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KINGWORLD MEDICINES GROUP LIMITED

金活醫藥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 01110)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2014**

RESULTS HIGHLIGHTS

- Turnover increased by 25.3% to approximately RMB319,039,000 (2013 : RMB254,586,000).
- Gross profit increased by 26.2% to approximately RMB78,291,000 (2013 : RMB62,018,000).
- Gross profit margin reached 24.5%, representing an increase of 0.1% (2013 : 24.4%).
- Profit for the six months ended 30 June 2014 increased by 4.4% to approximately RMB19,475,000 (2013 : RMB18,655,000).
- Basic earnings per share increased by 4.3% to approximately RMB3.13 cents (2013 : RMB3.00 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 2014 (the “Reporting Period”) together with the comparative figures for the six months ended 30 June 2013 with the selected notes as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2014 — UNAUDITED

(Expressed in Renminbi)

		Six months ended 30 June	
	<i>Note</i>	2014	2013
		<i>RMB'000</i>	<i>RMB'000</i>
Turnover	3	319,039	254,586
Cost of sales		(240,748)	(192,568)
Gross profit		78,291	62,018
Other revenue	5(a)	9,823	8,736
Other net (loss)/income	5(b)	(6,099)	5,792
Selling and distribution costs		(33,346)	(31,752)
Administrative expenses		(25,259)	(20,037)
Profit from operations		23,410	24,757
Finance costs		(3,161)	(1,996)
Share of profit of a joint venture	10	3,303	1,850
Profit before taxation		23,552	24,611
Income tax	7	(4,077)	(5,956)
Profit for the period		19,475	18,655
Attributable to:			
Owners of the Company		19,475	18,655
Earnings per share	9		
Basic (RMB cents)		3.13	3.00
Diluted (RMB cents)		3.13	3.00

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2014 — UNAUDITED
(Expressed in Renminbi)

	Six months ended 30 June	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period	19,475	18,655
Other comprehensive income/(loss) for the period		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	1,095	(1,736)
	1,095	(1,736)
Total comprehensive income for the period (net of tax)	20,570	16,919
Attributable to:		
Owners of the Company	20,570	16,919

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE SIX MONTHS ENDED 30 JUNE 2014 — UNAUDITED
(Expressed in Renminbi)

		At 30 June 2014 <i>RMB'000</i>	At 31 December 2013 <i>RMB'000</i>
	<i>Note</i>		
Non-current assets			
Property, plant and equipment		5,334	4,888
Investment properties		88,810	88,810
Interest in a joint venture	10	42,096	38,793
Deposit paid for property, plant and equipment	11	75,000	75,000
		<u>211,240</u>	<u>207,491</u>
Current assets			
Inventories		50,079	39,917
Trade and other receivables	12	339,417	373,156
Pledged bank deposits		49,412	18,103
Cash and bank balances		161,393	91,416
		<u>600,301</u>	<u>522,592</u>
Current liabilities			
Trade and other payables	13	181,022	154,370
Bank loans	14	154,535	98,378
Current taxation		7,450	10,509
		<u>343,007</u>	<u>263,257</u>
Net current assets		<u>257,294</u>	<u>259,335</u>
Total assets less current liabilities		<u>468,534</u>	<u>466,826</u>
Non-current liability			
Deferred tax liabilities		9,402	9,402
NET ASSETS		<u><u>459,132</u></u>	<u><u>457,424</u></u>
CAPITAL AND RESERVES			
Share capital		53,468	53,468
Reserves		405,664	403,956
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		<u><u>459,132</u></u>	<u><u>457,424</u></u>

NOTES TO THE INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2014 — UNAUDITED
(Expressed in Renminbi)

1. BASIS OF PREPARATION

The interim financial results for the six months ended 30 June 2014 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 2013 annual financial statements.

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 the following amendments to HKFRSs and one new interpretation that are first effective for the current accounting period of the Group and the Company:

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities
- Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities
- Amendments to HKAS 36 Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to HKAS 39 Novation of Derivatives and Continuation of Hedge Accounting
- HK(IFRIC) – Int 21 Levies

The adoption of the above new standards and amendments did not have any significant effect on the Group’s condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. 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 period.

	Six months ended 30 June	
	2014	2013
	<i>RMB’000</i>	<i>RMB’000</i>
Sales of		
– pharmaceutical products	296,962	242,437
– healthcare products	22,077	12,149
	<u>319,039</u>	<u>254,586</u>

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 2014 and 2013. 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 2014 and 2013. 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 (LOSS)/INCOME

a) Other revenue

	Six months ended 30 June	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Total interest income on financial assets not at fair value through profit or loss:		
Bank interest income	1,449	3,451
Commission income	2,833	2,850
Promotion income	4,502	976
Gross rental income from investment properties	1,039	1,459
	<u>9,823</u>	<u>8,736</u>

b) Other net (loss)/income

	Six months ended 30 June	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Net foreign exchange (loss)/gain	<u>(6,099)</u>	<u>5,792</u>

6. PROFIT BEFORE TAXATION

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

		Six months ended 30 June	
		2014	2013
		RMB'000	RMB'000
a) Finance costs			
Total interest expense on financial liabilities not at fair value through profit or loss:			
Interest on bank loans wholly repayable within five years		<u>3,161</u>	<u>1,996</u>
b) Other items			
Auditor's remuneration		330	336
Cost of inventories		240,748	192,568
Depreciation		830	688
Impairment loss on other receivables		126	56
Impairment loss on trade receivables		674	75
Loss on disposal of property, plant and equipment		9	22
Operating lease charges in respect of land and buildings		1,852	2,500
Write-down of inventories		1,102	2,474
Rental income from investment properties less direct outgoings of RMB201,000 (2013: RMB183,000)		<u>(838)</u>	<u>(1,276)</u>

7. INCOME TAX IN THE CONDENSED CONSOLIDATED INCOME STATEMENT

Income tax in the condensed consolidated income statement represents:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Current tax - PRC income tax		
Provision for the period	4,047	5,961
Under/(over)-provision in prior year	30	(5)
	4,077	5,956
Deferred tax		
Current period	—	—
	—	—
	4,077	5,956

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 made as the group sustained a loss for tax purpose during the six months ended 30 June 2014. (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.)
- iii) The PRC income tax charge of the Group during the six months ended 30 June 2014 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 2013: 25%).

8. DIVIDENDS

- a) The Company’s directors do not recommend the payment of an interim dividend for the six months ended 30 June 2014 and 2013.
- 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	
	2014	2013
	RMB'000	RMB'000
Final dividend in respect of the previous financial year ended, approved and paid during the reporting period, of HK3.86 cents (equivalent to approximately RMB3.03 cents) (2013: HK2.90 cents (equivalent to approximately RMB2.31 cents))	18,862	14,381

9. EARNINGS PER SHARE

a) Basic earnings per share

During the six months ended 30 June 2014, the calculation of basic earnings per share is based on the profit attributable to owners of the Company of RMB19,475,000 (six months ended 30 June 2013: RMB18,655,000) and the weighted average number of 622,500,000 (six months ended 30 June 2013: 622,500,000) ordinary shares in issue.

b) Diluted earnings per share

During the six months ended 30 June 2014, the calculation of diluted earnings per share is based on the profit attributable to owners of the Company of RMB19,475,000 (six months ended 30 June 2013: RMB18,655,000) and on the weighted average number of 622,500,000 (six months ended 30 June 2013: 622,500,000) ordinary shares in issue.

Weighted average number of ordinary shares (diluted):

	Number of shares	
	2014	2013
	'000	'000
Weighted average number of ordinary shares (diluted) at 30 June	622,500	622,500

During the six months ended 30 June 2014, 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 2014, 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 ("Zhuhai Jinming")	Limited liability company	The PRC	RMB5,000,000	50%	Distribution sale of branded imported pharmaceutical and healthcare products in the PRC

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

	At 30 June 2014 <i>RMB'000</i>	At 31 December 2013 <i>RMB'000</i>
Gross amounts of Zhuhai Jinming		
Current assets	39,473	47,445
Non-current assets	79,368	76,269
Current liabilities	(27,678)	(39,246)
Non-current liabilities	(6,971)	(6,882)
Equity	84,192	77,586
Included in the above assets and liabilities:		
Cash and cash equivalents	9,741	2,346
Current financial liabilities (excluding trade and other payables)	(9,034)	(13,304)
Non-current financial liabilities	(6,971)	(6,882)
	Six months ended 30 June	
	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Revenue	81,152	68,596
Profit from continuing operations	6,606	3,700
Other comprehensive income	—	—
Total comprehensive income	6,606	3,700
Included in the above profit:		
Depreciation	(102)	(148)
Interest income	7	8
Income tax expense	(2,250)	(1,695)
	At 30 June 2014 <i>RMB'000</i>	At 31 December 2013 <i>RMB'000</i>
Reconciled to the Group's interest in Zhuhai Jinming		
Gross amounts of Zhuhai Jinming's net assets	84,192	77,586
Group's effective interest	50%	50%
Carrying amount in the condensed consolidated financial statements	42,096	38,793
Share of the joint venture's capital commitments at the end of the reporting period: Contracted but not provided for: Capital expenditure for properties constructed for future use as investment properties	 <u>1,971</u>	 <u>1,990</u>

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 the end of 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 30 June 2014, the Group paid total deposits of RMB75,000,000 (31 December 2013: RMB75,000,000).

12. TRADE AND OTHER RECEIVABLES

	At 30 June 2014 <i>RMB’000</i>	At 31 December 2013 <i>RMB’000</i>
Trade and bills receivables (notes (b) to (e))	283,823	347,293
Less: Allowance for doubtful debts (note (c))	(5,310)	(4,636)
	<u>278,513</u>	<u>342,657</u>
Other receivables	7,088	6,819
	<u>285,601</u>	<u>349,476</u>
Loans and receivables	23,735	16,098
Prepayments	6,256	1,034
Trade and other deposits (note (f))	23,825	6,548
Trade deposits to related parties	<u>339,417</u>	<u>373,156</u>

- 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 2014 <i>RMB'000</i>	At 31 December 2013 <i>RMB'000</i>
0 - 90 days	230,592	270,413
91 - 180 days	41,002	28,047
181 - 365 days	5,855	43,519
More than 1 year	1,064	678
	<u>278,513</u>	<u>342,657</u>

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 2014 <i>RMB'000</i>	At 31 December 2013 <i>RMB'000</i>
At beginning of the reporting period	4,636	3,861
Impairment losses recognised	674	775
At end of the reporting period	<u>5,310</u>	<u>4,636</u>

As at 30 June 2014, the Group's trade receivables of RMB5,310,000 (31 December 2013: RMB4,636,000) 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 RMB5,310,000 (31 December 2013: RMB4,636,000) were recognised as at 30 June 2014. 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 2014 <i>RMB'000</i>	At 31 December 2013 <i>RMB'000</i>
Neither past due nor impaired	<u>230,592</u>	<u>270,413</u>
Past due but not impaired		
— 91-180 days	41,002	28,047
— 181 - 365 days	5,855	43,519
— More than 1 year	<u>1,064</u>	<u>678</u>
	<u>47,921</u>	<u>72,244</u>
	<u>278,513</u>	<u>342,657</u>

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 2014, bills receivables of RMB26,395,000 (31 December 2013: RMB26,076,000) were pledged to banks for banking facilities granted to the Group.
- f) Included in trade and other deposits at 30 June 2014 is an earnest money in the amount of RMB5 million (31 December 2013: Nil) paid to Ms. Wong Yu Xia pursuant to a non-legally binding memorandum of understanding entered into by the subsidiaries of the Company with Wu Hu Zhang Heng Chun Medicine Co., Limited, and Mr. Wang Wei Jie and Ms. Wang Yu Xia, details of which were disclosed in note 32 of the 2013 annual financial statements.

13. TRADE AND OTHER PAYABLES

	At 30 June 2014 <i>RMB'000</i>	At 31 December 2013 <i>RMB'000</i>
Trade and bills payables (note (b))	155,565	122,105
Accruals	4,195	4,677
Other payables	20,566	25,339
Financial liabilities measured at amortised cost	180,326	152,121
Trade deposits received	696	2,249
	181,022	154,370

- 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 2014 <i>RMB'000</i>	At 31 December 2013 <i>RMB'000</i>
0 - 90 days	144,125	109,558
91 - 180 days	11,440	12,547
	155,565	122,105

14. BANK LOANS

The bank loans are secured and repayable as follows:

	At 30 June 2014 <i>RMB'000</i>	At 31 December 2013 <i>RMB'000</i>
Within 1 year or on demand	<u>154,535</u>	<u>98,378</u>

- 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 2014	At 31 December 2013
Effective interest rates:		
Fixed rate loans	<u>3.4%-7.9%</u>	<u>3.9%-7.2%</u>

- c) As at 30 June 2014 and 31 December 2013, the bank loan were secured by investment property, bills receivables and pledged bank deposits of the Group.

15. EVENT AFTER THE REPORTING PERIOD

Pursuant to the announcement dated 8 May 2014, the Group entered the Cooperation Agreement into among the Purchaser, an indirect wholly-owned subsidiary of the Company, the Group has conditionally agreed to acquire 55% equity interest in Shenzhen Dong Di Xin Technology Company Limited ("the Target Company").

Subsequent to the period ended 30 June 2014 and on 31 July 2014, a supplemental agreement to the Cooperation Agreement was entered into between the Group, the Target Company and the Vendors. the Group had paid to the Vendors on 5 August 2014 an earnest money in the amount of RMB10,000,000.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET AND INDUSTRY REVIEW

1. Development of the pharmaceutical industry shows steady progress

In the China Medical Market Development Blue Book 2014 published by SFDA Southern Medicine Economic Institute, the actual position of China pharmaceutical industry in 2013 was analyzed through statistics from overall pharmaceutical industry, hospital medication and retail terminals. The seven major types of pharmaceutical industries in China achieved a CAGR of 23.31% during the Eleventh Five-Year period and maintained a rapid growth trend since the Twelfth Five-Year period began, representing an increase of 26.50% in 2011 and 20.10% in 2012, respectively. However, they realized a revenue of RMB2,229.7 billion in 2013, representing a decrease of 18.79%, as compared to the corresponding period of last year. Although there was decline in overall pharmaceutical industry in China, the Chinese medicine exceptionally maintained sustained growth. Driven by the modernization of Chinese medicine by Chinese government, Chinese medicine industry has made considerable progress, representing a CAGR of 20.79% during the Eleventh Five-Year period and an increase of 34.73% in 2011 and 20.80% in 2012, respectively. Chinese medicine industry realized a revenue of RMB524.2 billion in 2013, representing an increase of 23.26%, as compared to the corresponding period of last year. During the Eleventh Five-Year period, the sales revenues of seven major types of pharmaceutical industries remained a rapid growth, representing a CAGR of 24.40%. Since the Twelfth Five-Year period began, the sales revenues achieved an increase of 26.06% in 2011 and 20.27% in 2012, respectively. The seven major types of pharmaceutical industries realized a sales revenue of RMB2,154.3 billion, representing an increase of 17.91%, as compared to the corresponding period of last year. From January to April in 2014, pharmaceutical exports increased by 5.05%, imports increased by 13.11%, the foreign trade surplus reached US\$3.8 billion, representing a decrease of 15.85%, as compared to the corresponding period of last year.

2. The explosive growth of Internet and social media weakened the influence of traditional advertising media

According to research by Zenith Media, Strategy Analytics Digital Media Strategy (DMS), the Internet achieved a rapid growth in the global advertising revenue, with an increase of 14% in the Internet advertisement expenditures in 2013, accounting for 21% of the total global advertising expenditures. Each netizen has average more than three social media identities. Instant messaging users scaled up to 497 million, Mobile instant messaging users up to 397 million, Weibo users up to 331 million, social network users up to 288 million and WeChat users exceeded 600 million. In 2013, Internet graphical advertisements of China medical service increased by 16.4% when compared to 2012, excluding text links and targeted advertising. These phenomena guided us to make timely adjustments in marketing communications.

3. Fast development in pharmaceutical e-commerce

The information of China Food and Drug Administration showed that as at 31 July 2014, there were 227 online pharmacies with C Class Certificate of Internet and Drug Trading Services Qualification Certificate. In 2010, the market size of pharmaceutical e-commerce was RMB0.2 billion, this figure exceeded RMB1.6 billion in 2012 and reached RMB4.26 billion in 2013. Data shows that the trade size of Tmall Medicine Shop had reached RMB2.04 billion in 2013, accounting for 47.89% of domestic medical electronic trading and representing an increase of 172% when compared to the corresponding period of last year. In contrast, the performances of self-owned medical Business-to-Customer websites were less exciting, with the annual trade size of RMB1.68 billion, accounting for 39.44% of domestic medical electronic trading and representing an increase of 98% when compared to the corresponding period of last year. In January 2014, Alibaba spent HK\$1.3 billion and took over CITIC 21CN Company Limited, which owns a pilot license of third-party online drug trading. In February 2014, Alipay entered into cooperation with China Nepstar Chain Drugstore Ltd. and Guoda Drugstore, starting the launch of Online To Offline for the pharmaceutical retail industry. By the end of March 2014, chaoyao under Jointown Pharmaceutical Group entered into cooperation with Tencent and opened the most powerful medicine purchasing platform on WeChat, where consumers can buy medicine and make payment on WeChat. Their next step is to incorporate chaoyao into WeChat Mall.

4. Retail pharmacies gradually become standardized and scalable

With the revised Good Supply Practice for Pharmaceutical Products (“GSP”) certification advancing, more than 400,000 pharmacies across the nation must meet the requirements of the revised GSP certification. The significantly improved standards require pharmaceutical retail outlets to be equipped with computer management, with online management system of purchasing, selling and stocking and updated software that meets the requirements of the new GSP certification, which will increase the operating cost of pharmacies. The new GSP quality system has put forward a number of explicit requirements to the pharmacy operations. They cannot simply prepare the quality system document to respond to the examination, like they did in the past. They are required to maintain instant and dynamic management in daily operation, which brings obstacles to small chains and single pharmacies. All pharmaceutical retail stores are required to have a licensed pharmacist. As for chain pharmacy, there is no uniform standard in all provinces. But this requirement will surely be advanced. The standardization of retail pharmacies will bring orderly competition in the OTC market, which will be greatly advantageous to the brand industry.

5. Further segmentation of the terminal market

The further segmentation of the terminal markets is a breakthrough of the tradition of three major terminals, with new division of city level hospitals, county level hospitals, urban base level hospitals, rural base level hospitals, physical pharmacies and online pharmacies. Faced with the diversity, complexity and fast development in China's pharmaceutical market, not only the foreign enterprises but also the state-owned enterprises and private enterprises should diversify their marketing patterns, because the single marketing pattern no longer meets the changing markets. The pharmaceutical enterprises must shift from simple market operations in the past to market management awareness.

At present, pharmaceutical terminal channels in China are widely distributed and scattered. But with changes in the policy environment and the rise of the county hospitals, scale of pharmaceuticals application in urban community is also expanding. The reform of the health care system is the essential reason of changes in terminal channels. At to urbanization, the urbanization rate in China is prevailing at 52%. China's pharmaceutical resources are mainly concentrated in urban area. There are only 27% of pharmaceutical resources in rural area, despite rural population accounts for 64% of the population. China is now trying to change this situation, for which the recent investment from the state in the base level can be evidenced.

BUSINESS REVIEW

1. Monitored and control over the business channels and terminal deployment were strengthened with specific marketing strategies formulated

During the Reporting Period, with respect to its sales strategies, the Group continued to further implement business scientific deployment down to the second tier. Different marketing strategies were formulated according to different products and different customer bases so as to support the sales of the pillar products.

In respect of Nin Jiom (念慈菴), the Group had monitored and controlled the channels and deployment, and continued to engage with strategic cooperation with the top 100 chain stores. By leveraging on the regional competitive advantages derived from the cooperation with the chain stores throughout the year in an active manner, a relatively better result was achieved. In the meantime, through the organization of activities such as free gifts with purchases, trial tasting, cold beverage review and community promotions from different products, the brand's loyalty and reputation among the customers was enhanced.

In respect of Seirogan (正露丸), our Group had well managed its pricing system. On the basis of stabilising the market price under category A market (Fujian, Guangdong) and reducing the inventory accumulating in the channels, the category B market was explored through various kinds of promotion activities, such as first launch, free gifts with purchases, community promotions, sales staff trainings, displays and unified retail pricing. The brand reputation and sales of Seirogan in category B market was enhanced.

In relation to Imada Red Flower Oil (依馬打紅花油), other than further expanding the sales channels, our Group had placed more attention to build the popularity and reputation of the brand. The purchasing power of the consumers were attracted from the influences of the brand. Since June this year, Jiangxi Satellite TV (with a coverage of 1 billion population) that have consumers matching the profile of corresponding communication objects and targets population as Imada Red Flower Oil target consumers are primarily comprised of female and family members, had been selected as the cooperation partner and broadcasted a 15 second television advertisement in the evening prime time slot of Jiangxi Satellite TV. The response was overwhelming. At the same time, the Group also conducted sales staff training, placed advertisements on the delivery trucks of the distributors, gave bonus for distributions and set up fairs for the promotion of the terminals, so that the marketing efforts will be extended throughout China.

As for the series of Mentholatum (曼秀雷敦) products, since our Group adopted the strategy to promote with a focus at the terminals, the display requirements of the products at the terminals and the first launch activities at the chain stores were enhanced. The brand equity was enhanced with an increase in sales. During 2014, the Group entered into agreement with 85 chain stores and 90 stand-alone stores with contract amount over RMB8 million.

The Group's primary strategy for Flying Eagle Wood Lok Medicated Oil (飛鷹活絡油) had also been focusing on the terminals with emphasis in promoting first launch, including first launch at single store, consolidating key chain stores and sales at major stand-alone stores.

2. Quality in operating the “Kingworld Health Family” product display booths was optimised

During the Reporting Period, the Group launched small “Kingworld Health Family” (金活健康之家) display booths, Nin Jiom candies display booths, Seriogan display booths and Mentholatum display booths at the cashier counters of key drug store terminals. Hence, the model of “Kingworld Health Family” product display booths was flexibly applied to increase sales at the booths. The launch of these small booths, which have a smart and revamped design, was beneficial to enhance the corporate and brand images and sales. During the Reporting Period, was 2,273 “Kingworld Health Family” product display booths.

3. Promotion of the terminals were consolidated with staff training and community education improved

During the Reporting Period, the Group required its sales staff to launch all products of the Group at the key terminals that they have been responsible for (or referred to as “Total Coverage”). Inspections were strengthened to examine the implementation of Total Coverage. In the meantime, the Group also improved its staff training and community education. For example, Gold Medal Store In-charge for Nin Jiom as well as talent, regional chain store and sales staff training were held respectively.

During the Reporting Period, the Group conducted thousands of community activities targeting well developed areas in more than thirty provinces and cities throughout the country that are selected on the basis of high spending power. Free trial activities for elderly citizens were conducted with their daily essential drugs such as Flying Eagle Wood Lok Medicated Oil and Imada Red Flower Oil. These activities successfully enhanced the corporate and product images, whilst increasing the sales of the Group’s products at the community drug stores.

4. Implementation and on-line of BI project was hastened to provide sufficient and reliable data support for decision making

During the Reporting Period, the Group had setup SAP BI (Business Intelligence) project, and determined blueprints of the BI project through sufficient preliminary research and analysis. Gu Cheng Consultant (顧誠顧問公司), a partner of the Company will carry out further development and implementation process, so as to gradually fulfill the functions of the blueprints to satisfy the current and future management needs and provide support for decision making. During the Reporting Period, 22 types of WEB statements functions from the blueprints were completed.

5. Recruitment of talents was reinforced with the skills and quality of staff being enhanced comprehensively through the organization of various types of trainings

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 recruitment 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, students had graduated from the “Kingworld EMBA” class co-founded by the Group and Lingnan (University) College of Sun Yat-Sen University. Elites of the Group applied what they learned to their work and improved their work efficiency for a better service. Further, the first class of “Kingworld Class” on pharmaceutical business management co-founded by the Group and Guangdong Food and Drug Vocational College had joined the Group as interns bringing in new blood for the Group’s base level staff, especially the front line sales department. Other than the above, the Group has been negotiating strategic cooperation agreements with Guangdong Medical University and other educational institutions, to satisfy the Company’s need for high-level professional management personnel, in particular, market research and international high-end talents, through jointly educating and organizing professional skills training.

6. The process of mergers and acquisitions was speeded up

During the Reporting Period, the Group entered into a cooperation agreement with Shenzhen Dong Di Xin Technology Company Limited (“Dong Di Xin”) to expand into the global medical and health electronic product markets to enlarge the health segment. The Group expects the rapid development of wearable medical devices will lead a significant change in the medical sector in future. The flagship product of Dong Di Xin, “hand-held medical instrument” will benefit from this medical development trend. It is expected that it will create a good opportunity for the Group to expand into the market of manufacture and sale of medical devices, and will diversify the Group’s revenue sources.

During the Reporting Period, the Groups had entered into a memorandum of understanding with Wu Hu ZhangHengChun Medicine Co., Ltd., with an intention to further extend to the upper end of the industrial chain. The Group expects to create a synergy effect with the existing business and greatly enhance the Group’s brand through promoting and integrating the Chinese medicine brand, to promote the traditional culture of Chinese medicine and to increase the Group’s sales scale.

7. Participation in e-commerce

During the Reporting Period, the Group has determined to vigorously develop e-commerce business, by attending to various e-commerce training and establishing a e-business team. Benefiting from the popularity of Culturelle (the top recommended brand by American pediatricians) among Chinese mothers, the Group established an operation mode of e-commerce and began preliminary preparation and trial operation in e-commerce business.

8. Brand communication was strengthened to enhance corporate and brand image and reputation

During the Reporting Period, the Group successfully organized the Nineth Kingworld Cup Gibson celebrity golf tournament. It was awarded Shenzhen Well-known Brands, Pioneer of Chinese Pharmaceutical and Healthcare Industry. It had organized and participated a series of activities: sponsored Jing Bao for the simulation of World Cup; organized a free medical examination activity for the elderly under the programme “You Care your parents, Kingworld Care their Health”, which was once again organized in another community-thanksgiving activity held on Father’s day. The Group continued to actively fulfill its social responsibilities and contribute to the society: the Group made a RMB 3 million pledge to the Nature Conservancy in the PRC with a first batch of RMB 1 million donation; RMB 100,000 was donated through the Care Fund of Shenzhen Evening Post to the family of “the great child” Liang Yao Yi, because of which the Group was praised by the media and the community.

9. Progress achieved in the launch of new products

During the Reporting Period, the Group was awarded the distribution right of WIOM milk powder in the PRC, Hong Kong and Macau. The Pu Ji Kang Gan Granules distributed by the Group and manufactured by Yuen Tai Pharmaceuticals Limited was allowed to be sold in Hong Kong.

During the Reporting Period, the Group brought the new product Culturelle to various mothers and babies exhibitions in Shanghai and Hong Kong and the product was well received.

FINANCIAL REVIEW

1. Turnover

Turnover of the Group for the six months ended 30 June 2014 amounted to approximately RMB319,039,000, representing an increase of approximately RMB64,453,000 or 25.3% compared to approximately RMB254,586,000 for the six months ended 30 June 2013. The increase was mainly as a result of the growth in China market for cough and sputum symptoms relief medicines. During the Reporting Period, the sales of Nin Jiom Chuan Bei Pei Pa Koa and the Nin Jiom Chuan Bei Pei Pa Candies reached approximately RMB227,775,000 and RMB12,444,000 respectively, representing an increase by 30.6% and 8.3% respectively, as compared with the corresponding period of last year.

2. Cost of sales

For the six months ended 30 June 2014, cost of sales for the Group amounted to approximately RMB240,748,000, increased by approximately RMB48,180,000 or 25.0% when compared to approximately RMB192,568,000 for the six months ended 30 June 2013. The increase in cost of sales was consistent with the increase in turnover. Gross profit margin increased slightly from 24.4% for the six months ended 30 June 2013 to 24.5% for the six months ended 30 June 2014.

3. Other revenue

Other revenue mainly included rental income, commission income, interest income and promotion income. For the six months ended 30 June 2014, other revenues amounted to approximately RMB9,823,000, increased by approximately RMB1,087,000 or 12.4% when compared to approximately RMB8,736,000 for the six months ended 30 June 2013. This increase was mainly due to the increase in promotion income by approximately RMB3,526,000 which was partly off-set by the decrease in interest income by approximately RMB2,002,000.

4. Other net (loss)/income

Other net (loss)/income mainly comprised net foreign exchange (loss)/gain. For the six months ended 30 June 2014, other net loss amounted to approximately RMB6,099,000, greatly decreased by approximately RMB11,891,000 when compared to the other net gain of approximately RMB5,792,000 for the six months ended 30 June 2013. This decrease was mainly caused by the substantial decrease in net foreign exchange gain.

5. Selling and distribution costs

For the six months ended 30 June 2014, selling and distribution costs amounted to approximately RMB33,346,000, increased by approximately RMB1,594,000 or 5.0% when compared to approximately RMB31,752,000 for the six months ended 30 June 2013. This increase was mainly due to an increase in salaries expenses by approximately RMB1,607,000 or 19.9% from RMB8,061,000 for the six months period ended 30 June 2013 to RMB9,668,000 as a result of the fact that many post vacancies in 2013 were filled up during the Reporting Period.

6. Administrative expenses

For the six months ended 30 June 2014, administrative expenses amounted to approximately RMB25,259,000, increased by approximately RMB5,222,000 or 26.1% when compared to approximately RMB20,037,000 for the six months ended 30 June 2013. This increase was mainly due to the increase in (1) expenses related to the Group's 20th anniversary celebration of approximately RMB779,000; (2) provision for doubtful debt of approximately RMB674,000; and (3) provision for obsolete stock of approximately RMB1,102,000 respectively during the Reporting Period.

7. Profit from operations

For the six months ended 30 June 2014, profit from operations for the Group amounted to approximately RMB23,410,000, decreased by approximately RMB1,347,000 or 5.4% when compared to approximately RMB24,757,000 for the six months ended 30 June 2013. Decrease in profit from operations was mainly due to (1) a decrease in other net income of approximately RMB11,891,000; (2) an increase of selling and distribution costs of approximately RMB1,594,000; and (3) an increase in administration expenses of approximately RMB5,222,000, which was partly off-set by the increase in gross profit of approximately RMB16,273,000 during the Reporting Period.

8. Finance costs

For the six months ended 30 June 2014, finance costs amounted to approximately RMB3,161,000, increased by approximately RMB1,165,000 or 58.4% when compared to approximately RMB1,996,000 for the six months ended 30 June 2013. The increase was mainly due to the increase in interest charged on bank loans.

9. Profit before taxation

For the six months ended 30 June 2014, profit before taxation for the Group amounted to approximately RMB23,552,000 decreased by approximately RMB1,059,000 or 4.3% when compared to approximately RMB24,611,000 for the six months ended 30 June 2013. Decrease in profit before taxation was mainly due to a decrease in profit from operation during the Reporting Period.

10. Income tax expenses

For the six months ended 30 June 2014, income tax expenses for the Group amounted to approximately RMB4,077,000, decreased by approximately RMB1,879,000 or 31.5% when compared to approximately RMB5,956,000 for the six months ended 30 June 2013. This decrease was mainly due to a decrease in profit before taxation. The effective tax rate, during the Reporting Period was 17.3% when compared to 24.2% for the six months ended 30 June 2013. The drop in effective tax rate is mainly due to the increase in share of profit of a joint venture which has been taxed and the increase in profit from Hong Kong operation which can utilize its tax loss to reduce the tax expenses. If these effects were excluded, the revised effective tax rate would be 29.3% and 26.2% for the Reporting Period and same period last year respectively.

11. Profit for the period

For the six months ended 30 June 2014, profit attributable to owners of the Company amounted to approximately RMB19,475,000, increased slightly by approximately RMB820,000 or 4.4% when compared to approximately RMB18,655,000 for the six months ended 30 June 2013. The slight increase in profit for the period is mainly due to the decrease in income tax expenses of approximately RMB1,879,000 which was partly off-set by the decrease in profit before taxation of approximately RMB1,059,000.

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 3.4% to 7.9%. 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 2014, the Group had cash and cash equivalents of RMB161,393,000 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 generated 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 RMB69,153,000, representing an increase of net cash generated from operating activities of approximately RMB12,086,000 from approximately RMB57,067,000 for the six months ended 30 June 2013. The increase was primarily due to the increase in the balance of trade and other payables.

Net cash used in investing activities

The Group's net cash outflow used in investing activities amounted to approximately RMB2,989,000 during the Reporting Period, representing a decrease of approximately RMB9,665,000 as compared with the cash outflow used in investing activities of approximately RMB12,654,000 for the six months ended 30 June 2013. 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 generated from /(used in) financing activities

The Group's net cash generated from financing activities amounted to approximately RMB2,823,000 during the Reporting Period, representing an increase of approximately RMB44,698,000 as compared with net cash used in financing activities of approximately RMB41,875,000 for the six months ended 30 June 2013. The increase was primarily due to the increase in proceeds from new bank borrowings during the Reporting Period.

14. Capital structure

Indebtedness

All the borrowings of the Group as at 30 June 2014 was approximately RMB154,535,000, 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 2014, the Group's asset - liability ratio was 19.0% (31 December 2013 : 13.5%), calculated as the total bank borrowings divided by total assets multiplied by 100%. The increase was mainly due to the increase in bank borrowings.

Pledge of assets

As at 30 June 2014, the Group has pledged assets of investment properties, bank deposits and bills receivables to the banks with the total carrying amount of approximately RMB159,417,000 (31 December 2013: RMB127,789,000).

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 RMB1,272,000 and RMB1,121,000 for the Reporting Period and the six months ended 30 June 2013 respectively.

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.

15. Contingent liabilities, legal and potential proceedings

As at 30 June 2014, 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 2014, 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. Channels management will be reinforced, with network infrastructure to be consolidated so as to increase the sales of pillar products

The Group will further reinforce its management over the channel merchants. Deployment will not only focus around the first, second and third tier merchants but also penetrate through further engagement and cooperation with the top 100 chain store operators. This will enhance the coverage of each pillar products in the market, and compete with their respective competitors. Moreover, these initiatives can also increase the sales of products being managed under cooperative efforts. On the other hand, as Nim Jiom, one of the Group’s pillar products, is a product under the Health Insurance Catalog, consumers can use their medical cards to purchase this product. Therefore, the Group is seizing the opportunities and seeking to explore network resources from distributors at different tiers to tap into the hospital channel. This will thereby broaden the sales channels, expand the sales opportunities and facilitate the growth in sales volume.

2. Application of the BI system and the construction of digital information infrastructure will be promoted so as to provide timely information to support management decisions

The planning for the Group's BI system project has been substantially implemented, which solved the prevailing issues regarding information silos and data being scattered, allowing the decision makers of the management to have a timely understanding about various aspects on the operation of the Company. In future, we still need various kinds of information from market activities and flow information from distributors at different tiers for further analysis and matching. This will assist us to interpret better about the sales condition of the Group's products in various regions throughout the country. Under this situation the effectiveness of marketing and promotion activities to sales can be evaluated. At the same time through the analysis of the flow information, the deployment of distributors' network and the operation capacity of the Group's products can be conceived. This will allow the Group to correctly assess the competence of the distributors and the performances of the sales staff, whereby appropriate strategies can be formulated to promote sales.

3. Management and guidance of the workflow of the sales force will be strengthened

By leveraging on digital information means, such as BI, field-pass and WeChat, the Group will strengthen its management to the daily activities of the sales force. The sales staff will be required not only to come up with daily sales plans, but also to come up with plans that are feasible and are capable of bringing out anticipated effects. As such, the Group will arrange the internal audit department to conduct comprehensive inspection to the market across the country. Appraisal, rewards and penalties will be given according to the results of the inspection. This will advocate our corporate culture of hard-working, determination, execution and the spirit of "nothing is impossible", thereby establishing a positive working atmosphere.

In order to allow the sales staff to have a timely understanding of the sales trend and key points of the work being arranged by the Company, the Group shall publish the monthly sales bulletin on the key points through the WeChat platform, explaining the policies of the Company in a fair, open and just manner.

4. Trial operation of e-commerce will be accelerated

The rapid development of e-commerce has been bringing greater and greater impact to the traditional businesses. Following the policy guidance of the State, the golden opportunities for the vigorous development of e-commerce in pharmaceutical industry is expecting to come soon, in particular those quality health products are particularly appealing to the consumers. This will be very beneficial to the Group. Therefore the Group will continue to expand the scope of cooperation for its e-commerce operation. Apart from cooperation with professional

pharmaceutical third party e-commerce platform, the Group will also establish its flagship store at third party platforms such as T-mall, Yihaodian, Jingdong and Amazon. At the same time, through applying the favourable policies regarding Qianhai, a B2B2C official Internet platform for “Kingworld Health Family” will be established targeting at pharmaceutical manufacturers and consumers within and outside the PRC. This will enhance the product and brand images as well as exploring new business channels.

5. The pace of the introduction of new products will be increased

It is particularly essential to the future development of the Group that there will be more new pharmaceutical products, health products and foods. Therefore, the Group will negotiate with numerous suppliers overseas for the introduction of products according to the change of demand in the consumers of the PRC and capitalizing on the branding advantages of the Company. The intention of cooperation with leading brands of health products in Australia, Finland and Netherlands had already entered into the commercial stage. We believe that in future the Group will have more products adding into its portfolio.

6. Mergers and acquisitions

The Group is in the progress of performing due diligence on the Dong Di Xin project and the Wu Hu ZhangHengChun project and will continue to process and finalise the projects. At the same time, we will continue to identify merger and acquisitions opportunities with other entities in the industry.

7. Trend of development in the industry

2014 is a critical year which is the last year of the Health Reform under the Twelfth Five Year Plan. In May 2014, a number of departments including NDRC published the key missions for the further reform of the pharmaceutical and health system in 2014, which expressly stated that the key missions for the work during this year would be focused at the reforming of public hospitals, promoting the provision of medical services at the community, promoting the construction of medical insurance infrastructure and the essential drug system. During the second half of 2014, the State shall continue to grant additional support to the medical and health sector. This will be beneficial to the pharmaceutical industry and the branded enterprises.

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 2014, the Group had a total of 485 employees, of which 114 worked at the Group's headquarters in Shenzhen, and 371 stationed in 34 zones, mainly responsible for sales and marketing. Total staff cost for the Reporting Period amounted to approximately RMB16,736,000 (2013: RMB12,755,000). 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 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 30 June 2014, the Group had used net proceeds of approximately RMB35,500,000, of which RMB14,900,000 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.

CAPITAL COMMITMENT

As at 30 June 2014, apart from sharing the capital commitment of jointly controlled entity, Zhuhai City Jinming Medicine Company Limited, amounted to approximately RMB1,971,000 (31 December 2013: RMB1,990,000), the Group had no capital commitment (31 December 2013 : nil).

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 30 May 2014, the Company declared the audited distributable profits as at 31 December 2013 amounting to approximately HK\$24,028,000 (equivalent to approximately RMB18,862,000) to the shareholders of the Company. The dividend was fully paid on 30 June 2014 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 2014 (2013: 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 of Hong Kong Limited (the "Listing Rules"), and adopted various measures to enhance the internal control system, the Directors' continuing professional training and other areas of practice of the Company. While the Board strives to maintain a high level of corporate governance, it also works hard to create value and achieve maximum return for its shareholders. The Board will continue to conduct review and improve the quality of corporate governance practices with reference to local and international standards.

During the 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 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 six months ended 30 June 2014, and agreed with the accounting treatment adopted by the Group.

DISCLOSURE OF INFORMATION

The interim report for the six months ended 30 June 2014 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 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.