knowledge into action". At the Group's request, the college would select a certain number of students in certain years and disciplines to Kingworld to complete part of their studies via internship. The internship programme has so far commenced for the classes of 2010 and 2011.

Such programme is an innovative form of collaboration between corporations and institutions, it allows students to receive tailor-made education from teachers at the college and from the industry. Depending on the Group's development situation, for areas of expertise with fixed or stable demand for talents, the Group would cooperate with Guangdong Food and Drug Vocational College in determining the direction and targets of vocational training, so to use "tailor-made training" method to cultivate talents. During the course of studies, not only would students take mandatory courses as required by the State, Province and the college, the Group would also provide teaching advice on corporate courses and appoint the Group's senior management members and corporate speakers to give lectures. Such training has commenced for the class of 2012 (a three-year training) and training for the class of 2013 is currently in progress.

Other than the above, the Group also entered into cooperation from time to time with tertiary institutions to organize various professional or core training programmes. For example, Peking University CRM training programme, the Peking University strategic management and innovative business model advanced programme, EMBA programme at the Chinese University of Hong Kong, annual conference training, mid-year conference training programme, quarterly conference training programme, regional intensive training camp programme, internal coach training camp, secretarial training programme, Kingworld course (金活班項目), internship training programme, development training camp, GSP accreditation programme (GSP認證項目), workflow optimization training programme and information technology BI System programme etc.

During the Year Under Review, a total of 3,065 persons participated in the training, with an average of 30 hours of courses per person and a training coverage of 7 times per person.

4. Speed up the process of mergers and acquisitions

In accordance with the Group's guidelines implemented for mergers and acquisitions, the Group had carried out a number of studies on several enterprises during the Year Under Review. The Group had signed a memorandum of understanding in relation to a proposed acquisition of Chang De Shi Min Kang Pharmaceutical Chain Stores Limited Company (常德市民康藥號連鎖有限公司), but the negotiation of the deal was finally terminated due to internal problems amongst the shareholders of Chang De Shi Min Kang Pharmaceutical Chain Stores Limited Company. However, the Group's pace of mergers and acquisitions has not faltered, and the Group will continue to search for potential up-stream industrial corporates whose products would create a synergy effect with the Group's existing network. The Group aims to expand its product categories through mergers and acquisitions and will search among the retail chains in second-tier and third-tier cities, in order to deepen the Group's network development through mergers and acquisitions.

HONOR

During the Year Under Review, the Group and its products had received the following honors:

- in January 2013, Shenzhen Kingworld Medicines Co. Ltd. was awarded the 3rd Shenzhen's Time-Honoured Enterprise;
- in February 2013, Shenzhen Kingworld Medicines Co. Ltd. was elected for the second time in a row as Top 100 Import Enterprises of 2012 Chinese Medicines and Healthcare Products (No. 94);
- in May 2013, the Group's chairman, Mr. Zhao Li Sheng, was awarded the title of "Overseas Chinese Charitable Figure";
- in June 2013, "Kingworld Medicines" was awarded the title of "National Famous Brand in Guangdong";
- in June 2013, Shenzhen Kingworld Medicines Co. Ltd. was awarded the title of 2012 "Enterprise with Credibility in Guangdong Province";
- in August 2013, Shenzhen Kingworld Medicines Co. Ltd. was awarded the title of "Major Taxpaying Enterprise in 2012" by the Government of Luohu District of Shenzhen City;
- in October 2013, the Group's internal newsletter "Kingworld Element (《金活人》)" won the "China Excellent Enterprise Newsletter Award" in the 8th Internal Newspaper Press Conference;
- in November 2013, Shenzhen Kingworld Medicines Co. Ltd. participated in the 1st International Health Forum;
- in November 2013, the Group's executive Director, Ms Chan Lok San, was awarded the title of Leadership and Leaders (《領軍人才》) "Leadership Contribution Award";
- in November 2013, Flying Eagle Wood Lok Medicated Oil and Imada Red Flower Oil were authroized as the designated medicated oil for external use of the 2013 Shenzhen International Marathon.

FINANCIAL REVIEW

1. Turnover

Turnover of the Group for the Year Under Review was approximately RMB554,763,000, representing a decrease of approximately RMB72,077,000, or 11.5% compared to approximately RMB626,840,000 for the year ended 31 December 2012. The decrease was mainly because of a drop in sales of Nin Jiom Chuan Bei Pei Pa Koa. The year-on-year drop for this product was 9.8%.

2. Cost of sales

For the Year Under Review, cost of sales for the Group amounted to approximately RMB423,584,000, representing a decrease of approximately RMB56,186,000 or 11.7% when compared to approximately RMB479,770,000 for the year ended 31 December 2012. The decrease in cost of sales was consistent with the decrease in turnover. As at 31 December 2013, gross profit margin was approximately 23.6% which was closed to 23.5% for the year ended 31 December 2012.

3. Other revenue

Other revenue mainly included rental income, commission income and interest income. For the Year Under Review, other revenues amounted to approximately RMB14,526,000, representing an increase of approximately RMB5,456,000 or 60.2% when compared to approximately RMB9,070,000 for the year ended 31 December 2012. This increase was mainly due to the increase in interest income of approximately RMB3,287,000 and rental income of approximately RMB1,573,000 respectively.

4. Other net income/(loss)

Other net income was mainly comprised of net foreign exchange gain. For the Year Under Review, other net income amounted to approximately RMB10,767,000 while there was a net loss of approximately RMB242,000 for the year ended 31 December 2012. This increase in other net income was mainly due to the increase in foreign exchange gain as a result of the appreciation of Renminbi during the Year Under Review.

5. Selling and distribution costs

For the Year Under Review, selling and distribution costs amounted to approximately RMB70,286,000, which had decreased by approximately RMB368,000 or 0.5% when compared to approximately RMB70,654,000 for the year ended 31 December 2012. This decrease was primarily attributable to a decrease in commission to customers by approximately RMB3,136,000, which was partly net-off by an increase in staff costs of approximately RMB2,485,000.

6. Administrative expenses

For the Year Under Review, administrative expenses amounted to approximately RMB41,512,000, which had increased by approximately RMB5,829,000 or 16.3% when compared to approximately RMB35,683,000 for the year ended 31 December 2012. For the Year Under Review, rental expenses was approximately RMB2,158,000, administrative staff costs was approximately RMB7,322,000 and legal and professional fees was approximately RMB2,411,000, which comprised mainly of financial reporting costs of the Company and legal advisory and consultancy fees (2012 : rental expenses was approximately RMB2,150,000, administrative staff costs was approximately RMB6,026,000 and legal and professional fees was approximately RMB2,463,000).

7. Profit from operations

For the Year Under Review, profit from operations for the Group amounted to approximately RMB56,734,000, which had decreased by approximately RMB977,000 or 1.7% when compared to approximately RMB57,711,000 for the year ended 31 December 2012. Decrease in profit from operations was mainly due to a decrease in gross profit, which was partly net-off by the increase in other net income and other net revenue for the Year Under Review.

8. Finance costs

For the Year Under Review, finance costs amounted to approximately RMB3,330,000, representing an increase in approximately RMB747,000 or 28.9% when compared to approximately RMB2,583,000 for the year ended 31 December 2012. The increase was mainly due to the increase in bank loan interest.

9. Profit before taxation

For the Year Under Review, profit before taxation for the Group amounted to approximately RMB63,214,000, which had increased by approximately RMB2,023,000 or 3.3% when compared to approximately RMB61,191,000 for the year ended 31 December 2012. Increase in profit before taxation was mainly due to an increase in other net income and other net revenue, which was partly net-off by the decrease in gross profit for the Year Under Review.

10. Profit tax expenses

For the Year Under Review, profit tax expenses for the Group amounted to approximately RMB16,037,000, which had increased by approximately RMB3,381,000 or 26.7% when compared to approximately RMB12,656,000 for the year ended 31 December 2012. This increase was mainly due to the fact that in 2012 there was a reversal of provision for withholding tax in previous years of approximately RMB4,445,000. The effective tax rate for the Year Under Review was 25.6% when compared to 20.7% (excluding the reversal of provision for withholding tax) for the year ended 31 December 2012.

11. Profit for the year

For the Year Under Review, profit for the year of the Group amounted to approximately RMB47,177,000, which decreased slightly by approximately RMB1,358,000 or 2.8% when compared to approximately RMB48,535,000 for the year ended 31 December 2012. Decrease in profit for the year was mainly due to a decrease in gross profit and increase in profit tax expenses, which was partly net-off by the increase in other net income and other net revenue for the Year Under Review.

ANALYSIS OF MAJOR BALANCE SHEET ITEMS

1. Trade and other receivables

Trade and bills receivables of the Group include credit sales that the Group's distributors should pay for the Group's products. Other receivables of the Group include prepayments, deposits and other receivables. Trade and other receivables of the Group as at 31 December 2013 amounted to RMB373,156,000, which had increased by RMB73,145,000 when compared to trade and other receivables as at 31 December 2012 which amounted to approximately RMB300,011,000. As at 31 December 2013, trade receivables and bills receivables of the Group amounted to approximately RMB147,215,000 and RMB195,442,000 respectively, representing an increase of RMB31,526,000 and RMB39,635,000 respectively when compared to trade receivables and bills receivables of approximately RMB115,689,000 and RMB155,807,000 as at 31 December 2012 respectively.

2. Inventories

As at 31 December 2013, inventories owned by the Group amounted to approximately RMB39,917,000, representing an increase of RMB18,592,000 when compared to RMB21,325,000 as at 31 December 2012. The main reason of increase in inventories was the increase in inventories turnover cycle from 16 days in 2012 to 34 days in 2013 by the Group.

3. Properties, plants and equipment

Properties, plants and equipment owned by the Group include properties, leasehold improvements, furniture and equipment, motor vehicles and construction in progress. As at 31 December 2013, the book value of properties, plants and equipment owned by the Group amounted to approximately RMB4,888,000, showing an increase of RMB248,000 when compared to that of approximately RMB4,640,000 as at 31 December 2012. Increase in properties, plants and equipment was mainly due to the addition of fixed assets of approximately RMB1,866,000, which was partly net-off by the depreciation of approximately RMB1,520,000 during the Year Under Review.

4. 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 2013, trade and other payables owned by the Group amounted to approximately RMB154,370,000, showing an increase of RMB12,744,000 when compared to that of approximately RMB141,626,000 as at 31 December 2012 as a result of an increase in trade payable of approximately RMB10,800,000.

CASH FLOW

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.

1. Net cash used in/generated from operating activities

The Group's cash inflow from operations primarily derives from receipts for the sale of the Group's products. For the Year Under Review, the Group's net cash outflow used in operating activities amounted to approximately RMB54,334,000, while the net cash inflow generated from operating activities for the year ended 31 December 2012 was approximately RMB68,380,000. The decrease in cash inflow was primarily due to an increase in inventories, trade and other receivables.

2. Net cash used in investing activities

The Group's net cash outflow used in investing activities amounted to approximately RMB11,896,000 for the Year Under Review, while the net cash outflow used in investing activities was approximately RMB88,926,000 for the year ended 31 December 2012. The decrease in net cash outflow was mainly due to a decrease in deposit for fixed assets during the Year Under Review which amounted to approximately RMB35,000,000.

3. Net cash generated from /used in financing activities

The Group's net cash inflow generated from financing activities amounted to approximately RMB32,526,000 for the Year Under Review, while the net cash outflow used in financing activities was approximately RMB30,262,000 for the year ended 31 December 2012. The increase in net cash inflow was mainly due to the increase in proceeds from new bank loans during the Year Under Review.

CAPITAL STRUCTURE

1. Indebtedness

The total indebtedness of the Group as at 31 December 2013 was approximately RMB98,378,000 (31 December 2012 : approximately RMB59,880,000), which will be due within one year. During the Year Under Review, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

2. Gearing ratio

As at 31 December 2013, the Group's gearing ratio was approximately 13.5% (31 December 2012: 9.4%), calculated as the total bank borrowings divided by total assets multiplied by 100%. The increase was mainly due to an increase in bank borrowings.

3. Pledge of assets

As at 31 December 2013, the Group had pledged investment property, bank deposits and bills receivable to the bank in the total amount of approximately RMB116,047,000. As at 31 December 2012, the Group had pledged investment property and bank deposits in total amount of approximately RMB95,842,000.

4. Capital expenditures

The capital expenditures of the Group primarily included purchases of plant and equipment and leasehold improvements. The Group's capital expenditures amounted to approximately RMB1,866,000 and RMB598,000 for the year ended 31 December 2013 and 2012 respectively.

5. Foreign exchange risk

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

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 fixed rate loans was from 3.9% to 7.2%. 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 announcement.

As at 31 December 2013, the Group had cash and cash equivalents of RMB91,416,000 which was mainly generated from operations of the Group and funds raised from the listing of the shares of the Company in November 2010.

CAPITAL COMMITMENT

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

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

For the year ended 31 December 2013, the Group had not made any material acquisition or disposal.

FUTURE OUTLOOK

1. **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 1 distributors, 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 Group will continue to expand the depth of our distribution network, aiming to penetrate into the third-tier and forth-tier market to explore further market potential. The sales of our various pillar products will be greatly improved as our business network is deepened and our human resources management is strengthened.

2. **Speed up the overall informationization construction and enhance the information technology for management decisions**

The Group has formulated a plan for the BI project and will implement and apply the BI project based on the scheduled content and the project schedule in order to solve the current problems such as information isolated islands and data separation. At the same time, the Group also plans to introduce the SAP ERP system in the future to implement overall informationization upgrade, improving the work flow to enhance system performance.

In the future, the Group will strive for the opportunity to obtain GSP accreditation, in order to re-organize and enhance management system of the Group, particularly the application of information technology in management, with an aim to make full use of information technology to enhance the operation management process.

Furthermore, the Group will also conduct comprehensive upgrade of the existing working OA system to increase work efficiency. This work is expected to greatly enhance the communication efficiency between the sales staff and the headquarter, thereby boosting sales performance.

3. **Improve the incentive and assessment system of sales staffs**

According to the business adjustment in the commercial alignment and in order to promote the sales increase of second-tier and third-tier distributors, the Group will further refine the incentive plans and evaluation elements for the performance review of its sales staffs motivate sales to work hard and stimulate their work enthusiasm so that all the sales staffs will do their best on their sales and distribution work.

4. **Establish a "Kingworld Health Family" e-Commerce platform and develop e-Commerce business**

After having conducted an initial planning, the Group will launch the "Kingworld Health Family" e-Commerce platform in Hong Kong and Shenzhen Qianhai Bay, as well as establishing brand distribution area in well-known corporate e-Commerce platforms such as TMall, QQ.com, Suning and Egou in order to develop our e-Commerce business. The Group believes that this will create a great driving force for the promotion of the Group's brand, and rapidly develop over-the-counter medicines, pharmaceutical products and health food.

5. **Accelerate the introduction of new products**

The Group will take advantage of the opportunities offered by the "milk powder sold in pharmacies" policy and strive to procure products such as milk powder and infant and pregnant line of healthcare products. Together with the up-stream and down-stream combination, the Group will strive to advance its sales of healthcare products.

Besides, as the domestic consumption standards in China has elevated, customer demands for imported healthcare food and healthcare products has also increased. By utilising the good relationship network of the overseas suppliers, the Group will introduce more quality products to be sold in Hong Kong and China simultaneously.

6. **Speed up the process of mergers and acquisitions**

During the Year Under Review, in accordance with the Group's guidelines implemented for mergers and acquisitions, the Group had carried out a number of studies on several enterprises. The Group will accelerate the pace of mergers and acquisitions and explore potential up-stream industrial enterprises, whose products will create a synergy effect with the Group's existing network. Through mergers and acquisitions, the Group aims to expand the Group's product categories and will search among the retail chains in second-tier and third-tier cities, in order to deepen the Group's network development through mergers and acquisitions.

HUMAN RESOURCES AND TRAINING

As of 31 December 2013, the Group had a total of 483 employees, of which 113 worked at the Group's headquarter in Shenzhen, and 370 stationed in 34 regions with main responsibility of sales and marketing. Total staff cost for the Year Under Review amounted to approximately RMB30,815,000 (2012 : RMB25,575,000). 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 Year Under Review, 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 adopted a number of incentive mechanisms 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 established business college and has cooperated with higher education institutions, for introducing teachers from EMBA and EDP courses in higher education institutions. Training plan on "high-end sophisticated talent" was kicked off, so as to improve the overall standard of business management of the mid-level to senior management executives currently under employment. Theoretical knowledge of the mid-level to senior management executives were enriched, which in turn enhanced the leadership and competency of these mid-level to senior management executives. There were further cooperation between corporations and institutions to conduct tailor-made "Kingworld" class from teachers at the college and from the industry, with an aim to cultivate mid-level to senior management executives. The development of training materials will be accelerated. Staffs at each level are motivated to learn on a continuing basis so that efficient operation can be achieved.

The Company also operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contributed to the success of the Group, including eligible employees of the Group. Details of such share option scheme are set out under the paragraph headed "Share Option Scheme" in this announcement.

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 Under Review of HK3.86 cents per share to shareholders whose names appear on the register of members of the Company on Tuesday, 10 June 2014, amounting to approximately HK$24,028,000, subject to approval in the Company's forthcoming annual general meeting to be held on Friday, 30 May 2014. Total dividend payout ratio is 40% of the profit for the year or the distributable profit of the Company. The above-mentioned final dividend is expected to be paid on or before Monday, 30 June 2014.

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 Wednesday, 28 May 2014 to Friday, 30 May 2014 (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 Investors Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration on or before 4:30 p.m. on Tuesday, 27 May 2014.

To qualify for the proposed final dividends

The register of members of the Company will be closed from Friday, 6 June 2014 to Tuesday, 10 June 2014 (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 Investors Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration on or before 4:30 p.m. on Thursday, 5 June 2014.

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2013, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

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 of Hong Kong Limited (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 31 December 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 are intended to be applied in accordance with the proposed application set forth in the prospectus dated 12 November 2010.

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 shareholder 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 of the Company dated 12 November 2010.

As at 31 December 2013, no share option was granted based on the Share Option Scheme.

GOING CONCERN

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

PUBLIC FLOAT

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

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

For the year ended 31 December 2013, 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 Year Under Review, 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 Year Under Review. The Company has also adopted written guidelines on no less exacting terms than the Model Code for the relevant employees. The senior management, who, because of their office in the Company, is likely to be in possession of unpublished inside information, has been requested to comply with the provisions of the Model Code and the Company's code of conduct regarding securities transactions by Directors. No incidence of non-compliance of the employees' written guidelines by the relevant employees was noted by the Company during the Year Under Review.

AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") on 5 November 2010 and has formulated its written terms of reference, which have from time to time been modified, in accordance with the prevailing provisions of the CG Code. The 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, together with the management of the Company and external independent auditors, reviewed the consolidated financial statements, accounting principles and practices adopted for the Group for the year of 2013, and agreed with the accounting treatment adopted by the Group.

DISCLOSURE OF INFORMATION

This results announcement is published on the website of the Stock Exchange (http://www.hkexnews.hk) under "Listed Company Information" and the website of the Company (http://www.kingworld.com.cn) under "Investor Relations". The annual report for the year ended 31 December 2013 containing all necessary information as required by the Listing Rules will be sent to shareholders of the Company in due course, and will be published on the website of the Stock Exchange (http://www.hkexnews.hk) under "Listed Company Information" and the website of the Company (http://www.kingworld.com.cn) under "Investor Relations".

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

Hong Kong, 25 March 2014

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.