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 REPORT 2014

金活
www.kingworld.cn

CONTENTS

Corporate Information

DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

COMPANY SECRETARY

Mr. Chan Hon Wan

LEGAL ADVISORS TO THE COMPANY

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AUTHORISED REPRESENTATIVES

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AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

STOCK CODE

01110

WEBSITE ADDRESS

www.kingworld.com.cn

Financial Highlights

	Six months ended 30 June		% Changes
	2014	2013	Increase/
	RMB '000	RMB '000	(Decrease)
Financial Highlights			
Turnover	**319,039**	254,586	25.3%
Cost of sales	**(240,748)**	(192,568)	25.0%
Gross profit	**78,291**	62,018	26.2%
Profit before taxation	**23,552**	24,611	(4.3)%
Profit attributable to owners	**19,475**	18,655	4.4%
Basic earnings per share (RMB cents)	**3.13**	3.00	4.3%

	At 30 June	At 31 December	
	2014	2013	
Liquidity and Gearing			
Current ratio(1)	**1.75**	1.99	(12.1)%
Quick ratio(2)	**1.60**	1.83	(12.6)%
Asset-liability ratio(3)	**19.0%**	13.5%	40.7%

Notes:

(1) Current ratio is calculated as current assets divided by current liabilities.

(2) Quick ratio is calculated as current assets less inventories divided by current liabilities.

(3) Asset-liability ratio is calculated as total bank borrowings divided by total assets multiplied by 100%.

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 of China Food and Drug Administration ("CFDA"), the actual position of China pharmaceutical industry in 2013 was analyzed through statistics from overall pharmaceutical industry, hospital medication and retail terminals. The Gross Industrial Output Volume ("GIOV") seven major types of pharmaceutical industries in China achieved a Compound Annual Growth Rate ("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 GIOV of RMB2,229.7 billion in 2013, representing a decrease of 18.79%, as compared to the corresponding period of the previous 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% of the GIOV 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 the previous 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 the previous 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 on 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 CFDA 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 the previous year. In contrast, the performance of self-owned medical Business-to-Customer websites was 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 the previous 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, ehaoyao under Jointown Pharmaceutical Group entered into cooperation with Tencent and opened the most powerful medicine purchasing platform on WeChat, where comsumers can buy medicine and make payment on WeChat. Their next step is to incorporate ehaoyao 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 pharmacies, 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 healthcare system is the essential reason of changes in terminal channels. As 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 six months ended 30 June 2014 (the "Reporting Period"), with respect to its sales strategies, the Company and its subsidiaries (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 stablising 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 the Reporting Period, 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 optimized*

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, there were 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. At the same time, 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. ("Wu Hu ZhangHengChun"), 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 an 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 revenue 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 24.8% 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 publication of this report.

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: RMB116,047,000).

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. 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.

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 will continue to process and finalise the Dong Di Xin project and the Wu Hu ZhangHengChun project. At the same time, we will continue to identify mergers 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 National Development and Reform Commission ("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.

Other Information

DISCLOSURE OF INTERESTS

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

As at 30 June 2014, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

(I) Interests in the shares in the Company

Name of Directors	Capacity/Nature of Interest	Number of shares in the Company held	Approximate percentage of the Company's total issued share capital
Zhao Li Sheng (Note 1)	Beneficial owner	6,108,000 shares	0.98%
	Interest of a controlled corporation, interest of spouse	450,000,000 shares	72.29%
Chan Lok San (Note 2)	Interest of a controlled corporation, interest of spouse	456,108,000 shares	73.27%
Zhou Xuhua (Note 3)	Interest of spouse	3,388,000 shares	0.54%

Notes:

1. Mr. Zhao is deemed (by virtue of the SFO) to be interested in 450,000,000 shares in the Company. These shares are held in the following capacities:

   (a) 360,000,000 shares are held by Golden Land International Limited ("Golden Land"). Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Mr. Zhao is deemed to be interested in the 360,000,000 shares held by Golden Land. Mr. Zhao is also the sole director of Golden Land.

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

2. Ms. Chan is deemed (by virtue of the SFO) to be interested in 456,108,000 shares in the Company. These shares are held in the following capacities:

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

   (b) 6,108,000 shares are held by Zhao Li Sheng, the spouse of Ms. Chan, in his own name and 360,000,000 shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Ms. Chan is also deemed to be interested in the 6,108,000 shares held by Mr. Zhao and the 360,000,000 shares held by Golden Land.

3. Mr. Zhou is deemed (by virtue of the SFO) to be interested in 3,388,000 shares in the Company held by his spouse, Huang Xiaoli.

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

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

As at 30 June 2014, save as disclosed above, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

Save as disclosed above, as at 30 June 2014, none of the Directors is a director or employee of a Company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

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

As at 30 June 2014, so far as was known to the Directors, the interests or short positions of the following persons in the shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or the interests or short positions recorded in the register kept by the Company under section 336 of the SFO were as follows:

Interests in the Shares

Name of Shareholders	Capacity/Nature of Interest	Number of shares in the Company held	Approximate percentage of the Company's total issued share capital
Golden Land	Beneficial owner	360,000,000	57.83%
Golden Morning	Beneficial owner	90,000,000	14.46%
Zhao Li Sheng (Note 1)	Beneficial owner	6,108,000	0.98%
	Interest of a controlled corporation, interest of spouse	450,000,000	72.29%
Chan Lok San (Note 2)	Interest of a controlled corporation, interest of spouse	456,108,000	73.27%

Notes:

1. Mr. Zhao is deemed (by virtue of the SFO) to be interested in 450,000,000 shares in the Company. These shares are held in the following capacities:

    (a) 360,000,000 shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Mr. Zhao is deemed to be interested in the 360,000,000 shares held by Golden Land. Mr. Zhao is also the sole director of Golden Land.

    (b) 90,000,000 shares are held by Golden Morning. Chan Lok San, the spouse of Mr. Zhao, is the beneficial owner of the entire issued share capital of Golden Morning, therefore, Mr. Zhao is also deemed to be interested in the 90,000,000 shares held by Golden Morning.

2. Ms. Chan is deemed (by virtue of the SFO) to be interested in 456,108,000 shares in the Company. These shares are held in the following capacities:

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

    (b) 6,108,000 shares are held by Zhao Li Sheng, the spouse of Ms. Chan, in his own name and 360,000,000 shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Ms. Chan is also deemed to be interested in the 6,108,000 shares held by Mr. Zhao and the 360,000,000 shares held by Golden Land.

Save as disclosed above, to the best knowledge of the Directors of the Company, as at 30 June 2014, no person had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or any interest or short positions recorded in the register kept by the Company under section 336 of the SFO.

SHARE OPTION SCHEME

The Company operates a share option scheme ("Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants, including Directors, eligible employees, consultants, suppliers, customers, any shareholder of each member of the Group or associated company or any of their respective associates, who contribute 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 30 June 2014, no share option was granted based on the Share Option Scheme.

USE OF PROCEEDS FROM THE LISTING OF THE COMPANY

The net proceeds from the listing of the shares of the Company on the Stock Exchange on 25 November 2010, after deduction of related expenses, was approximately HK$241,862,000 (equivalent to approximately RMB206,167,000). As at 30 June 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 report, 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).

Other Information

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

Independent Auditor's Review Report

Crowe Horwath

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TO THE BOARD OF DIRECTORS OF KINGWORD MEDICINES GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Kingworld Medicines Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 48, which comprise the condensed consolidated statement of financial position as of 30 June 2014 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review 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. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong, 26 August 2014

Leung Chun Wa
Practising Certificate Number P04963

Condensed Consolidated Income Statement

FOR THE SIX MONTHS ENDED 30 JUNE 2014 - UNAUDITED
(Expressed in Renminbi))

		Six months ended 30 June	
	Note	**2014**	2013
		RMB'000	RMB'000
Turnover	4	**319,039**	254,586
Cost of sales		**(240,748)**	(192,568)
Gross profit		**78,291**	62,018
Other revenue	6(a)	**9,823**	8,736
Other net (loss)/income	6(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	7(a)	**(3,161)**	(1,996)
Share of profit of a joint venture	13	**3,303**	1,850
Profit before taxation	7	**23,552**	24,611
Income tax	8	**(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	10		
Basic (RMB cents)		**3.13**	3.00
Diluted (RMB cents)		**3.13**	3.00

The notes on pages 31 to 48 form part of these condensed consolidated financial statements.

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
	RMB'000	RMB'000
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

The notes on pages 31 to 48 form part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Financial Position

FOR THE SIX MONTHS ENDED 30 JUNE 2014 - UNAUDITED
(Expressed in Renminbi)

	Note	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Non-current assets			
Property, plant and equipment	11	**5,334**	4,888
Investment properties	12	**88,810**	88,810
Interest in a joint venture	13	**42,096**	38,793
Deposit paid for property, plant and equipment	14	**75,000**	75,000
		211,240	207,491
Current assets			
Inventories		**50,079**	39,917
Trade and other receivables	15	**339,417**	373,156
Pledged bank deposits	16	**49,412**	18,103
Cash and bank balances		**161,393**	91,416
		600,301	522,592
Current liabilities			
Trade and other payables	17	**181,022**	154,370
Bank loans	18	**154,535**	98,378
Current taxation		**7,450**	10,509
		343,007	263,257
Net current assets		**257,294**	259,335
Total assets less current liabilities		**468,534**	466,826
Non-current liability			
Deferred tax liabilities		**9,402**	9,402
NET ASSETS		**459,132**	457,424
CAPITAL AND RESERVES			
Share capital	19	**53,468**	53,468
Reserves		**405,664**	403,956
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**459,132**	457,424

The notes on pages 31 to 48 form part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Changes In Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2014 - UNAUDITED
(Expressed in Renminbi)

	Share capital RMB'000	Share premium RMB'000	Statutory and discretionary reserves RMB'000	Contributed surplus RMB'000	Property revaluation reserve RMB'000	Warrant reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2013	53,468	152,700	30,558	29,068	517	300	(10,995)	167,214	422,830
Changes in equity for the six months ended 30 June 2013									
Expiry of warrants	—	—	—	—	—	(300)	—	300	—
Transfer	—	—	2,124	—	—	—	—	(2,124)	—
Dividends (note 9(b))	—	—	—	—	—	—	—	(14,381)	(14,381)
Total comprehensive income for the period	—	—	—	—	—	—	(1,736)	18,655	16,919
At 30 June 2013	53,468	152,700	32,682	29,068	517	—	(12,731)	169,664	425,368
At 1 January 2014	**53,468**	**152,700**	**32,681**	**29,068**	**5,003**	**—**	**(13,683)**	**198,187**	**457,424**
Changes in equity for the six months ended 30 June 2014									
Transfer	**—**	**—**	**3,877**	**—**	**—**	**—**	**—**	**(3,877)**	**—**
Dividends (note 9(b))	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(18,862)**	**(18,862)**
Total comprehensive income for the period	**—**	**—**	**—**	**—**	**—**	**—**	**1,095**	**19,475**	**20,570**
At 30 June 2014	**53,468**	**152,700**	**36,558**	**29,068**	**5,003**	**—**	**(12,588)**	**194,923**	**459,132**

The notes on pages 31 to 48 form part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Cash Flows

FOR THE SIX MONTHS ENDED 30 JUNE 2014 - UNAUDITED
(Expressed in Renminbi)

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Operating activities		
Cash generated from operations	**76,289**	65,278
PRC income tax paid	**(7,136)**	(8,211)
Net cash generated from operating activities	**69,153**	57,067
Investing activities		
Increase in interest in a joint venture	**(3,168)**	(1,850)
Deposit paid for property, plant and equipment	**—**	(15,000)
Other cash flow arising from investing activities	**179**	4,196
Net cash used in investing activities	**(2,989)**	(12,654)
Financing activities		
Net proceeds from/(repayment of) bank loans	**56,157**	(1,340)
Dividend paid	**(18,862)**	(14,381)
Increase in pledged bank deposits	**(31,309)**	(7,872)
Other cash flow arising from financing activities	**(3,163)**	(18,282)
Net cash generated from/(used in) financing activities	**2,823**	(41,875)
Net increase in cash and cash equivalents	**68,987**	2,538
Cash and cash equivalents at 1 January	**91,416**	123,262
Effect of foreign exchange rate changes	**990**	(1,699)
Cash and cash equivalents at 30 June	**161,393**	124,101

The notes on pages 31 to 48 form part of these condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2014 - UNAUDITED
(Expressed in Renminbi unless otherwise indicated)

1. GENERAL INFORMATION

Kingworld Medicines Group Limited (the "Company") was incorporated in the Cayman Islands with limited liability. The Company is an investment holding company. The Company and its subsidiaries (the "Group") are principally engaged in distribution sale of branded imported pharmaceutical and healthcare products in the People's Republic of China ("PRC").

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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 value.

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

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

Amendments to HKFRS 10, HKFRS 12 and HKAS 27, 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 the group's interim financial report as HK Listco 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 the group's interim financial report 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 nonfinancial 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. The group early adopted the amendments in the annual financial statements for the year ended 31 December 2013.

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. The amendments do not have an impact on the group's interim financial report as the group has not novated any of its derivatives.

HK(IFRIC) 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 the group's interim financial report as the guidance is consistent with the group's existing accounting policies.

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.

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 period.

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Sales of		
– pharmaceutical products	**296,962**	242,437
– healthcare products	**22,077**	12,149
	319,039	254,586

5. SEGMENT INFORMATION

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

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

a) Other revenue

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
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
	9,823	8,736

b) Other net (loss)/income

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

7. 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	**3,161**	1,996
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 (six months ended 30 June 2013: RMB183,000)	**(838)**	(1,276)

8. INCOME TAX IN THE CONDENSED CONSOLIDATED INCOME STATEMENT

a) 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. INCOME TAX IN THE CONDENSED CONSOLIDATED INCOME STATEMENT *(Continued)*

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

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Profit before taxation	**23,552**	24,611
Notional tax on profit before taxation, calculated at the rates applicable to the tax jurisdictions concerned	**4,794**	6,314
Tax effect of non-deductible expenses	**1,489**	1,444
Tax effect of non-taxable income	**(1,258)**	(2,223)
Tax effect of unrecognised temporary difference	**35**	(38)
Tax effect of unused tax losses not recognised	**—**	464
Tax effect of utilised tax losses	**(1,013)**	—
Under/(over)-provision in previous year	**30**	(5)
Actual tax expense	**4,077**	5,956

Note:

As at 30 June 2014, temporary differences relating to the undistributed profits of these subsidiaries amounted to RMB206,049,000 and the related deferred tax liabilities of RMB10,302,000 have not been recognised in these condensed consolidated financial statements.

9. 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

10. 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 and 2013, there was no potential dilutive ordinary shares in issues, the diluted earnings per share is same as the basic earnings per share.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2014, the Group acquired items of property, plant and equipment of RMB1,272,000 (six months ended 30 June 2013: RMB1,121,000), and disposed of property, plant and equipment with an aggregate net carrying amount of RMB9,000 (six months ended 30 June 2013: RMB38,000), resulting in a loss on disposal of RMB9,000 (six months ended 30 June 2013: RMB22,000).

12. INVESTMENT PROPERTIES

	RMB'000
At 31 December 2013 and 1 January 2014	88,810
Fair value gain	—
At 30 June 2014	88,810

a) The Group's investment properties were revalued as at 31 December 2013 on an open market value basis calculated by reference to recent market transactions in comparable properties and net rental income allowing for reversionary income potential. The valuations were carried out by an independent firm of valuers, DTZ Debenham Tie Leung Limited, who amongst their staff have members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued.

b) The Group's investment properties are held under medium-term lease in the PRC.

c) At 30 June 2014, the Group's investment property with a carrying amount of RMB83,610,000 (31 December 2013: RMB83,610,000) was pledged to secure general banking facilities granted to the Group (note 20).

13. 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

13. INTEREST IN A JOINT VENTURE *(Continued)*

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 RMB'000	At 31 December 2013 RMB'000
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 RMB'000	2013 RMB'000
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)

13. INTEREST IN A JOINT VENTURE *(Continued)*

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
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	**1,971**	1,990

The fair value of Zhuhai Jinming's investment properties as at 30 June 2014 and 31 December 2013 were determined on an open market value basis calculated by reference to net rental income allowing for reversionary income potential, which is categorized under Level 3 fair value measurements. The valuations at 30 June 2014 and 31 December 2013 were carried out by an independent firm of valuers, DTZ Debenham Tie Leung Limited, who amongst their staff have members of the Hong Kong Institute of Surveyors with recent experience in the location and category of properties being valued.

Information about Level 3 fair value measurements is as follows:

	Valuation techniques	**Unobservable input**	**Range**
Investment properties	Discounted cash flow	Risk-adjusted discount rate (i.e. market rental yield)	6.5%
– Commercial-Mainland China		Expected market rental growth	3% - 5%
		Expected occupancy rate	60% - 80%

The fair value of investment properties of Zhuhai Jinming is determined by discounting a projected cash flow forecast associated with the properties using risk-adjusted discount rate which is the market rental yield for the properties. The valuation takes into account expected market rental growth and occupancy rate of the respective properties. The discount rates used have been adjusted for the quality and location of the buildings and the tenant credit quality. The fair value measurement is positively correlated to the expected market rental growth and the occupancy rate, and negatively correlated to the risk-adjusted discount rate.

14. 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).

15. TRADE AND OTHER RECEIVABLES

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Trade and bills receivables (notes (b) to (e))	**283,823**	347,293
Less: Allowance for doubtful debts (note (c))	**(5,310)**	(4,636)
	278,513	342,657
Other receivables	**7,088**	6,819
Loans and receivables	**285,601**	349,476
Prepayments	**23,735**	16,098
Trade and other deposits (note (f))	**6,256**	1,034
Trade deposits to related parties (note 21(b))	**23,825**	6,548
	339,417	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. The Group generally granted credit terms ranging from 30 days to 90 days to its customers.

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
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
	278,513	342,657

15. TRADE AND OTHER RECEIVABLES *(Continued)*

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 RMB'000	At 31 December 2013 RMB'000
At beginning of the reporting period	**4,636**	3,861
Impairment losses recognised	**674**	775
At end of the reporting period	**5,310**	4,636

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.

15. TRADE AND OTHER RECEIVABLES *(Continued)*

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 RMB'000	At 31 December 2013 RMB'000
Neither past due nor impaired	**230,592**	270,413
Past due but not impaired		
– 91 - 180 days	**41,002**	28,047
– 181 - 365 days	**5,855**	43,519
– More than 1 year	**1,064**	678
	47,921	72,244
	278,513	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 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 (note 20).

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.

16. PLEDGED BANK DEPOSITS

All bank deposits pledged are used to banks as security for banking facilities granted to the Group (note 20). Pledged banks deposits carry interest rates of 0.35% (31 December 2013: 0.35%) per annum as at 30 June 2014.

17. TRADE AND OTHER PAYABLES

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
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 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 RMB'000	At 31 December 2013 RMB'000
0-90 days	**144,125**	109,558
91-180 days	**11,440**	12,547
	155,565	122,105

18. BANK LOANS

The bank loans are secured and repayable as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Within 1 year or on demand	**154,535**	98,378

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	**3.4%-7.9%**	3.9%-7.2%

c) As at 30 June 2014 and 31 December 2013, the bank loans were secured by investment property, bills receivables and pledged bank deposits of the Group (note 20).

19. SHARE CAPITAL

	Number of shares '000	Amount HK$'000	Amount equivalent to RMB$'000
Authorised:			
Ordinary shares of HK$0.1			
At beginning and end of the reporting period	10,000,000	1,000,000	877,900
Issued and fully paid:			
Ordinary shares of HK$0.1			
At beginning and end of the reporting period	622,500	62,250	53,468

20. PLEDGE OF ASSETS

The Group's assets with the following carrying amounts have been pledged to secure bank loans (note 18(c)) and banking facilities:

	Note	**At 30 June 2014 RMB'000**	At 31 December 2013 RMB'000
Investment property	12(c)	**83,610**	83,610
Bills receivables	15(e)	**26,395**	26,076
Pledged bank deposits	16	**49,412**	18,103
		159,417	127,789

21. RELATED PARTY TRANSACTIONS

a) During the period, the Company's directors are of the opinion that the following companies and parties are related parties of the Group:

Name of related party	**Relationship**
Mr. Zhao Li Sheng ("Mr. Zhao")	The Company's director and 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
深圳市金活利生藥業有限公司 Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited ("SZ Kingworld Lifeshine")	Subsidiary of Morning Gold
深圳市金活實業有限公司 Shenzhen Kingworld Industry Company Limited ("SZ Industry")	Indirectly wholly owned by both Mr. Zhao and Ms. Chan
Pearl Shining Co. ("Pearl Shining")	The company is beneficially owned by a closed family member of Ms. Chan

Note:

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

21. RELATED PARTY TRANSACTIONS *(Continued)*

b) Related party transactions and balances

The Group had the following related party transactions during the six months ended 30 June 2014 and 2013:

		Six months ended 30 June	
		2014	2013
	Note	**RMB'000**	RMB'000
Purchases of goods			
SZ Kingworld Lifeshine	(i)	**165**	3,709
Yuen Tai	(i)	**1,645**	851
Rental expenses			
SZ Industry	(i)	**316**	325

Amounts due from related parties

		At 30 June	At 31 December
		2014	2013
	Note	**RMB'000**	RMB'000
SZ Kingworld Lifeshine			
Trade deposit		**23,231**	5,954
Yuen Tai			
Trade deposit		**594**	594
Trade deposits to related parties included in trade and other receivables (note 15)	(ii)	**23,825**	6,548

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 related parties in next twelve months after the end of the reporting period.

21. RELATED PARTY TRANSACTIONS *(Continued)*

c) Key management personnel remuneration:

Remuneration for key management personnel is as follows:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Salaries, allowances and other benefits	**3,150**	2,719
Discretionary bonus	**190**	124
Contributions to defined contribution retirement plan	**141**	112
	3,481	2,955

22. IMMEDIATE AND ULTIMATE HOLDING COMPANY

The Company's directors consider the immediate and ultimate holding company of the Company as at 30 June 2014 to be Golden Land International Limited, a company incorporated in the BVI.

23. 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, Mr. Zhao Zhigang, the holder of 70% of the equity interest in the Target Company, and Ms. Zhao Wen, the holder of 30% of the equity interest in the Target Company (together the "Vendors"). The Group has paid to the Vendors on 5 August 2014 an earnest money in the amount of RMB10,000,000.