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 2014

RESULTS HIGHLIGHTS

- Turnover increased by 19.0% to approximately RMB660,323,000 (2013: RMB554,763,000).
- Gross profit increased by 19.2% to approximately RMB156,310,000 (2013: RMB131,179,000).
- Gross profit margin reached 23.7%, increased slightly by 0.1% (2013: 23.6%).
- Profit before taxation decreased by 23.0% to approximately RMB48,667,000 (2013: RMB63,214,000).
- Profit for the year ended 31 December 2014 decreased by 19.7% to approximately RMB37,865,000 (2013: RMB47,177,000).
- Basic earnings per share decreased by 19.9% to approximately RMB6.07 cents (2013: RMB7.58 cents).
- The Board recommended the distribution of a final dividend of HK1.92 cents per share for the year ended 31 December 2014 (2013: HK3.86 cents), subject to the approval of the shareholders of the Company in the forthcoming annual general meeting to be held on Friday, 29 May 2015.

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 2014 (the "Year Under Review") and selected explanatory notes, together with the comparative figures of the corresponding year in 2013 as follows:

Consolidated Statement of Profit or Loss

For the year ended 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
Turnover	4	**660,323**	554,763
Cost of sales		**(504,013)**	(423,584)
Gross profit		**156,310**	131,179
Valuation gain on investment properties		**3,610**	12,060
Other revenue	5 (a)	**28,946**	14,526
Other net (loss)/income	5 (b)	**(5,941)**	10,767
Selling and distribution costs		**(87,734)**	(70,286)
Administrative expenses		**(45,890)**	(41,512)
Profit from operations		**49,301**	56,734
Finance costs	6 (a)	**(6,873)**	(3,330)
Share of profit of a joint venture		**6,239**	9,810
Profit before taxation	6	**48,667**	63,214
Income tax	7	**(10,802)**	(16,037)
Profit for the year		**37,865**	47,177
Attributable to:			
Owners of the Company		**37,865**	47,177
Earnings per share	9		
Basic (RMB cents)		**6.07**	7.58
Diluted (RMB cents)		**6.07**	7.58

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014

	2014	2013
	RMB'000	RMB'000
Profit for the year	**37,865**	47,177
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	**—**	4,486
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements	**(357)**	(2,688)
	(357)	1,798
Total comprehensive income for the year (net of tax)	**37,508**	48,975
Attributable to:		
Owners of the Company	**37,508**	48,975

Consolidated Statement of Financial Position

At 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
Non-current assets			
Property, plant and equipment		**5,121**	4,888
Investment properties		**92,420**	88,810
Interest in a joint venture	11	**45,033**	38,793
Deposit paid for property, plant and equipment	10	**75,000**	75,000
		217,574	207,491
Current assets			
Inventories		**70,016**	39,917
Trade and other receivables	12	**417,774**	373,156
Pledged bank deposits		**84,097**	18,103
Cash and bank balances		**230,028**	91,416
		801,915	522,592
Current liabilities			
Trade and other payables	13	**186,062**	154,370
Bank loans		**228,677**	98,378
Liability component of mandatorily convertible bonds		**7,277**	—
Current taxation		**12,868**	10,509
		434,884	263,257
Net current assets		**367,031**	259,335
Total assets less current liabilities		**584,605**	466,826
Non-current liabilities			
Liability component of mandatorily convertible bonds		**3,326**	—
Deferred tax liabilities		**10,304**	9,402
		13,630	9,402
NET ASSETS		**570,975**	457,424
CAPITAL AND RESERVES			
Share capital		**53,468**	53,468
Reserves		**517,507**	403,956
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**570,975**	457,424

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 are principally engaged in distribution sale of branded imported pharmaceutical and healthcare products in the People's Republic of China (the "PRC") and Hong Kong.

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") and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that 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 ("the Listing Rules"). 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 2014 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's 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 "functional currency"). 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 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 ("HKFRSs")

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	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 Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new or amended HKFRSs are discussed below:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) Investment Entities

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on these financial statements as the Company does not qualify to be an investment entity.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on these financial statements as they are consistent with the policies already adopted by the Group.

Amendments to HKAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or CGU whose recoverable amount is based on fair value less costs of disposal.

Amendments to HKAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The amendments to HKAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. As the Group does not have any derivatives that are subject to novation, the application of these amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

HK(IFRIC) - Int 21 Levies

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on these financial statements as the guidance is consistent with the Group's existing accounting policies.

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.

	2014 RMB'000	2013 RMB'000
Sales of		
– pharmaceutical products	**611,200**	532,690
– healthcare products	**49,123**	22,073
	660,323	554,763

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

a) Other revenue

	2014 RMB'000	2013 RMB'000
Total interest income on financial assets not at fair value through profit or loss:		
Bank interest income	**2,100**	4,958
Gross rental income from investment properties	**2,302**	2,610
Promotional service income	**19,730**	4,673
Government grant (note)	**4,800**	400
Others	**14**	1,885
	28,946	14,526

Note: Government grant is awarded to the Group by the local government agencies as incentives primarily to encourage the development of the Group and the contribution to the local economic development.

b) Other net (loss)/income

	2014 RMB'000	2013 RMB'000
Net foreign exchange (loss)/gain	**(5,941)**	10,767

6. PROFIT BEFORE TAXATION

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

	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	**6,813**	3,330
Interest imputed on the liability component of mandatorily convertible bonds	**60**	—
	6,873	3,330
b) Staff costs (including directors' and chief executive's remuneration)		
Salaries and other benefits	**37,837**	31,530
Contributions to defined contribution retirement plan	**5,663**	5,828
	43,500	37,358
c) Other items		
Auditor's remuneration		
– audit service	**691**	662
– non-audit services	**894**	286
Cost of inventories	**504,013**	423,584
Depreciation	**1,724**	1,519
Impairment losses on trade receivables (note 12(c))	**—**	775
Reversal of impairment loss on trade receivables (note 12(c))	**(45)**	—
Write-off of other receivables	**—**	233
Loss on disposal of property, plant and equipment	**21**	26
Operating lease charges in respect of land and buildings	**5,575**	5,090
Rental income from investment properties less direct outgoings of RMB129,000 (2013: RMB431,000)	**(2,173)**	(2,179)

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

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

	2014 **RMB'000**	2013 RMB'000
Hong Kong Profits tax		
– Current year	**642**	—
PRC Income tax		
– Current year	**9,228**	13,051
– Under/(over)-provision in respect of prior years	**30**	(29)
	9,258	13,022
Deferred tax		
– Origination and reversal of temporary differences	**902**	3,015
	10,802	16,037

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

ii) The provision for Hong Kong Profits Tax for the year ended 31 December 2014 is calculated at 16.5% of the estimated assessable profits for the year. No provision for Hong Kong Profits Tax had been provided for the year ended 31 December 2013 as the Group did not have assessable profits subject to Hong Kong Profits Tax during the year then ended.

iii) The PRC income tax charge of the Group during the years ended 31 December 2014 and 2013 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% (2013: 25%).

8. DIVIDENDS

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

	2014 **RMB'000**	2013 RMB'000
Final dividend proposed after the end of the reporting period of HK1.92 cents (equivalent to RMB1.51 cents) (2013: HK3.86 cents (equivalent to RMB3.03 cents)) per ordinary share	**9,400**	18,862
	9,400	18,862

The final dividend for the year ended 31 December 2014 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**

	2014	2013
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, 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**

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

	2014	2013
	RMB'000	RMB'000
Earnings		
Profit for the year attributable to owners of the Company	**37,865**	47,177
Interest imputed on the liability component of mandatorily convertible bonds	**60**	—
Earnings for the purpose of basic earnings per share	**37,925**	47,177

	2014	2013
	RMB'000	RMB'000
Number of shares		
Weighted average number of ordinary shares in issue	**622,500**	622,500
Effect of weighted average number of ordinary shares to be issued upon the conversion of mandatorily convertible bonds*	**2,558**	—
Weighted average number of ordinary shares for the purpose of basic earnings per share	**625,058**	622,500

* The convertible bonds are mandatorily convertible into ordinary shares of the Company on the maturity date of 16 June 2016. Shares that are issuable solely after the passage of time are not contingently issuable shares and are included in the calculation of basic earnings per share.

b) **Diluted earnings per share**

During the year ended 31 December 2014 and as at the year end date, there were no dilutive potential ordinary shares outstanding. All the Company's warrants expired and lapsed on 21 March 2013. During the period from 1 January 2013 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 was the same as the basic earnings per share for the two years ended 31 December 2014 and 2013.

10. 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 2015 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 2014, the Group paid an aggregate deposit of RMB75,000,000 (2013: RMB75,000,000).

11. INTEREST IN A JOINT VENTURE

	2014 **RMB'000**	2013 RMB'000
Share of net assets	**45,033**	38,793

Details of the Group's interest in a joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

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

Notes:

a) Zhuhai Jinming was established by a subsidiary of 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.

b) The English name of the above PRC joint venture is for identification purpose only.

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

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

	2014	2013
	RMB'000	RMB'000
Gross amounts of Zhuhai Jinming		
Current assets	**53,185**	47,445
Non-current assets	**81,496**	76,269
Current liabilities	**(37,708)**	(39,246)
Non-current liabilities	**(6,908)**	(6,882)
Equity	**90,065**	77,586
Included in the above assets and liabilities:		
Cash and cash equivalents	**4,454**	2,346
Current financial liabilities (excluding trade and other payables)	**(6,853)**	(13,304)
Non-current financial liabilities	**(6,908)**	(6,882)
Revenue	**152,610**	126,902
Profit from continuing operations	**12,479**	19,620
Other comprehensive income	**—**	8,972
Total comprehensive income	**12,479**	28,592
Included in the above profit:		
Depreciation	**(233)**	(90)
Interest income	**19**	109
Income tax expense	**(4,180)**	(7,005)
Reconciled to the Group's interest in Zhuhai Jinming		
Gross amounts of Zhuhai Jinming's net assets	**90,065**	77,586
Group's effective interest	**50%**	50%
Carrying amount in the consolidated financial statements	**45,033**	38,793

	2014	2013
	RMB'000	RMB'000
Share of the joint venture's capital commitments at the end of the reporting period (note 14):		
Contracted but not provided for:		
Capital expenditure for construction of office premise and warehouse	**1,730**	1,990

12. TRADE AND OTHER RECEIVABLES

	2014	2013
	RMB'000	RMB'000
Trade and bills receivables (notes (b) to (e))	**361,510**	347,293
Less: Allowance for doubtful debts (note (c))	**(4,591)**	(4,636)
	356,919	342,657
Other receivables	**12,733**	6,819
Amount due from a director	**2,853**	—
Prepayments	**22,548**	16,098
Trade and other deposits (note (f))	**15,812**	1,034
Trade deposits to related parties (note 15(b))	**6,909**	6,548
	417,774	373,156

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:

	2014	2013
	RMB'000	RMB'000
0-90 days	**326,940**	270,413
91-180 days	**20,167**	28,047
181-365 days	**9,321**	43,519
More than 1 year	**491**	678
	356,919	342,657

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:

	2014	2013
	RMB'000	RMB'000
At 1 January	**4,636**	3,861
Impairment losses recognised (note 6(c))	**—**	775
Impairment losses reversed (note 6(c))	**(45)**	—
At 31 December	**4,591**	4,636

As at 31 December 2014, the Group's trade and bills receivables of RMB4,591,000 (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 RMB4,591,000 (2013: RMB4,636,000) were recognised as at 31 December 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 is as follows:

	2014	2013
	RMB'000	RMB'000
Neither past due nor impaired	**326,940**	270,413
Past due but not impaired		
– 91-180 days	**20,167**	28,047
– 181-365 days	**9,321**	43,519
– More than 1 year	**491**	678
	29,979	72,244
	356,919	342,657

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 2014, bills receivables of RMB47,116,000 (2013: RMB26,076,000) were pledged for bank loans and banking facilities granted to the Group.

f) Included in trade and other deposits at 31 December 2014 are refundable earnest money:

(i) in the amount of RMB5 million (2013: Nil) paid to Ms. Wong Yu Xia pursuant to a non-legally binding memorandum of understanding dated 28 February 2014, 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, being the independent third parties, for the proposed establishment of a new joint venture together with Wu Hu Zhang Heng Chun Medicine Co., Limited on which due diligence by the Group is still in progress.

At 31 December 2014, no formal agreement has been reached.

(ii) in the amount of RMB10 million (2013: Nil) paid to Mr. Zhao Zhigang pursuant to an agreement dated 8 May 2014, entered into by the subsidiary of the Company with Shenzhen Dong Di Xin Technology Company Limited* (深圳市東迪欣科技有限公司), and Zhao Zhigang and Zhao Wen, being the independent third parties, for the proposed acquisition of 55% equity interest in Shenzhen Dong Di Xin Technology Company Limited, which was subsequently completed as further disclosed in note 17.

* The English name of the above PRC incorporated entity is for identification purpose only.

13. TRADE AND OTHER PAYABLES

	2014	2013
	RMB'000	RMB'000
Trade payables (note (b))	**157,172**	122,105
Accruals	**4,818**	4,677
Other payables	**21,848**	25,339
Financial liabilities measured at amortised cost	**183,838**	152,121
Trade deposits received	**2,224**	2,249
	186,062	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 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.

	2014	2013
	RMB'000	RMB'000
0-90 days	**148,676**	109,558
91-180 days	**8,496**	12,547
	157,172	122,105

14. COMMITMENTS

Capital commitments

Capital commitments of the Group at the end of the reporting period are as follows:

	2014	2013
	RMB'000	RMB'000
Capital commitment for the proposed acquisition of Shenzhen Dong Di Xin Technology Company Limited (note 17)	**189,367**	—
Share of the joint venture's capital commitments (note 11)	**1,730**	1,990

Apart from the above, the Group did not have other significant capital commitment as at 31 December 2014 and 2013.

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

Notes:

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

b) Related party transactions and balances

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following related party transactions and balances during the year:

	Note	**2014** **RMB'000**	2013 RMB'000
Purchases of goods			
SZ Kingworld Lifeshine	(i)	**584**	7,227
Yuen Tai	(i)	**1,618**	1,358
		2,202	8,585
Rental expenses			
SZ Kingworld Lifeshine	(i)	**107**	—
SZ Industry	(i)	**669**	668
		776	668
Advertising expenses			
SZ Industry	(i)	**150**	—

	Note	**2014** **RMB'000**	2013 RMB'000
Trade deposits included in trade and other receivables (note 12)			
Yuen Tai	(ii)	**2,526**	594
SZ Kingworld Lifeshine	(ii)	**4,383**	5,954
		6,909	6,548
Amount due from a director included in trade and other receivables (note 12)			
Mr. Zhao	(iii)	**2,853**	—

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 parties 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.

iii) The amount is unsecured, interest-free and repayable on demand.

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:

	2014	2013
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**7,037**	6,490
Post employment benefits	**336**	331
	7,373	6,821

16. IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

The Company's directors consider the immediate holding company of the Company as at 31 December 2014 to be Golden Land International Limited, a company incorporated in the BVI which does not produce financial statements available for public use, and the ultimate controlling party of the Company as at 31 December 2014 to be Zhao Li Sheng, an executive director of the Company.

17. EVENTS AFTER REPORTING PERIOD

a) Acquisition of 55% equity interest in Shenzhen Dong Di Xin Technology Company Limited

On 8 May 2014, Kingworld (Hong Kong) Holdings Limited, an indirect wholly-owned subsidiary of the Company ("HK Holdings Kingworld"), Shenzhen Dong Di Xin Technology Company Limited (深圳市東迪欣科技有限公司*) (the "Target Company"), and its shareholders, Zhao Zhigang and Zhao Wen (the "Vendors") being independent third parties, entered into a cooperation agreement (as supplemented and amended by a supplemental agreement and further supplemental agreements dated 31 July 2014, 30 September 2014 and 25 November 2014), pursuant to which HK Holdings Kingworld had conditionally agreed to acquire, and the Vendors had conditionally agreed to transfer 55% equity interest in the Target Company for an aggregate consideration of RMB189,367,000 (note 14). The Target Company is engaged in the business of research and development, manufacturing and sales of medical devices, as well as a high new technology application and biological science.

On 13 February 2015, all the conditions precedent to completion of the equity transfer of the Target Company contemplated under the cooperation agreement were fulfilled and the acquisition of 55% equity interest of the Target Company was completed. Upon completion of the acquisition, the equity interest in the Target Company is owned as to 55% by HK Holdings Kingworld, 15% by Zhao Zhigang and 30% by Zhao Wen, and the Target Company has become a 55% indirectly owned subsidiary of the Company and has been consolidated into the financial statements of the Group since the completion date.

* The English name of the above PRC incorporated entity is for identification purpose only.

The unaudited values of assets and liabilities of the Target Company at the completion date, provisionally determined, are as follows:

	Provisional unaudited value on acquisition RMB '000
Net assets	
Property, plant and equipment	7,659
Intangible assets	162,553
Investment properties	3,560
Deferred tax assets	270
Cash and cash equivalents	100,446
Trade and other receivables	24,976
Inventories	9,468
Trade and other payables	(67,317)
Income tax payable	(8,002)
Deferred tax liabilities	(24,294)
Net identifiable assets	209,319
Non-controlling interests (45% equity interest)	(94,194)
Goodwill arising on acquisition	74,242
Total consideration by cash	189,367

The unaudited initial accounting for the acquisition of the Target Company involves identifying and determining the fair values to be assigned to the identifiable assets (including intangible assets), liabilities and contingent liabilities. However, the identification and determination of the fair values of identifiable assets (including intangible assets), liabilities and contingent liabilities could only be performed provisionally and pending finalisation as at the date of approval of these financial statements. Hence, the carrying amounts of the assets (including intangible assets), liabilities, contingent liabilities and goodwill as listed above may be subject to further changes upon finalisation of their fair values by experts and therefore, the allocation of the purchase consideration is subject to adjustment.

Pursuant to the sale and purchase agreement, the vendors have guaranteed that the consolidated profit of the Target Company shall not be less than RMB32,047,000, RMB35,252,000 and RMB38,777,000 for the years ending 31 December 2015, 2016 and 2017, respectively. In the opinion of the directors of the Company, the forecasted consolidated net profits of the Target Company for the years ending 31 December 2015, 2016 and 2017 are expected to meet the guaranteed profits and the fair value of the profit guarantees is considered, provisionally, to be insignificant.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

1. Public's growing awareness on health leads to increasing health investment

According to a set of data set out in the 2014 Blue Book of Health Reform, the amount of individual health expenditure in PRC increased from RMB587.586 billion in 2008 to RMB965.455 billion in 2012, representing an increase of 64.31% compared with 2008, which concluded that the huge investment to healthcare by the government did not relieve individual's burden in this regard. This showed a positive sign to pharmaceutical enterprises, indicating the rapid increase in public's willingness and ability to pay in terms of healthcare. On one hand benefitting from the implementation of health education under the Twelfth Five-Year Plan, and on the other hand benefiting from the stable development of the PRC economy, the public will be more rational and determined in health investment, which laid a strong foundation for the development of PRC pharmaceutical and healthcare market in future.

2. The pharmaceutical e-Commerce industry is supported by the government and capital injection

Under ongoing trial-run, the policy regarding drug prescription through internet sales model is expected to be rolled out, which will open up another huge market. Thus, the pharmaceutical e-Commerce industry will become one of the most important investment projects in the pharmaceutical industry in 2015.

On 28 May 2014, the China Food and Drug Administration issued the "Consultation Draft on the Administration over Internet Food and Drug Operation " (《互聯網食品藥品經營監督管理辦法徵求意見稿》), proposing the permission of drug prescription sales through online pharmacies. According to statistics as of 10 September 2014, the China Food and Drug Administration issued a total of 306 "Internet and Drug Trading Services Qualification Certificate", which is comprised of 72 second party wholesale trading B2B certificates with less than 20 commenced operation, 12 corporate wholesale trading B2B certificates, 222 online sales B2C certificates, with less than 80 commenced operation in this area with sales volume over ten billion dollars.

It is known that the USA pharmaceutical e-Commerce accounted for 30% of the drug sales in USA and up to about USD74.3 billion of sales made in 2013. Therefore, peers within or outside the industry have huge expectations on the above policies. Some analysts believed that once the gate of drug prescription through online market is opened, the PRC pharmaceutical e-Commerce market will expand from currently about RMB200 billion dollars to trillion dollars.

In January 2014, Alibaba invested USD170 million in CITIC 21CN, followed by launching the "Future Hospital" scheme in Hangzhou in May; In June, Tencent launched the WeChat one-stop medical treatment platform in Guangdong; In July, Baidu first announced on the establishment of "Beijing Health Cloud" platform, Tencent WeChat will launch the smart hardware interface connecting to the "WeChat" smart bracelet of four vendors including iHealth; In September, Tencent substantially invested USD70 million in DXY; In November, "Ali Health" APP kicked off officially in Shijiazhuang, beginning with the promotion on electronic prescriptions. All these capital movements contribute to the rapid development of online medical industry.

3. Rapid development on children's health market: implementation of "selective two child" policy across PRC

On 27 February 2014, the State Council held a national teleconference in respect to family planning, to deploy the adjustment and improvement on family planning policy and to further strengthen the work on family planning, with an aim to thoroughly implement the guidance from the Third Plenary of the 18th Central Committee of the Party. The National Health and Family Planning Commission issued a series of documents, stating the establishment of leading groups and expert groups with regards to adjusting and improving family planning policy, in order to organize and guide the work on record-keeping and review as well as policy organization.

According to a research regarding birth preference as conducted by the National Health and Family Planning Commission, the "selective two child" policy being fully implemented has exerted impact to 15 to 20 million couples who are either single-child and are having one child, of which about 50% to 60% of the couples are willing to have a second child. Experts expected that after the implementation of the "selective two child" policy, the new-born population in PRC during recent years will increase to the same level around year 2000, i.e. 17.8 million to 19.5 million newborns per year, representing an increase of about 9% to 19% compared with 16.35 million newborns in 2012. Wang Guangzhou (王廣州), a researcher of the CASS and Institute of Population and Labour Economics suggested that after a year or two of the implementation of the "selective two child" policy, the increase in number of newborns per year as a result will be around 2 million.

Population increase implied the growth in healthcare needs, whereas children health product market will be stable and undergoing rapid development.

BUSINESS REVIEW

1. Competitive products experienced growth, market share of pillar products remained stable

During the Year Under Review, the Group continued to adopt the means of administration of product categories, and formed categories administration in cough relieving medication category, diarrhea medication category and external use medication category. In addition to consolidating the consumer base in various cities with cough relieving medication category, the Group will continue to strengthen cooperation with millions of chain stores, while strengthening cooperation with regional chain stores. By means of various types of promotional activities, product pricing can be maintained and sales initiatives of partnership can be enhanced, thus stabilizing the control on end-user terminals. Meanwhile, the Group also carried out horizontal and vertical network construction in regional and county market as well as explored new market, further enhancing the coverage of Nin Jiom series of products and promoting sales. As of the end of the Year, the sales of Nim Jiom Pei Pa Koa increased by 24.1% compared with last year.

Taiko Seirogan 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". Targeting on the major sales regions in Fujian and Guangdong, the Group carried out maintenance on the pricing system, which helps to consolidate the channel and raise the channel price by controlling channel supply. Meanwhile, by focusing on the market condition, the Group together with the suppliers discussed and formulated strategies to vigorously explore potential markets such as Beijing, Shanghai, Hainan, Kunming, Zhejiang, Jiangsu and Wuhan, and more investments were made to the promotion of these markets and channel exploration. As of the end of the Year, the sales of Taiko Seirogan in these markets have achieved success to some extent amounted to RMB63,558,000, representing an increase of 46.7% as compared with the same period in 2013.

The third major category of the Group's products is the external use medication category, which includes Imada Red Flower Oil, Flying Eagle Wood Lok Medicated Oil and Mentholatum menthol cream. During the Year Under Review, the sales of Flying Eagle Wood Lok Medicated Oil was under impact caused by the approval of import license for the second half of the year, whereas sales of Imada Red Flower Oil was also affected due to operating issues of an individual primary distributor, though the Group has promptly adopted measures to reallocate the products to other primary distributors after investigation.

As a result of the enhanced cooperation with end-user terminals and the implementation of full product coverage, the channel sales of the Mentholatum Product Series (曼秀雷敦系列產品) is boosted, achieving favorable result for sales being driven purely by retail sales. For the year ended 31 December 2014, the Mentholatum Product Series recorded a sales of RMB24,951,000, representing an increase of 10.5% compared with the same period in 2013.

2. Exploring Hong Kong market with coverage all across PRC market

During the Year Under Review, the Group placed much emphasis on the probiotic development strategy upon the introduction of the new probiotic top brand - Cuturelle probiotic series product from USA. By integrating resources from external experts and well-known industry peers, the Group has conducted a comprehensive plan for the product to fully identify product features and consumption psychology, as well as formulate a promotional strategy on advertising in Hong Kong, participate in all kinds of baby trade fairs in Hong Kong and PRC, so as to enhance the international brand image of the product. Meanwhile, the Group has selected well-known retail terminals in Hong Kong to form partnership, such as: Mannings, CRCare, retail pharmacies, Eugene Club etc. In this regard, distribution and sales in Hong Kong retail market have fully kicked off with satisfactory outcome. For the year ended 31 December 2014, Cuturelle probiotic series product recorded a sales of RMB26,000,000.

In recent years, due to the food and drug safety issues in PRC and increasing public awareness on health, it is common for PRC consumers to purchase online from Haitao. Cuturelle probiotic is top-ranked in sales in USA, together with good reputation as highly recommended by pediatricians, the product has captured wide attention from PRC consumers. Under the influence of marketing and brand promotion launched by the Group in the Hong Kong and PRC market, Cuturelle probiotic has appealed to a number of consumers purchasing online from Haitao, securing a crowd of loyal customers to boost sales.

Owing to the well-established brand image and high recognition of Cuturelle probiotic on the internet, the Group has also promptly cooperated with well-known corporate e-Commerce platforms such as TMall, 1Mall, Suning Yigou and VIPS, opening official flagship stores, from which certain results were achieved.

3. Introduction of new products in progress with notable achievements

During the Year Under Review, following the signing of contract with an American company, i-Health Inc. in relation to its leading brand Culturelle probiotic supplements products, as well as entering into a five-year general distribution agreement with Wisdom Dairy (Qingdao), the Group has gained an exclusive right to distribute WIOM vitamin series formula in Mainland China, Hong Kong and Macau. In December, the Group has also obtained the distribution rights in Mainland China of the No. 1 Australian natural health brand – Blackmores, with distribution channels including drugstore chains, Watsons, Mannings, high-end supermarkets (excluding Ole) and e-Commerce channels under mutual agreement.

Having the manufacturing process commissioned to Jiangsu Daya, the Kingworld version cooling pads have already been launched to the market, selling across various regions. Meanwhile, the Group is still in close contact with a number of vendors in Netherlands, Hong Kong and Taiwan etc. for seeking opportunities to cooperate. During the Period Under Review, the Year has been marked as the year which the highest number of products were introduced and launched fastest to the market successfully by the Group over the years.

MANAGEMENT REVIEW

1. Reinforce the examining of sales representatives' performance to promote sales

During the Year Under Review, the Group examined the performance of the sales representatives based on their performance on deepening distribution network, products sales and the full coverage of key terminal stores, and offered them with incentives based on such assessment. The implementation of such policy across PRC has resulted in an increase in full coverage of products operated by the Group in key terminal stores, thus enhancing the coverage of non-pillar products. Meanwhile, positive sales results have been achieved by promoting terminal sales to drive channel sales.

In addition, during the Year Under Review, the Group centralized the promotion of respective products on terminal stores and online brand promotion, which the number of channels is reduced. Therefore, the price is more conducive to the maintenance of channel systems and the sales initiative of distributors can be enhanced.

2. Comprehensively enhance information technology development and utilize information technology as support for management decisions

During the Year Under Review, for the purpose of following the trend of data development, the Group has devised a plan for the overall information system of the Company. On the basis of SAP ERP, office automation software is upgraded, with better utilization of the SAP BI intelligence analysis software. Meanwhile, the construction of e-Commerce platforms has been expanded. The SAP BI intelligence analysis software has been successfully launched online during the Year Under Review. By using this set of analysis software, the Group's headquarter can analyze the actual sales of each product in respective regions through information of the regions and distributors, ensuring a timely grasp of the market trend and activities of distributors and staffs, which helped sales management of the headquarter to formulate strategies to promptly cope with all changes.

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 Company. On the other hand, the Group accelerated cultivation and construction of its internal talents. During the Year Under Review, the "Kingworld EMBA" class cooperatively held by the Group and Lingnan College of Sun Yat-Sen University has come to graduation. The Group offers promotion to outstanding students based on their learning ability and performance.

The "2012 Kingworld Class" and "2013 Kingworld Class" cooperated and held by the Group and Guangdong Food and Drug Vocational College (廣東食品藥品學院), under which the graduates may apply to be recruited by Kingworld, has attained sound effect, not only tackling the lack of low-level professional talents as required by the Company, also the Company's brand image has been enhanced effectively. In terms of schools and students, their employment issue is again solved. Based on the satisfactory outcome in many areas, the Group continues to cooperate and hold the "2014 Kingworld Class" during the Period Under Review.

During the Year Under Review, the Group welcomed students from "2012 Kingworld Class" to complete part of their studies via internship. These students were arranged to work in various departments of the Company in July 2014, particularly in the development of new business sector. Since the Group has prepared corporate courses, these students can quickly adapt to the requirements of the Company and actively committed to work.

Other than the above, the Group entered into cooperation from time to time with tertiary institutions to organize various professional or core training programmes. For example, 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認證專案), workflow optimization training programme and information technology BI System programme etc.

During the Year Under Review, trainee: total training hours of 8695, a total of 3152 persons, average 98.34%; participation rate, participate 6.38 times per person; training hours of 17.6 per person, with a training coverage of 100%.

4. Breakthrough in mergers and acquisitions – acquisition of 55% equity interest in Shenzhen Dong Di Xin Technology Company Limited

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. On 8 May 2014, the Group entered into a cooperation agreement (as supplemented by the supplemental agreements dated 31 July 2014, 30 September 2014 and 25 November 2014) with Dong Di Xin, (together with its subsidiaries, the "Dong Di Xin Group") and Zhao Zhigang and Zhao Wen (the "Vendors") in relation to, among other things, the acquisition of 55% equity interest in Dong Di Xin from the Vendors by the Group for a consideration of RMB189,366,892. The Group will expand into the global medical and health electronic product markets, laying a solid foundation to enlarge the health segment. Upon the completion of the acquisition, diversification of products and modes of profits will be realized by the Group to build up a full industrial chain structure of research and development — manufacturing — channels — end terminal under one roof, which facilitate the development in the following areas:

(i) The rapid development of wearable medical devices will lead a significant change in the medical sector in future. The flagship product of the Dong Di Xin Group, "hand-held medical instrument" will benefit from this medical development trend.

(ii) The Dong Di Xin Group has an overseas sales network, upon completion of the acquisition, the Group will expand into the global medical and health electronic product markets to enlarge the health segment.

(iii) Diversification of products and modes of profits will be realized from the acquisition to build up a full industrial chain structure of research and development — manufacturing — channels — end terminal under one roof.

(iv) It is expected the acquisition will help enhance the source of revenue and scale of sales of the Group.

(v) The Group has a strong distribution network in the PRC with over 70,000 pharmacies across the nation as well as 2,500 product specialty counters. After completion of the acquisition, the Dong Di Xin Group's products will be distributed through the Group's network and create further room for growth in the domestic market, a significant synergy is expected to arise as a result.

HONOR

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

– In April 2014, the Group was awarded Pioneer of Chinese Pharmaceutical and Healthcare Industry, and Shenzhen Well-known Brands;

– In April 2014, the Group was elected as Top Five Import Enterprises of 2013 Chinese Medicines by China Pharmaceutical Enterprise Management Association;

– In June 2014, the Group's chairman, Mr. Zhao Li Sheng, became a member of the Nature Conservancy in the PRC;

– In September 2014, the Group's chairman, Mr. Zhao Li Sheng, was elected as the Sixth President of the International Teochew Youth Federation, and participated in the 2nd Council of the Fourth Standing Committee of the China Overseas Friendship Association CPPCC;

– In December 2014, Kingworld sponsored the Shenzhen International Marathon as the designated supplier of external use medicated oi, Imada Red Flower Oil and Flying Eagle Wood Lok Medicated Oil as the designated external use medicated oil;

– In December 2014, the Group was recognized as "Charitable Donation Caring Company" by Luohu District, Shenzhen.

FINANCIAL REVIEW

1. Turnover

Turnover of the Group for the Year Under Review was approximately RMB660,323,000, representing an increase of approximately RMB105,560,000, or 19.0% compared to approximately RMB554,763,000 for the year ended 31 December 2013. The increase was mainly because of a rise in sales of Nin Jiom Chuan Bei Pei Pa Koa. The year-on-year increase for this product was 24.1%.

2. Cost of sales

For the Year Under Review, cost of sales for the Group amounted to approximately RMB504,013,000, representing an increase of approximately RMB80,429,000 or 19.0% when compared to that of approximately RMB423,584,000 for the year ended 31 December 2013. The increase in cost of sales was consistent with the increase in turnover. As at 31 December 2014, gross profit margin was approximately 23.7% which was closed to 23.6% for the year ended 31 December 2013.

3. Other revenue

Other revenue mainly included promotional service income, rental income, commission income, government grant and interest income. For the Year Under Review, other revenue amounted to approximately RMB28,946,000, representing an increase of approximately RMB14,420,000 or 99.3% when compared to that of approximately RMB14,526,000 for the year ended 31 December 2013. This increase was mainly due to the increase in promotional service income of approximately RMB15,057,000 and government grant of approximately RMB4,400,000 respectively.

4. Other net (loss)/income

Other net loss was mainly comprised of net foreign exchange loss. For the Year Under Review, other net loss amounted to approximately RMB5,941,000 while there was a net gain of approximately RMB10,767,000 for the year ended 31 December 2013. This decrease in other net income was mainly due to the decrease in foreign exchange gain as a result of the depreciation of Renminbi during the Year Under Review.

5. Selling and distribution costs

For the Year Under Review, selling and distribution costs amounted to approximately RMB87,734,000, which had increased by approximately RMB17,448,000 or 24.8% when compared to that of approximately RMB70,286,000 for the year ended 31 December 2013. This increase was primarily attributable to an increase in advertising expenses of approximately RMB8,842,000, transportation cost of approximately RMB2,370,000 and staff costs of approximately RMB4,831,000, which was partially off-set by a decrease in commission to customers by approximately RMB2,105,000.

6. Administrative expenses

For the Year Under Review, administrative expenses amounted to approximately RMB45,890,000, which had increased by approximately RMB4,378,000 or 10.5% when compared to that of approximately RMB41,512,000 for the year ended 31 December 2013. For the Year Under Review, rental expenses was approximately RMB2,584,000, administrative staff costs was approximately RMB17,531,000 and legal and professional fees was approximately RMB5,378,000, which comprised mainly of financial reporting costs of the Company and legal advisory and consultancy fees (2013: rental expenses was approximately RMB2,158,000, administrative staff costs was approximately RMB16,220,000 and legal and professional fees was approximately RMB2,411,000).

7. Profit from operations

For the Year Under Review, profit from operations for the Group amounted to approximately RMB49,301,000, which had decreased by approximately RMB7,433,000 or 13.1% when compared to that of approximately RMB56,734,000 for the year ended 31 December 2013. Decrease in profit from operations was mainly due to a decrease in net foreign exchange gain and also the decrease in valuation gain on investment properties for the Year Under Review.

8. Finance costs

For the Year Under Review, finance costs amounted to approximately RMB6,873,000, representing an increase in approximately RMB3,543,000 or 106.4% when compared to that of approximately RMB3,330,000 for the year ended 31 December 2013. The increase was mainly due to the increase in interest on bank loan.

9. Profit before taxation

For the Year Under Review, profit before taxation for the Group amounted to approximately RMB48,667,000, which had decreased by approximately RMB14,547,000 or 23.0% when compared to that of approximately RMB63,214,000 for the year ended 31 December 2013. Decrease in profit before taxation was mainly due to a decrease in net foreign exchange gain and also the decrease in valuation gain on investment properties for the Year Under Review.

10. Income tax

For the Year Under Review, profit tax expenses for the Group amounted to approximately RMB10,802,000, which had decreased by approximately RMB5,235,000 or 32.6% when compared to that of approximately RMB16,037,000 for the year ended 31 December 2013. This decrease was mainly due to the decrease in profit before tax. The effective tax rate for the Year Under Review was 22.2% when compared to 25.4% for the year ended 31 December 2013.

11. Profit for the year

For the Year Under Review, profit for the year of the Group amounted to approximately RMB37,865,000, which decreased by approximately RMB9,312,000 or 19.7% when compared to that of approximately RMB47,177,000 for the year ended 31 December 2013. Decrease in profit for the year was mainly due to a decrease in net foreign exchange gain and also the decrease in valuation gain on investment properties 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 2014 amounted to RMB417,774,000, which had increased by RMB44,618,000 when compared to trade and other receivables as at 31 December 2013 which amounted to approximately RMB373,156,000. As at 31 December 2014, trade receivables and bills receivables of the Group amounted to approximately RMB131,865,000 and RMB225,054,000 respectively, representing a decrease of RMB15,350,000 and an increase of RMB29,612,000 respectively when compared to trade receivables and bills receivables of approximately RMB147,215,000 and RMB195,442,000 as at 31 December 2013 respectively.

2. Inventories

As at 31 December 2014, inventories owned by the Group amounted to approximately RMB70,016,000, representing an increase of RMB30,099,000 when compared to that of RMB39,917,000 as at 31 December 2013. The main reason of increase in inventories was the increase in inventories turnover cycle which changed from 34 days in 2013 to 40 days in 2014 by the Group.

3. Properties, plants and equipment

Properties, plants and equipment owned by the Group include properties, leasehold improvements, furniture and equipments, motor vehicles and construction in progress. As at 31 December 2014, the book value of properties, plants and equipment owned by the Group amounted to approximately RMB5,121,000, showing an increase of RMB233,000 when compared to that of approximately RMB4,888,000 as at 31 December 2013. Increase in properties, plants and equipment was mainly due to the addition of fixed assets of approximately RMB1,973,000, which was partially off-set by the depreciation of approximately RMB1,724,000 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 2014, trade and other payables owned by the Group amounted to approximately RMB186,062,000, showing an increase of RMB31,692,000 when compared to that of approximately RMB154,370,000 as at 31 December 2013 as a result of an increase in trade payable of approximately RMB35,067,000.

CASH FLOW

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

1. Net cash used in 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 RMB5,230,000, while the net cash outflow used in operating activities for the year ended 31 December 2013 was approximately RMB49,849,000. The decrease in net cash outflow was primarily due to an increase in trade and other payables.

2. Net cash used in/generated from investing activities

The Group's net cash outflow used in investing activities amounted to approximately RMB29,721,000 for the Year Under Review, while the net cash inflow generated from investing activities was approximately RMB28,104,000 for the year ended 31 December 2013. The decrease in net cash inflow was mainly due to an increase in bank deposit during the Year Under Review which amounted to approximately RMB29,850,000.

3. Net cash generated from financing activities

The Group's net cash inflow generated from financing activities amounted to approximately RMB144,078,000 for the Year Under Review, while the net cash generated from financing activities was approximately RMB32,526,000 for the year ended 31 December 2013. The increase in net cash inflow was mainly due to the increase in proceeds from new bank loans and proceeds from issuance of convertible bond during the Year Under Review.

CAPITAL STRUCTURE

1. Indebtedness

The total indebtedness of the Group as at 31 December 2014 was approximately RMB228,677,000 (as at 31 December 2013 : approximately RMB98,378,000), 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 the lenders.

2. **Gearing ratio**

As at 31 December 2014, the Group's gearing ratio was approximately 22.0% (as at 31 December 2013: 13.5%), 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 2014, the Group had pledged investment properties, bank deposits and bills receivables to the bank in the total amount of approximately RMB218,133,000. As at 31 December 2013, the Group had pledged investment properties, bank deposits and bills receivable in total amount of approximately RMB127,789,000.

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 RMB1,973,000 and RMB1,866,000 for the year ended 31 December 2014 and 2013 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-term and short-term bank borrowings. For the Year Under Review, the effective interest rate for fixed rate loans was from 2.0% to 5.0%. Taking into account the cash flow generated from operations and the long-term and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 31 December 2014, the Group had cash and cash equivalents of RMB230,028,000 (as at 31 December 2013 : 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 2014, other than capital commitment for the proposed acquisition of Shenzhen Dong Di Xin Technology Company Limited and sharing the capital commitment of the jointly controlled entity, Zhuhai City Jinming Medicine Company Limited, which amounted to approximately RMB179,367,000 and RMB1,730,000 respectively (as at 31 December 2013: nil and RMB1,990,000 respectively), the Group did not have any capital commitment (as at 31 December 2013: nil).

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

On 8 May 2014, Kingworld (Hong Kong) Holdings Limited (金活(香港)控股有限公司), an indirect wholly-owned subsidiary of the Company (the "Purchaser"), Shenzhen Dong Di Xin Technology Company Limited (深圳市東迪欣科技有限公司) ("Dong Di Xin") and Zhao Zhigang and Zhao Wen (the "Vendors") entered into a cooperation agreement (as supplemented by supplemental agreements dated 31 July 2014, 30 September 2014 and 25 November 2014) (the "Cooperative Agreement"), pursuant to which, (among other things) the Purchaser has agreed to acquire, and the Vendors have agreed to transfer 55% equity interest in Dong Di Xing for a consideration of RMB189,366,892. The Cooperation Agreement and the transactions contemplated therein (including the said equity transfer) were approved by the shareholders of the Company at the EGM held on 23 January 2015. Completion of the equity transfer of Dong Di Xin took place on 13 February 2015. Upon completion of the equity transfer, Dong Di Xin is owned as to 55% by the Purchaser, 15% by Zhao Zhigang and 30% by Zhao Wen, and Dong Di Xin becomes a 55% indirectly owned subsidiary of the Company and its financial results will be consolidated into the financial statements of the Group.

FUTURE OUTLOOK

1. Enhance channel management, solidify network foundation and improve sales of new products

The Group will continue to place emphasis on conducting commercial alignment and business planning for the existing channels comprising of tier 1 distributors, tier 2 distributors and tier 3 distributors and will request sales staffs to adjust and arrange 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 fourth-tier markets. Certain key KA chains will be selected as cooperation objects throughout the country, which will integrate all product resources of the Company for promotion purposes. This will further strengthen the brand image of the Group, the display of various products and the maintenance of price performance at end-user terminals. In particular the new products are delivered to the KA chains throughout the country. This will enhance the brand image of new products and the penetration rate, which will increase the sales opportunities. Moreover, there will be on-line and off-line interactive development that are in synergy with the e-commerce operation of the manufacturers platform, which will increase the sales of the Group's products in a comprehensive manner.

2. Continue to finalise informatization project so as to launch online as soon as possible

According to the construction and informatization project strategy, the Group had already formulated SAP ERP and OA real-class project implementation plan. The Group will launch the ERP project online and its application according to the content of this plan and the schedule of the project. The outstanding SAP enterprise solutions were applied to enhance the internal administration of the Group. This will consolidate the successful experience in the operation processes, which will optimize the daily management flow, enhance the management efficiency, set up mega data platform, and lay foundation for the accurate analysis of mega data.

In future, the Group will capitalize on the opportunities arising from the policies of Shenzhen to the support of the ”Pharmaceutical e-commerce platform of SZ Kingworld Medicine Company Limited” in speeding up the construction of our own e-commerce platform. This will attract more distinguish cooperation partners in China to join the platform, which will realize the scale of economy and profitability of the platform and facilitate the improvement of the result of the Group as a whole.

3. Strengthen the execution ability of employees with motivation management as means

It was forecasted by different parties that the economy in China may slow down in future. This may bring impact to the businesses that primarily cover various provinces and cities depending on such trend of change. It is necessary to strengthen the safety and risk control over the funding of the Company in future. Therefore, as to the operation strategies of the Group, there will be additional control over such risks. The risk subsisting will be integrated with the management system of the Company. The responsibility of risk control and its identification is assigned to each employee, and included in the performance appraisal of the employees. Through the formulation of such strategies to tackle the situation, the employees are motivated on the one hand and become more alert to the risks of the distributors on the other hand. At the same time, there were also related incentives formulated for those with good execution ability.

4. Establish a pharmaceutical and health products e-Commerce platform for Shenzhen Kingworld Medicines Co. Ltd. and develop e-Commerce business

After preliminary planning, the Group had applied to the Development and Reform Commission of Shenzhen for the “Pharmaceutical and Wellbeing e-commerce platform of SZ Kingworld Medicine Company Limited”, and it was approved by the Shenzhen government and listed in the Fourth Batch Support Scheme of 2014”. In future, the Group will finalise the work according to the project plan submitted with an aim to successfully launch online platform as soon as possible. The Group believes that this initiative will be a considerable large driving force to the rapid development of brand promotion, over-the-counter drugs, wellbeing foods and healthy food.

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

The Group will capitalize on the opportunities that have already built up in the Hong Kong market and the network platform by the sales management with a group of loyal customers, and negotiate the terms for cooperation pending in full force. At the same time, the Group will continue to identify new products that could fulfill the needs of the consumers, which will further enrich the product mix of the Group and stock up more outstanding products for e-commerce and offline transactions.

6. Cooperate with colleges and enterprises in a vertical and in-depth manner and initially set up cooperation mechanism between colleges and enterprises

In future, the Group will continue (1) to open Kingwood order classes (2013/2014/2015) at Guangdong Food and Drug Vocational College so as to absorb, breed and generate talents at the base level for the online and offline businesses of the Group. It is regarded as foundation project for the breeding of talents. (2) to open Kingworld special training classes (2012/2013) at Guangzhou Medical University so as to absorb, breed and generate talents at the middle level for the online and offline businesses of the Group. It is regarded as foundation project for the breeding of talents. (3) to identify and open relevant Kingworld special training class 2014 in Eastern China so as to absorb, breed and generate talents at the top level for the online and offline businesses of the Group. It is regarded as foundation project for the breeding of talents.

7. Build up a training system integrating learning and development from senior, middle and base level

In future, the Group will continue (i) to conduct training projects for middle to senior management regarding leadership and development, integrate internal and external resources and provide 7-day training to service directors and higher level management; (ii) to conduct training projects for middle management regarding leadership and control, integrate internal and external resources and provide 14-day training to regional service managers and deputy managers of the headquarters; (iii) to conduct training projects for base level management regarding execution ability, integrate internal and external resources and provide 21-day training to service supervisors and senior officers; (iv) training project conducted in the annual seminar of the Company regularly, integrate internal and external resources and provide study on company culture and communication to participating personnel.

HUMAN RESOURCES AND TRAINING

As of 31 December 2014, the Group had a total of 495 employees, of which 119 worked at the Group's headquarter in Shenzhen, and 376 stationed in 34 regions with main responsibility of sales and marketing. Total staff cost for the Year Under Review amounted to approximately RMB43,500,000 (2013 : RMB37,358,000). 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). The management team is 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 staffs 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 a business college and has cooperated with higher education institutions for introducing teachers from EMBA and EDP courses from 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, to enrich the theoretical knowledge of the mid-level to senior management executives and in turn to enhance 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" classes 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 have 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 HK1.92 cents per share to shareholders whose names appear on the register of members of the Company on Tuesday, 9 June 2015, amounting to approximately HK$11,952,000, subject to the approval in the Company's forthcoming annual general meeting to be held on Friday, 29 May 2015. Total dividend payout ratio is 25% 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 Tuesday, 30 June 2015.

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, 27 May 2015 to Friday, 29 May 2015 (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, 26 May 2015.

To qualify for the proposed final dividends

The register of members of the Company will be closed from Friday, 5 June 2015 to Tuesday, 9 June 2015 (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, 4 June 2015.

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2014, 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 2014, the Group had used net proceeds of approximatelyRMB40,360,000, of which RMB4,000,000 had been applied for upgrading the transportation and delivery services to customers, RMB15,760,000 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 2014, 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 2014, save for the issue of convertible bond as described below, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

ISSUE OF CONVERTIBLE BOND

On 15 September 2014, the Company entered into a subscription agreement (as supplemented by the supplemental agreements dated 9 October 2014 and 15 December 2014) with Sinopharm Capital Management Company Limited ("Sinopharm Capital") in relation to the issuance of the convertible bond in an aggregate principal amount of HK$133,837,500 to Sinopharm Capital or its nominee(s) (the "Bondholder"). The convertible bond will bear interest at the rate of 7.4% per annum. The convertible bond is convertible into conversion shares at an initial conversion price of HK$2.15 per share (the "Initial Conversion Price") (subject to adjustments).

The Bondholder shall mandatorily convert the whole of the principal amount outstanding under the convertible bond into conversion shares on the maturity date, being the date falling on the expiry of eighteen months commencing from the date of issue of the convertible bond. Assuming full conversion of the Convertible Bond at the Initial Conversion Price, the convertible bond will be converted into approximately 62,250,000 Shares, representing approximately 10.00% of the existing issued share capital of the Company and approximately 9.09% of the issued share capital of the Company as enlarged by the full conversion of the convertible bond, and therefore Sinopharm Capital or its nominee(s) will hold approximately 18.17% of the enlarged issued share capital of the Company (having taken into account the completion of acquisition of approximately 9.99% of the existing share capital of the Company from Golden Land International Limited on 17 December 2014). The conversion shares shall be allotted and issued under the specific mandate approved by the independent shareholders of the Company at the EGM held on 29 November 2014. Closing of the subscription of the convertible bond took place on 17 December 2014.

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 and A.2.7 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.

Under code provision A.2.7, the chairman should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present. Taking into account Mr. Zhao Li Sheng, the Chairman and Chief Executive Office, is also an Executive Director, no meeting shall therefore be held between the Chairman and Non-executive Directors without the Executive Directors present.

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 2014, 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 2014 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, 24 March 2015

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, the non-executive Director is Mr. Zhang Yi, and the independent non-executive Directors are Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam.