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 REPORT 2014


Healthy Life with
KINGWORLD
健婦膠囊
普濟抗感顆粒
PU JI KANG GAN GRANULES
抗感退熱利咽
救心丸
KYUSHIN
WIOM V+
FOLLOW-ON FORMULA MILK POWDER
Culturelle
Kids! Chewables
PROBIOTIC
正露丸
OTC
京都念慈菴
蜜炼川贝枇杷膏
NIN JIOM
PEI PA KOA
京都念慈菴总厂有限公司
香港制造
飞鹰活络油
活血止痛
祛风逐湿
温经散寒
依马打正红花油


FatBlaster
coconut
detox
2 day plan
BLACKMORES
kids DHA
复方薄荷脑软膏
Compound Mentholatum Ointment

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Corporate Information

DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Zhang Yi *(appointed on 17 December 2014)*

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

King & Wood Mallesons
13th Floor, Gloucester Tower
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AUDITOR

Crowe Horwath (HK) CPA Limited
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Leighton Centre
77 Leighton Road
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AUTHORISED REPRESENTATIVES

Mr. Lin Yusheng
Mr. Chan Hon Wan

REGISTERED OFFICE

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Cayman Islands

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The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

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BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
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Hong Kong

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. Wong Cheuk Lam
Mr. Zhang Jianbin

STOCK CODE

01110

WEBSITE ADDRESS

www.kingworld.com.cn

Financial Highlights

	For the year ended 31 December		Changes in %
	2014	2013	Increase/
	RMB 000	RMB 000	(Decrease)
Financial Highlights			
Turnover	660,323	554,763	19.0%
Cost of sales	(504,013)	(423,584)	19.0%
Gross profit	156,310	131,179	19.2%
Profit before taxation	48,667	63,214	(23.0)%
Profit attributable to owners of the Company	37,865	47,177	(19.7)%
Basic earnings per share (RMB cents)	6.07	7.58	(19.9)%
Proposed final dividends per share (HK cents)	1.92	3.86	(50.3)%
Liquidity and Asset-liability Ratio			
Current ratio (1)	1.8	2.0	(10.0)%
Quick ratio (2)	1.7	1.8	(5.6)%
Asset-liability ratio (3)	22.0%	13.5%	63.0%

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 and multiplied by 100%.

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors (the "Board" or "Directors") of Kingworld Medicines Group Limited (the "Company"), I hereby present the annual report of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2014 (the "Year Under Review") to the shareholders (the "Shareholders") for your review.

YEAR UNDER REVIEW

In 2014, the pharmaceutical market in China had been loaded with opportunities as well as relatively significant challenges. As the benefits over demographic policies are gradually fading, the pharmaceutical industry was faced with several challenges: as to externally, the pressure from the cost control of medical insurance and price deflation of pharmaceuticals, whilst as to internally the increasingly intense competition among the pharmaceutical enterprises. The enterprises on their own were also faced with pressure on the growth in results. According to the report of CFDA South Medicine Economic Research Institute, in 2014, the increase in the output of the pharmaceutical industry was estimated to be only about 13%, which was far lower than a rapid growth of more than 20% previously. It should be noted that in 2014, there were changes in the relevant policies of the State, such as the proposal on lifting the ban on prices of pharmaceuticals, intention to allow the sale of pharmaceuticals through Internet and the promotion of reform in the medical industry. All of which seems to result in a prosperous and opportunistic environment for the traditional pharmaceutical industry. To follow the underlying logic of these policies in details, it is beyond doubt that market mechanism is going to demonstrate its decisive effect in resources allocation. This will increase the operation efficiency of the pharmaceutical industry at present, and solve the problems on accessibility and high price in medical consultation faced by the mass public. The development of the pharmaceutical industry perfectly matched the features of the new state regarding the economy of China: the pace of growth is changing its gear, from rapid growth to middle and rapid growth. The development of the industry will have to rely on reform, reorganization and innovation. Under such macro environment in the pharmaceutical industry, the Group will leverage on the opportunities arising and overcome the pressures.

1. Capture opportunities, face challenges, and enhance sales and market share of competitive products

Under the leadership of the Board, together with the joint efforts from all staffs, the Group was exposed to the opportunities arising from the changes in the pharmaceutical market. The Group actively responded to the opportunities and challenges brought about by the policy environment through seizing the demand of consumers for high quality overseas products and the brand influence of the Group's products. During the Year Under Review, in addition to proactively maintaining the market share of the traditional leading product - "Nin Jiom Chuan" series of products, the Group strategically strengthened the sales of its second tier product - Taiko Seirogan (喇叭牌正露丸). Moreover, a new product, Culturelle (康萃樂益生菌), which was most recommended by pediatricians in US with top sales, were introduced into Hong Kong successfully. Cooperation was entered into major channel distributors in Hong Kong, namely Mannings and CR Care, for which outstanding sales results were achieved. At the same time, by placing emphasis on the advantages of end-user terminals and "Kingworld Health Family"(金活健康之家) product display booths, the Group vigorously implemented accurate marketing strategies with coverage throughout China, and expanded the market share of its key products. Hence, the turnover and operating profit of the Group remained generally steady. For the year ended 31 December 2014, the turnover of the Group reached approximately RMB660,323,000, representing a year-on-year increase of 19.0%. However, due to the decrease in net foreign exchange gain and also the decrease in valuation gain on investment properties, there was a decrease in profit for the year. The profit for the year was approximately RMB37,865,000, representing a decrease of 19.7% compared to approximately RMB47,177,000 of last year. Basic earnings per share was RMB6.07 cents, representing a decrease of RMB1.51 cents when compared to RMB7.58 cents of last year. The Board recommends a distribution of final dividend of HK$1.92 cents per share for the year of 2014, to express its gratitude for the trust and support from the Shareholders.

2. Introduce strategic investors from the industry to optimize the governance structure of the Company

In 2014, the Group duly introduced Sinopharm Capital Management Company Limited ("Sinopharm Capital") as the strategic investor to the Group. 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 in relation to the issuance of the convertible bond in an aggregate principal amount of HK$133,837,500. Assuming full conversion of the convertible bond at the initial conversion price of HK$2.15 per share, Sinopharm Capital or its nominee(s) will hold approximately 18.17% of the enlarged issued 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 ("Golden Land"), a company wholly-owned by Mr. Zhao Li Sheng, the Chairman and the executive director of the Company, on 17 December 2014). The parties further entered into a strategic cooperation agreement on 19 January 2015 pursuant to which such strategic cooperation will facilitate the Group to expand its scale of business rapidly, which is an important step for the strategic deployment of the Group. In future, the Group will actively integrate the advantage in resources of both parties in terms of products, channels and retail end-user terminals. In particular, through the powerful coverage of Sinopharm's end-user terminal network, the Group will further expand its distribution network. At the same time, by capitalizing on the synergy of both parties in products, channels and retail end-user terminals, the Group will be benefitted from continuing to be significant in position and large in size.

Sinopharm Capital is an equity investment company established by China National Pharmaceutical Group Corporation ("CNPG"). CNPG is the largest medical and healthcare industrial platform in the PRC under the administration of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC, and is also the only pharmaceutical industry group in the PRC which is listed in the Fortune 500. CNPG has over 10 subsidiaries as well as six listed companies, namely 國藥控股股份有限公司(Sinopharm Group Co. Ltd.*) (HK: 1099), 國藥集團藥業股份有限公司(China National Medicines Co., Ltd.*) (600511), 國藥集團一致藥業股份有限公司(China National Accord Medicines Co., Ltd.*) (000028), 北京天壇生物製品股份有限公司(Beijing Tiantan Biological Products Co., Ltd.*) (600161), 上海現代製藥股份有限公司(Shanghai Modern Pharmaceutical Co., Ltd.*) (600420) and China Traditional Chinese Medicine Co. Limited (HK:570). Sinopharm Capital makes its investment layout in respect of the medical and healthcare industry in the PRC with investment covering the whole medical and healthcare industry such as the traditional Chinese medicine, medical equipment, chemical reagents, medical services, healthcare and pharmaceutical e-commerce.

3. *Optimize the cooperation with leading pharmaceutical groups and strengthen the cooperation with top 100 pharmaceutical chain enterprises so as to consolidate the Group's network*

The Group actively initiated extensive and comprehensive cooperation with leading national pharmaceutical groups in China. In the meantime, the Group also strengthened its cooperation with other enterprises ranked as top 100 pharmaceutical wholesale enterprises. The structure of the distribution network was optimized, with priority resources being concentrated at quality customers to strengthen the relationship with quality customers, enhance the sales of the Group's products to such customers and expand the sales district. Compared with last year, the Group optimized its cooperation with the primary distributors, which enhanced the cooperation with the sub-distributors and the coverage of the end-user terminals, resulting in the consolidation of the distribution network. This operation sought to lay a foundation for the smooth distribution of the Group's products to various medical end-user terminals, and increased the market coverage of our products. As at 31 December 2014, there were a total of 26,455 VIP customers maintained by the Group, of which 194 such customers have entered into primary distribution agreements with us. These distributors had a total of approximately 1,203 sub-distributors, 728 pharmaceutical chain store and 2,454 end-user terminals.

4. *Adapt to development in the market and modify the strategies regarding the booth*

The "Kingworld Health Family" product display booth is the mean for the Group to enhance branding image and to communicate with the consumers. As such, the Group has always placed emphasis on the set up of the booth and the enhancement of its quality in operation. During the Year Under Review, the Group tied in the booth with the promotion activities of each product, regional attributes and product attributes. Different forms of booths were set up that raised sales opportunities and highlighted the features of products. These new booths successfully challenged the end-user terminals. At the same time, the Group also expanded the coverage of the booths to key communities following the trend of the State to consolidate the construction of community culture and the commencement of community activities. Apart from supporting the related community activities, the awareness of the Group's products and booths were enhanced, with which excellent results achieved.

In terms of personnel management, the Group conducted performance appraisal in relation to the set up and management of the booths against the personnel for the purpose of ensuring the quality in the operation of the booths. As at 31 December 2014, there were 2,680"Kingworld Health Family" product display booths.

5. *Strengthen staff training to completely explore potentials of talents and enhance the overall staff qualities*

We firmly believe that the competition among the enterprises is primarily the competition for talents, in particular in this Internet era. Therefore, the Group has placed considerable emphasis to the recruitment and breeding of talents. During the Year Under Review, all training under the "Kingworld EMBA" jointly organized by the Group and Lingnan (University) College of Sun Yat-Sen University had been completed. After more than one year of study, these middle to senior management were equipped with more management skills and method state-of-the-art and more effective through the combination of theory and practice. The Group had assigned these middle and senior management to different positions for management posts according to their overall performances, so as to better guide their subordinates, promote efficiency of employees and enhance effectives of the enterprise.

In the meantime, the"Kingworld Executives Training Course"jointly organized by the Group and Guangdong Institute of Food and Drug also welcomed the first batch of students to practice at the top level of the enterprise in July 2014. These trainees were assigned to different departments and roles of the Group, in particular those new businesses. With the introduction of the new recruits as well as the passion and the learning ability of the young people, the employees of the Group were well stimulated and motivated.

During the Year Under Review, the Group had particularly emphasized the training for its employees. Through various kinds of professional trainings and consolidated trainings, the employees timely became aware of the market position and enhanced the work skills.

6. *Make full use of information technology to upgrade the responsiveness of market analysis and judgment and speed up the process of decision-making*

During the previous year, the Internet had great impact to the traditional businesses, in particular the rapid development of mobile Internet. Following the penetration of the Internet and mobile Internet into the daily lives of consumers, the habit and structure of spending has changed significantly. In order to master these mass information and huge amounts of data, and master the target consumer groups more accurately, the Group implemented a strategy to fully upgrade the information management.

During the Reporting Period Under Review, the Group has successfully implemented the on-line of SAP BI intelligence analysis system which had solved the previous issues of information silos and data scatter, allowing the headquarter to have a rapid understanding about the sales and promotion of all markets, so that sales and marketing management can instruct the commencement of regional works and implement corresponding strategies according to the market conditions, and to upgrade the Group's responsiveness of market analysis and judgment and speed up the process of decision-making.

7. *Introduce new products, explore new business and optimize product structure*

It is crucial for the Group's future development to possess more new products. Therefore, the Group will continue to place emphasis on meeting the changes in demand of the consumers in China by exploiting the Group's own advantages and introducing more quality products from abroad to meet the needs of the market. During the Reporting Period Under Review, the Group's introduction of new products was quicker than before and achieved effective results. In March 2014, the Group entered into a master distribution agreement with 味滋特乳業(青島) for a term of 5 years, allowing the Group to obtain its exclusive license to distribute milk formula of WIOM 渥恩維他命系列 in the Mainland China, Hong Kong and Macau. In December of the same year, the Group obtained the distributorship in the Mainland China of Blackmores 澳佳寶, a top brand of natural health food in Australia, of which the distribution channels include pharmaceutical chain stores, Watsons, Mannings, high-end supermarkets (except for Ole) and the e-commerce channels agreed between the parties. The introduction of international well-known brands further diversified the product portfolio of the Group, especially the products of mothers and babies. It also allows the Group to create synergistic effect with the existing diversified product portfolio via the nationwide sales network of the Group.

During the Year Under Review, the Group strengthened the promotion, coverage and sales in Hong Kong by utilizing the advantage of Culturelle probiotic being a top recommended brand by American pediatricians and ranking No. 1 on the American sales list, as well as its loyal customers on the Internet. At the same time, the Group also conformed to the rapid development trend of young consumer groups and network, established official flagship store at well-known network platforms such as Tmall.hk, Yihaodian, Suning.com and Amazon, and achieved satisfactory results. The Group believes that the sales of new products on the e-commerce platform and in the Hong Kong market will be enhanced via effective products integration and promotion in the future.

8. *Conduct various forms of activities to enhance the Group's brand image.*

The enhancement of the Group's brand awareness will assist the Group in entering into in-depth cooperation with more outstanding enterprises in the world. This will further help to boost the sales of the Group's distributed products, and the competitiveness of the Group.

During the Year Under Review, the Group continued to contribute to the society and participate in charitable activities. Since May, the Group organized a nationwide social activity under the programme "You Care your parents, Kingworld Care their Health". Such activity, not only motivates the work of the young, but also to arouse their concern for their own health and the well-being of their families, especially their parents. The Group organized six health seminars with the community. In June, Liang Yao Yi, a 11-year-old boy in Shenzhen, had suffered from brain tumours and had decided to donate his kidney and liver before he died. The organ donated by him saved many lives within 8 hours. He was then recognized as "the great child" and his moving story had immense repercussion throughout the nation. The Group was touched by his story and donated RMB100,000 to his family to repay debt. In August, a high magnitude earthquake struck Ludian, Yunnan. After hearing the news, the Group cared the livelihood of the disaster site and immediately donated RMB100,000 in cash and relief materials including RMB400,000 worth of Kingworld's Imada Red Flower Oil to support the relief work in Ludian, Yunnan through entering into a donation agreement with Civil Affairs Bureau of Luohu District of Shenzhen by Ms. Chan Lok San, an executive director of the Group.

Subsequent to the enhancement of the brand awareness and reputation of the Group via sponsoring the Shenzhen Marathon, Kingworld Medicines sponsored and participated in 2014 Shenzhen Marathon as a sponsor for the designated medicated oil for external use. According to the statistics, more than a hundred foreign players from about 30 countries and regions such as Hong Kong, Macau, Taiwan, Kenya, Ethiopia, Canada, Japan, South Korea, the United States and Australia took part in the competition. There were 15,000 contestants altogether run the marathon. The Group sponsored the medical stations along the way and the externally used medicated oil, which had ensured the safety of the athletes and promoted the brand image effectively. The Group once again delivered the brand concept of "Healthy life with Kingworld" and showcased the Kingworld's charisma, as well as reflected the mission of "caring and benefiting the society" via the cooperation with 2013 and 2014 Shenzhen Marathons.

FUTURE OUTLOOK

On the 26th China Pharmaceutical Economic Information Press Conference, 林建寧 (the president of CFDA Southern Medicine Economic Institute) estimated that the asset value of pharmaceutical industry in China will grow 15%, sales of pharmaceutical industry will grow 13% and profit of pharmaceutical industry will grow 11% in 2015. On the terminal front, it was estimated that the pharmaceutical terminal market in China would reach RMB1,245.7 billion in 2014, representing an increase of 13.4% when compared to the corresponding period of the previous year; the pharmaceutical terminal market will reach RMB1,407.0 billion in 2015, representing an increase of 12.9% when compared to the corresponding period of the previous year. Of which, the hospital terminal will grow 13.3%, retail terminal will grow 9.3% and base level terminal will grow about 20%. The overall trend of pharmaceutical economic development in China in 2015 is that the economic growth will further slow down at first, and the pharmaceutical terminal will be further differentiated. The growth of hospital terminal and retail terminal will decline while the growth of the third terminal will increase. Also, pharmaceutical exports are expected to improve but the growth will not be significant. The Internal economy will be more and more active in the future. Hence, the Group will capture the opportunities of rapid development of the Internet, vigorously develop e-commerce business and accelerate the introduction of more new products with certain foothold. At the same time, the Group will integrate the resources of domestic medicine series and create synergistic effect. It will also penetrate into the medical devices segment and strengthen the sales scale and profitibility by capturing the opportunities of merger and acquistion of Shenzhen Dong Di Xin Technology Company Limited.

1. *Steadily implement the sales of competitive products, vigorously enhance the sales of core products and actively explore the sales of new products*

Nin Jiom Chuan Bei Pei Pa Koa (京都念慈菴蜜煉川貝枇杷膏) continues to be the leading product, whereas Nin Jiom Chuan Bei Pei Pa Candies (京都念慈菴川貝枇杷糖) is the key promotion product. The Group adopted a joint promotion and portfolio sales strategy of "cough relieving medication + cough relieving pharmaceutical products + cough relieving health food" to maintain the price system, ensuring good circulation of channels, protect the interests of distributors of vaious tiers and channel penetration, implement the strategies of exploring and developing the potential second and third tier markets (provincial and county level), enhance the management of the cough relieving medication category and steadily strengthen the sales and market share of products of the cough relieving medication category.

On the other hand, the Group will utilize the results achieved by Taiko Seirogan in Guangdong and Fujian in terms of price system and channel management, continue to stabilize the price system, advance to the second and third tier markets, protect the interests of distributors of various tiers, and enhance the sales enthusiasm. In the meantime, the Group will continue to strengthen the communication with suppliers in potential markets, such as Beijing, Shanghai, Hainan, Kunming, Zhejiang, Jiangsu and Wuhan, determine a five-year plan and market input and accelerate the implementation of various strategies.

In terms of the management of external use medication category, the Group will differentiate target consumer groups and adopt a precise positioning approach via different products positioning. The first launch, displays and unified retail pricing will be strengthened via cooperation with top 100 chain stores and regional chain stores. At the same time, the Group will fully utilize the network and personnel of sub-distributors to increase the market coverage and sales of these products.

2. *Reorganize resources, enhance sales and synergic development*

The Group will utilize the resources of CNPG through Sinopharm Capital to strengthen the cooperation in various areas of national pharmaceutical system, enter into strategic framework cooperation agreement, introduce products, complement terminal resources, integrate resources of mergers and acquisitions, and include the e-business platform of Qianhai in the scope of cooperation. On the basis of further enhancement of the existing core competitiveness of the Group, a synergy development effect will be formed and the core competitiveness and sales scale of the Group will be further strengthened via resources integration, complementary advantages and conforming to the Internet development trend and the integration trend of pharmaceutical industry in China.

3. *Increase the number of "Kingworld Health Family" product display booths and improve their quality*

The Group will continue to seek quality stores as targets of cooperation, integrate resources with products as first priority, and drive the development of all categories of the Company to establish Kingworld Health Family. The forms of booths (including products booths, display booths, community booths, integrated booths, etc.) will continue to adapt to the market development, and the target number of booths will be 3,000. At the same time, the Group will also strengthen the new products in terms of their displays, sales and promotion in the booths and fully utilize the brand name effect of "Kingworld Health Family" product display booths.

4. *Conform to business development, adjust organization structure and deepen performance-oriented management culture*

In order to further finalise the work regarding the Group's "Development plan in the Third Phrase", meticulous management should be carried out so as to make a breakthrough in the sales of certain key markets. Hence, the Group restructured the original sales regions by dividing them into four main regions of more than a billion and four key provinces according to the scales of sales and geographical charateristics. Based on the principle of simplifying administration structure and the best management range of around 7, the Group believes that the adjustment will help the management to focus in certain key markets and solve the market issues and provide guidances timely.

At the same time, the Group will set up KA department which is responsible for negotiating with the national top 100 chain stores and regional chain stores and implementing corresponding promotion strategies, so as to complement the rapid implementation of new products in the terminals. This wil help to facilitate the combined marketing of existing products and new products, as well as, enhancing the stickiness of chain cooperation. As for the corporate marketing backstage management, the Group has re-designated the management of the field of sales and marketing, so as to strengthen the platform construction, fully integrate the features of new and original businesses, and take advantage of the existing team to support the development of new businesses.

In order to complement the overall organization structure adjustment, and implement strategic blueprints of Third Phase and annual operation plans, the Group has adjusted the sales and marketing performance examination, strengthen the sales plan and the balance of product categories development, advocate the marketing personnel to explore and innovate, and ensure a performance culture of completing the sales plans.

5. *Vigorously develop the e-commerce segment*

E-commerce has been bringing greater and greater impact to various industries. Following the liberalisation of national medicine price, the liberalisation of medicine sales via the Internet, and the implementation of policies of medical market reform, the pharmaceutical industry will be ushered in the development of e-commerce. Therefore, the Group believes that the commencement of e-commerce and the collection and usage of huge amounts of date is crucial to the future development. As a result, the Group will utilize the advantage of cross-border e-commerce to strengthen the operational competence of the existing Tmall.hk, Taobao, Vip.com, Yihaodian, JD.com, Suning.com with the Group via cooperation with the third e-commerce platforms. It will also accelerate the construction and the operation of the pharmaceutical healthcare products e-commerce platform of Shenzhen Kingworld Medicine Company Limited, fully integrate various resources and establish a new business model and profitability model for the Group.

6. *Continue to strengthen the introduction of new products*

As the consumer demands diversified and individualized, the public became increasingly concerned about health. The diversification of products is essential to the long-term development and growth of the Company. Therefore, the Company has put more emphasis on product diversification and accelerated the pace of introduction, and has achieved preliminary results in the recent years. For example, Culturelle (康萃樂) of the USA and WIOM milk powder of New Zealand have been successfully introduced to the PRC. Currently, the negotiation with various international well-known manufacturers is in the process, and the Group believes that more quality health products will be introduced in the future.

7. *Complete the existing mergers and acquisitions, and select new target companies*

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) (the "Cooperation Agreement") with Shenzhen Dong Di Xin Technology Company Limited (深圳市東迪欣科技有限公司) ("Dong Di Xin") and the vendors in relation to (among other things) the acquisition of 55% equity interest in Dong Di Xin by the Group. Completion of the said acquisition subsequently took place on 13 February 2015, where upon management integration is carried out in Dong Di Xin, so as to ensure Dong Di Xin can attain the expected performance target.

The Group will also strive to explore potential upstream industrial enterprises, whose products will create a synergy effect with the Group's existing network. The Group aims to expand the Group's product categories and will search among the retail chains in second-tier and third-tier cities, in order to deepen the Group's network development through mergers and acquisitions.

8. *Accelerate the construction of "Kingworld National Distribution Centre"*

During the Year Under Review, although the "Kingworld National Distribution Centre" of the Group had signed a letter of intent with the Shenzhen Qianhai Development Authority to establish the centre in the economic zone, and that the project had already received the authorizations from relevant departments, this project is still pending for execution due to policy reasons. In the future, the Group will continue to put effort in communicating with the government to accelerate the implementation of the project.

On behalf of the Board of the Company, I hereby wish to extend my gratitude for the hard work contributed by all staffs and the Directors, as well as the support of the Company from all the Shareholders.

Mr. Zhao Li Sheng
Chairman of the Board

Hong Kong, 24 March 2015

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 and other potential acquisitions*

In accordance with the Group's guidelines implemented for mergers and acquisitions, the Group had carried out a number of studies on several enterprises during the Year Under Review. 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.

As disclosed in the Company's announcements dated 23 February 2014 and 28 February 2014, on 23 February 2014, the Group entered into a memorandum of understanding (as supplemented by a supplemental memorandum of understanding dated 28 February 2014) (collectively, "**MOU**") with Wu Hu ZhangHengChun Medicine Co., Ltd.* (蕪湖張恒春藥業有限公司) ("**ZhangHengChun Medicine**") and Mr. Wang Wei Jie* (王偉杰) and Ms. Wang Yu Xia* (王玉霞) ("**Ms. Wang**") (as guarantors) in relation to certain transactions which include (i) the proposed acquisition of 100% equity interest in Wu Hu ZhangHengChun Pharmaceuticals Co., Ltd.* (蕪湖張恒春醫藥有限公司) ("**ZhangHengChun Pharmaceuticals**") by Shenzhen Kingworld Medicine Company Limited* (深圳市金活醫藥有限公司) ("**SZ Kingworld**") from Ms. Wang and the other shareholder(s), (ii) the proposed establishment of a joint venture company ("**JV Company**") by Kingworld (Hong Kong) Holdings Limited (金活(香港)控股有限公司) and ZhangHengChun Medicine, (iii) the proposed acquisition of the remaining assets of ZhangHengChun Medicine by the JV Company, and (iv) the proposed transfer of 100% equity interest in ZhangHengChun Pharmaceuticals from SZ Kingworld to the JV Company (collectively, the "**Proposed Transactions**").

SZ Kingworld has paid an earnest money in the amount of RMB5,000,000(the "**Earnest Money**") to Ms. Wang in accordance with the terms and conditions of the MOU which has been placed in an escrow account designated by SZ Kingworld, and will be released upon confirmation by both SZ Kingworld and Ms. Wang.

Save for several legally binding clauses, mainly in relation to exclusivity, Earnest Money, confidentiality and governing law, the terms set out in the MOU are not legally binding. The parties are still in the process of negotiation and the final terms of the Proposed Transactions have yet to be finalized, and may therefore deviate from those set out in the MOU. The Directors are of the view that the entering into of the MOU, and the Proposed Transactions contemplated thereunder, if materialize, can create a good opportunity for the Group to develop its business, supplement its products, increase the number of drug licences, obtain new product brands and expand its network, and create a synergy effect with the existing distribution business of the Group. The Company will issue further announcements in respect of the Proposed Transactions as and when appropriate.

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 management of service directors grade or above; (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 report.

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.

Directors' and Senior Management's Biographies

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Zhao Li Sheng (趙利生), aged 56, was appointed as an executive Director of the Company on 25 September 2008. He is the co-founder of the Group and the chairman of the Company. He is primarily responsible for the Group's overall strategic planning and business management. He has over 19 years of experience in business management and development in the distribution of pharmaceutical and healthcare products. He was also appointed as the chairman of Shenzhen Kingworld Industry Company Limited ("SZ Industry") in 1994 and the general manager and chairman of Shenzhen Kingworld Medicine Company Limited ("SZ Kingworld") in 1996. Mr. Zhao was qualified as a senior business manager by the Business Management Qualification Accreditation Committee of Hubei Province in December 2002. Mr. Zhao has been a member of the standing committee (常委) of the 4th and 5th Shenzhen Committee of the Chinese People's Political Consultative Conference (深圳市政協第四及第五屆委員會). Mr. Zhao was the vice-president of The Fifth Council of the Shenzhen General Chamber of Commerce (深圳市總商會(工商聯)第五屆理事會) in 2005. In 2008, he was the honorary director (名譽會董) of the Federation of Hong Kong Chiu Chow Community Organizations, the council member (理事) of the Third Session of China Overseas Friendship Association (第三屆中華海外聯誼會) and in 2009, the standing council member (常務理事) of the Third China Economic and Social Council (第三屆中國經濟社會理事會). Currently he is the vice president (副會長) of the Shenzhen Healthcare Association (深圳市保健協會) and the Fifth Council of the Pharmaceutical Profession Association (深圳市醫藥行業協會第五屆理事會). He is also the chairman of the Youth Chawnese Committee of Shenzhen (深圳潮人海外經濟促進會青年委員會). He is the spouse of Ms. Chan Lok San.

Ms. Chan Lok San (陳樂燊), aged 51, was appointed as an executive Director of the Company on 25 September 2008. She is the co-founder of the Group. She is primarily responsible for the Group's financial planning and human resources management. She has over 18 years of experience in the pharmaceutical industry as well as over 11 years of experience in property management. Ms. Chan has been working for SZ Industry since 1994 and SZ Kingworld since 1996. She has been the vice chairlady of SZ Kingworld and SZ Industry since 2005 and 2006 respectively, and the vice chairlady of Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited since 2005 and the legal representative of Shenzhen Kingworld Department Store Property Management Company Limited and Shenzhen King Gibson Golf Company Limited. She received a master degree in business administration of senior management from Sun Yat-Sen University in 2010. In 2011, she was appointed as a committee of Shenzhen Golf Society and a vice-chairlady of Shenzhen Clothing Society. She was also a member of the Global Foundation of Distinguished Chinese (世界傑出華人基金會) in 2003. Since 25 December 2012, she has served as the chairlady of the EMBA Alumni Association of Sun Yat-Sen University. Currently, she is also the director (理事) of Sun Yat-Sen University Entrepreneur Alumni Association (Third Session) (第三屆中山大學企業家校友聯合會). She is the spouse of Mr. Zhao Li Sheng.

Mr. Zhou Xuhua (周旭華), aged 48, was appointed as an executive Director of the Company on 3 August 2009. He has been the general manager of SZ Kingworld since 2009. He is primarily responsible for the business development and operations of SZ Kingworld. He was the business manager of SZ Industry between 1994 and 1995 and was the regional manager and deputy general manager of SZ Kingworld after he joined SZ Kingworld in 1996. He has 17 years of experience in the pharmaceutical industry. Mr. Zhou has worked as a clerk and was later promoted to become a supervisor of Shenzhen International Arcade between 1987 and 1993. He completed his education at Shenzhen Finance School (深圳市財經學校) in 1987.

Mr. Lin Yusheng (林玉生), aged 49, was appointed as an executive Director of the Company on 3 August 2009. Currently, he is also the authorised representative of the Company. He is primarily responsible for the operations, investment and capital management of the Group. He has approximately 14 years of experience in the pharmaceutical industry. In 1989, Mr. Lin obtained a bachelor degree in philosophy from Yanan University (延安大學). He received a master degree in business administration at the Hong Kong Polytechnic University in 2006. From 1999 to 2004, he worked as a senior management staff in Xi'an Lijun Pharmaceutical Company Limited, which is principally engaged in the manufacturing and sale of pharmaceutical products in the PRC, and a wholly owned subsidiary of Lijun International Pharmaceutical (Holding) Company Limited (stock code: 2005), a company listed on the Stock Exchange which, together with its subsidiaries, are engaged in the research, development, manufacturing and selling of finished medicines and bulk pharmaceutical products to hospitals and distributors. Mr. Lin was appointed as an executive vice president of Lijun International Pharmaceutical (Holding) Company Limited from 2004 to 2006. From 2005 to 2006, he was also appointed as the chairman of Xi'an Lijun Fangyuan Pharmaceutical Company Limited (西安利君方圓製藥有限責任公司). He was the deputy general manager of SZ Kingworld from June 2006 to December 2013. Mr. Lin was appointed as an independent non-executive director of China Housing and Land Development Inc. (中國房屋土地開發集團) which is listed on Nasdaq, (stock code: CHLN) in October 2011.

NON-EXECUTIVE DIRECTOR

Mr. Zhang Yi (張翼), aged 39, has 15 years of experience in the area of operational management, business development and equity investment in pharmaceutical and health industry. He is currently a founding partner and managing director of Sinopharm Capital Management Company Limited. Mr. Zhang completed a 7-year clinical professional graduate programme jointly organised by Fudan University and Shanghai University of Traditional Chinese Medicine, receiving a Master degree in clinical study in July 1999. Mr. Zhang previously worked in Sanofi-Aventis as a marketing manager from June 2003 to July 2007. He served as the senior investment manager in Greater China for Burrill & Company from August 2007 to February 2009. Mr. Zhang also worked for 建銀國際醫療產業股權投資有限公司(CCB International Medical Industry Equity Investment Limited Company) and served successively as deputy director, director and head of the Investment Department from March 2009 to March 2012. He was appointed as a non-executive Director of the Company on 17 December 2014.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Duan Jidong (段繼東), aged 49, was appointed as an independent non-executive Director of the Company on 5 November 2010. He has approximately 24 years of experience in the pharmaceutical industry. Mr. Duan received a bachelor degree in medicine at The Shanghai Railway Medical Institute (上海鐵道醫學院) in 1989, and was a surgeon with the Central Hospital of Shenyang Railway Bureau (原瀋陽鐵路局中心醫院) from 1989 to 1994 and worked in the Beijing Mundipharma Pharmaceutical Company Limited (北京萌蒂製藥有限公司) from 1994 to 1998. Mr. Duan served as the chairman and legal representative of Kunming Baker Norton Pharmaceutical Company Limited from December 2002 to April 2006, a director of Holley Pharmaceutical (Chongqing) Co., Ltd. (重慶華立藥業股份有限公司, stock code : 000607), a company listed on the Shenzhen Stock Exchange, from 2005 to 2006, and a director of Wuhan Jianmin Pharmaceutical Groups Corp, Ltd. (武漢健民藥業集團股份有限公司, stock code: 600976), a company listed on the Shanghai Stock Exchange, from 2004 to 2006. He was a chief executive officer from 2002 to 2005, and a director from 2004 to 2006, of Kunming Pharmaceutical Group Corporation, Ltd. (昆明製藥集團股份有限公司, stock code: 600422), a company listed on the Shanghai Stock Exchange. From April 2008 to April 2011, he was an independent non-executive director of Zhejiang CONBA Pharmaceutical Company Limited (浙江康恩貝製藥股份有限公司, stock code: 600572), a company listed on the Shanghai Stock Exchange. Since

February 2013, he has been appointed as an independent non-executive Director of Yan He Medicines Company Limited (仁和药業股份有限公司, stock code : 000650), a company listed on the Shenzhen Stock Exchange. Currently, he is the chairman of Beijing Strategy & Action Enterprise Management Consulting Company Limited (北京時代方略企業管理諮詢有限公司).

Mr. Wong Cheuk Lam (黃焯琳), aged 46, was appointed as an independent non-executive Director of the Company on 5 November 2010. He has over 19 years of experience in accounting and finance fields. Mr. Wong obtained a bachelor degree in arts from the University of Hong Kong in 1992 and a master degree in business from Victoria University of Technology, Australia in 1997. Mr. Wong is a member of the Hong Kong Institute of Certified Public Accountants, a member of CPA Australia and a Certified Taxpay Strategist (PRC). From 1994 to 2003, Mr. Wong worked in accounting positions for Sakura Finance Asia Limited, BOCI Securities Limited and Going Accounting Services Company. From 2003 to January 2013, he worked as a company secretary at Zhengzhou China Resources Gas Company Limited (鄭州華潤燃氣股份有限公司), a company previously named Zhengzhou Gas Company Limited and was listed on the Stock Exchange and worked as a chief financial officer from July 2005 to January 2013 and was also a financial controller during the period from October 2007 to July 2010 of the same company. Form February 2015, Mr. Wong joined Genvon Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 2389), as financial controller and deputy company secretary.

Mr. Zhang Jianbin (張建斌), aged 54, was appointed as an independent non-executive Director of the Company on 1 August 2013. Mr. Zhang has over 22 years of experience of teaching and researching in the management aspect of marketing, services marketing and brand marketing, and in project consultation work. Mr. Zhang obtained a bachelor degree in engineering (industrial management engineering profession) from Wuhan University of Technology (formerly known as Wuhan Institute of Technology) in June 1982. Mr. Zhang completed a USA MBA program (organized by the graduate school of Columbia University and other universities) of Beijing Information Science & Technology University (formerly known as Beijing Institute of Machinery) in September 1986, and obtained a doctor's degree of economics (industrial economics profession) from the College of Economics, Jinan University in July 1999. Mr. Zhang worked in the Management Engineering Faculty of Wuhan University of Technology (formerly known as Wuhan Institute of Technology) as a teaching assistant and a lecturer from July 1982 to March 1989. He worked in the Management Engineering Faculty of Guangdong University of Technology (formerly known as Guangdong Institute of Technology) as a teaching assistant, lecturer, associate professor and served as deputy director, director and deputy head of the Teaching and Research Department from March 1989 to June 1998. Mr. Zhang has been teaching at Jinan University since July 1998 and is an associate professor and a tutor to master's degree research students at the Management School of Jinan University. Mr. Zhang was also the director of the MBA Department and deputy director of the MBA education centre from 2003 to 2005. Mr. Zhang was a chief marketing consultant of the Fourth Shoe Factory (第四皮鞋廠) in Wuhan city from 1987 to 1989. He was a factory director of Zhongshan Precision Instrument Factory (中山先能精密儀器廠) from 1991 to 1992 and a manager of the Planning Department of Guangdong International Mass Advertising Media Company (廣東國際大眾廣告傳播公司) from 1992 to 1993. From 1993 to 1995, Mr. Zhang was a general manager of Guangdong Design and Planning Company (廣東創世紀設計策劃公司) and was a marketing consultant of Guangdong Construction Real Estate Company (廣東建業房地產公司) from 1995 to 1996. He was a marketing consultant of Guangdong Yihe Real Estate (Group) (廣東頤和地產(集團)有限公司) from 1997 to 2002 and a consultant of Guangdong Persian Technology Company Limited (廣東波斯科技股份有限公司) from 2002 to 2012.

SENIOR MANAGEMENT

Mr. Chan Hon Wan (陳漢雲), aged 54, was appointed as the financial controller and company secretary of the Company on 25 June 2009. Currently, he is also the authorised representative of the Company. He is responsible for the management of the Group's financial matters. Mr. Chan has over 29 years of experience in auditing and accounting fields. He served as a financial controller of Fairwood Fast Food Limited from 1995 to 1998. He also worked as a corporate finance director of Texwood Limited from 2000 to 2005 and a business director of Texwood Group from 2006 to 2008 respectively. Mr. Chan received a bachelor degree in economics from Macquarie University Australia in 1986. In 2005, he received a master degree in science (accountancy) from the Hong Kong Polytechnic University. He is an associate member of the Institute of Chartered Accountants in Australia and an associate member of the Hong Kong Institute of Certified Public Accountants.

Ms. Fang Danna (方丹娜), aged 49, has been the financial manager of SZ Kingworld since 1995. She is primarily responsible for the management of SZ Kingworld's financial policies. Ms. Fang has approximately 24 years of experience in the accounting industry. She worked for the accounting department of Shenzhen Xinwei Electronics Company Limited (深圳新偉電子有限公司) in 1989 before she joined SZ Industry as a financial manager in 1995. Ms. Fang completed a course in accounting from Wuhan University (武漢大學) in 1991.

Mr. Liu Yibing (劉亦兵), aged 56, is the assistant of the General Manager of SZ Kingworld. He is primarily responsible for the implementation of the Group's administrative policies. Mr. Liu has approximately 12 years of experience in the administrative field. He worked in the cadre training center at the human resources department of Foxconn International Group between 1995 and 1998. Mr. Liu received a bachelor degree in Chinese literature from Hunan Normal University (湖南師範大學) in 1982. He joined SZ Kingworld in 2001.

Mr. Ceng Yun (曾澐), aged 44, is the sales controller (commerce) of SZ Kingworld. He is primarily responsible for the customer and sales management. Mr. Ceng has approximately 16 years of experience as a sales manager in the pharmaceutical industry. Mr. Ceng completed a master degree in industrial economics from Nanchang University (南昌大學) in 2001. He joined SZ Kingworld in 1996.

Ms. Liang Caiyun (梁彩雲), aged 46, is the customer services manager of SZ Kingworld. Ms. Liang is primarily responsible for the implementation of SZ Kingworld's overall customer service strategies including but not limited to the delivery of the products and the review of purchase agreements. Ms. Liang has over 24 years of experience in the sales and strategic planning fields. Before joining SZ Kingworld in 1999, she worked in the Aviation Industry Corporation of China ZhongHang Electronic Measuring Instruments Co. Ltd. (中國航空工業總公司中航電測儀器股份有限公司) in 1988 and later worked as a planning and statistics officer of Chiaphua Appliance (Shenzhen) Company Limited in 1997. Ms. Liang completed her tertiary education in the area of industrial enterprises management at 012 Base Vocational School (012基地職工學院) in 1988, and received the qualification certificate of specialty and technology for the intermediate level in statistics from the National Bureau of Statistics of China (國家統計局) in 1996.

Ms. Zhang Dan (張丹), aged 50, is the marketing director of SZ Kingworld. Ms. Zhang is primarily responsible for the formulation and implementation of SZ Kingworld's overall marketing strategies for the Group's products, especially Nin Jiom Pei Pa Koa, Taiko Seirogan, Imada Red Flower Oil and Flying Eagle Wood Lok Medicated Oil. Ms. Zhang has approximately 14 years of experience in the sales and marketing areas. She received a bachelor degree in medical treatment from Yunyang Medical College of Tongji Medical University (同濟醫科大學鄖陽醫學院) in 1986, and was a lecturer at the Hubei Province Wuhan Health School between 1986 and 1995. Ms. Zhang joined SZ Kingworld in 1996.

Ms. Tian Yongli (田永莉), aged 52, is the audit and control manager of SZ Kingworld. Ms. Tian is primarily responsible for the formulation, implementation and review of SZ Kingworld's accounting policies and internal control. Ms. Tian has approximately 21 years of experience in the auditing and accounting fields. She worked as an accounting officer for Electronic Industry Bureau of Wuhan City (武漢市電子工業局) in 1992. Ms. Tian received the junior accountant qualification from Finance Department of the PRC (中華人民共和國財政部) in 1999, and received a professional diploma in industrial enterprises' operation and management from Wu Han Radio and TV University (武漢市廣播電視大學) in 1986. Ms. Tian joined SZ Kingworld in 2005.

Mr. Huang Ruozhong (黃若忠), aged 52, is the corporate finance controller of SZ Kingworld and is responsible for managing the matters relating to the Listing. He has 19 years of experience in handling securities and finance related matters. Mr. Huang worked in the securities department of the Shantou branch of the Bank of Communications Co. Ltd. from 1992 to 1999. Mr. Huang worked in the securities trading department of the Shantou Trust and Investment Company from 1999 to 2002, and worked for the Deheng Securities Company Limited (德恒證券有限公司) from 2002 to 2003. Since 2004, Mr. Huang has been the executive directors of 21 subsidiaries and served as a director of Zhuhai Jinming since 2006. In 2001, Mr. Huang was presented with the qualification of handling securities business by the Securities Association of China (中國證券協會). He graduated from the Chinese People's Liberation Army Air Force Engineering University (中國人民解放軍空軍工程大學) and Chinese People's Liberation Army Guilin Air Force Academy (中國人民解放軍桂林空軍學院) in 1985 and 1989 respectively. Mr. Huang joined SZ Kingworld in 2003.

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 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 as 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.

BOARD OF DIRECTORS

The Board is the core of the Company's corporate governance framework and its role is clearly separated from that of senior management. The Board is responsible for providing guidance for senior management and maintaining effective supervision over senior management. Since the day-to-day running of the Company has been delegated by the Board to the senior management, the senior management is responsible for the implementation of the policies resolved. In general, the responsibilities of the Board include formulating operation plans and investment proposals of the Company, preparing the proposed and final annual budgets of the Company, assessing the performance of the Company and overseeing the work of senior management.

The Board comprises a total of eight Directors, being four executive Directors, one non-executive Director (the "Non-executive Director") and three independent non-executive Directors (the "Independent Non-executive Directors"). Mr. Zhao Li Sheng, Ms. Chan Lok San, Mr. Zhou Xuhua and Mr. Lin Yusheng served as executive Directors, Mr. Zhang Yi served as Non-executive Director and Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam served as Independent Non-executive Directors. These Independent Non-executive Directors, who have different business and professional backgrounds, have brought valuable experience and expertise for the best interests of the Group and its shareholders. Each Independent Non-executive Director has been appointed for a 3-years term of services. Biographical details of and the relationship between the Directors are set out in the paragraph headed "Directors' And Senior Management's Biographies" of this report.

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group, and to review and approve the Group's annual and interim results. During the Year Under Review, four Board meetings were held and attendance of each Director at the Board meetings is set out in the paragraph headed "Board/Committee Meetings and Individual Attendance" of this report.

All members of the Board fully understand their collective and individual responsibility for the Shareholders, and will try their best to carry out their duties to make contributions to the Group's results.

Throughout the Year Under Review and up to the date of this report, the Company has complied with the requirements under Rules 3.10(1) and (2) and 3.10A of the Listing Rules and has appointed three Independent Non-executive Directors, representing more than one-third of the number of Directors at the Board, with at least one Independent Non-executive Director possessing the appropriate professional qualifications, or accounting or related financial management expertise.

Every Director is entitled to have access to Board papers and related materials and has access to the advice and services of the Company Secretary. The Board and each Director also have separate and independent access to the Company's senior management.

Pursuant to the Articles of Association of the Company, one third of the Directors shall retire from office by rotation at each annual general meeting. Accordingly, Mr. Zhao Li Sheng , Mr. Wong Cheuk Lam and Mr. Zhang Jianbin shall retire at the forthcoming annual general meeting of the Company. The retiring Directors, all being eligible, offer themselves for re-election.

BOARD COMMITTEES

The Board has formed three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All committees have been formed with specific written terms of reference in compliance with the Listing Rules which deal with their respective authorities and duties.

Copies of minutes of all meetings and resolutions of the committees, which are kept by the Company Secretary, are circulated to all Board members and the committees are required to report back to the Board on their decision and recommendations where appropriate. The procedures and arrangements for a Board meeting have been adopted for the committee meetings so far as practicable.

Members, duties and responsibilities of the committees are as follows:

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 Audit Committee has three members, namely Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam, who are Independent Non-executive Directors. Mr. Wong has been appointed as the chairman of the Audit Committee.

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. External auditor and the Directors are invited to attend the committee meetings as and when necessary.

During the Year Under Review, the Audit Committee had held two meetings and all the members attended the meetings. The work performed by the Audit Committee during the Year Under Review included reviewing the audited consolidated financial statements of the Group for the year ended 31 December 2013, the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2014 and the effectiveness of the internal control practices of the Group. The Audit Committee has also reviewed the audit plan and approach of the external auditor and monitored the progress and results of the audit regularly.

The Audit Committee also carried out corporate governance functions during the Year Under Review, including developing and reviewing the Company's policies and practices on corporate governance and other duties prescribed under code provision D.3.1 of the CG Code.

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.

REMUNERATION COMMITTEE

The Company established a Remuneration Committee (the "Remuneration 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 Remuneration Committee has three members, namely Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam, who are Independent Non-executive Directors. Mr. Zhang has been appointed as the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee are (among other things) to review and approve the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management and to make recommendations to the Board on the Group's policy and structure for all remuneration of the Directors and senior management.

During the Year Under Review, the Remuneration Committee had held two meetings and all the members attended the meeting. The work performed by the Remuneration Committee during the Year Under Review included considering the policy for the remuneration of executive directors, the performance of executive directors, and the terms of executive directors' service contracts.

The Remuneration Committee adopted the approach under Code Provision B.1.2(c) (ii) of the CG Code to make recommendation to the Board on the remuneration packages of the individual executive Directors and senior management of the Company.

NOMINATION COMMITTEE

The Company established a Nomination Committee (the "Nomination Committee") on 5 November 2010 and has formulated its written terms of reference, which was amended and adopted by the Board on 26 August 2013 and the contents of which are in compliance with the provisions of the CG Code. The Nomination Committee has three members, namely Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam. Mr. Duan has been appointed as the chairman of the Nomination Committee.

The primary duties of the Nomination Committee are (among other things): reviewing the structure, size and diversity of the Board, making recommendations to the Board on appointment of Directors and succession planning for Directors and assessing the independence of Independent Non-executive Directors.

To comply with the new provisions in the CG Code on board diversity which became effective on 1 September 2013, the Nomination Committee has adopted a policy concerning diversity of Board members (the "Board Diversity Policy"), which is achieved through consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, industry experience, skills, knowledge and length of service in related business areas of the Board members and will make recommendations on any proposed changes to the Board to complement the Company's corporate strategy. The Nomination Committee will review the Policy on a regular basis and discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

During the Year Under Review, the Nomination Committee had held two meetings and all the members attended the meetings. The work performed by the Nomination Committee during the Year Under Review included reviewing the established policy and procedure for the nomination and appointment of new Directors, reviewing the Board Diversity Policy and the measurable objectives that the Board has set for implementing such policy and assessing the independence of the Independent Non-executive Directors. The Nomination Committee, having reviewed the structure, size, composition and diversity of the Board including the gender, age, culture and educational background, professional experience and industry experience of each Director vis-a-vis the Group's business strategy as well as the structure for the rotation of Directors, considered that the existing arrangements were appropriate.

The work performed by the Nomination Committee during the Year Under Review also included the selection and recommendation of Mr. Zhang Yi as a Non-executive Director of the Company.

BOARD/COMMITTEE MEETINGS AND INDIVIDUAL ATTENDANCE

It is proposed to hold Board meetings at least four times a year regularly. Notice is given to Directors at least fourteen days before a regular Board meeting. Directors will be given reasonable and practicable notification under relevant circumstance for any special Board meeting called.

Before each Board meeting, the Directors are provided with a detailed agenda and sufficient relevant information, so as to enable the Directors to make appropriate decisions in relation to the matters to be discussed therein. All Directors are given an opportunity to include matters of their concern in the agenda of the Board meeting. If any Director or any of his/her associates has material interests in any resolution of the Board meeting, such Director must abstain from voting and should not be counted in the quorum of the meeting.

Details of the attendance records of Directors on Board meetings and board committee meetings for the year ended 31 December 2014 are as follows:

Name of Directors	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Executive Directors					
Mr. Zhao Li Sheng *(Chairman)*	4/4	—	—	—	1/1
Ms. Chan Lok San	4/4	—	—	—	1/1
Mr. Zhou Xuhua	4/4	—	—	—	1/1
Mr. Lin Yusheng	4/4	—	—	—	1/1
Non-executive Directors					
Mr. Zhang Yi *(appointed on 17 December 2014)*	0/4	—	—	—	0/1
Independent Non-executive Directors					
Mr. Duan Jidong	4/4	2/2	2/2	2/2	1/1
Mr. Wong Cheuk Lam	4/4	2/2	2/2	2/2	1/1
Mr. Zhang Jianbin	4/4	2/2	2/2	2/2	1/1

TRAINING AND SUPPORT OF DIRECTORS

All Directors have been given relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group. All Directors have been updated on the latest developments regarding the Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices. There is a procedure agreed by the Board to ensure the Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses.

The Directors confirmed that they have complied with Code Provision A.6.5 of the CG Code on Directors' training and have provided a record of the training they received to the Company. All Directors have participated in continuous professional development by the following means to develop and refresh their knowledge.

Name of Directors	Training received
Mr. Zhao Li Sheng	— Reading materials/attending external and in house seminars and programmes
Ms. Chan Lok San	— Reading materials/attending external and in house seminars and programmes
Mr. Zhou Xuhua	— Reading materials/attending external and in house seminars and programmes
Mr. Lin Yusheng	— Reading materials/attending external and in house seminars and programmes
Mr. Zhang Yi *(appointed on 17 December 2014)*	— Reading materials/attending external and in house seminars and programmes
Mr. Duan Jidong	— Reading materials/attending external and in house seminars and programmes
Mr. Wong Cheuk Lam	— Reading materials/attending external and in house seminars and programmes
Mr. Zhang Jianbin	— Reading materials/attending external and in house seminars and programmes

RESPONSIBILITIES OF THE DIRECTORS AND EXTERNAL AUDITORS

The Directors are responsible for the preparation of the financial statements of the Group in accordance with the relevant laws and disclosure stipulations of the Listing Rules and ensuring that these financial statements give a true and fair view of the state of affairs of the Group, its results and cash flows for the relevant period. The Board also ensures the timely publication of the financial statements of the Group. The Board confirms that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt about the Company's ability to continue as a going concern.

The responsibilities of the external auditors are to express an independent opinion on the financial statements prepared by the Directors based on their audit and to report their opinion solely to all the Shareholders, and for no other purpose. The statement of external auditor of the Company, Crowe Horwath (HK) CPA Limited, about their reporting responsibilities on the financial statements of the Group is set out in the "Independent Auditor's Report" of this report.

REMUNERATION OF EXTERNAL AUDITORS

For the year ended 31 December 2014, the remuneration paid to the external auditors in Hong Kong and the PRC, for audit services totaled approximately RMB691,000 (equivalent to approximately HK$877,000).

For the year ended 31 December 2014, the total remuneration for the permissible non-audit services provided by the external auditors amounted to RMB894,000 (equivalent to approximately HK$1,135,000).

INTERNAL CONTROL AND INTERNAL COMPLIANCE GUIDELINES

The Board has to be fully responsible for the stability and effectiveness of the systems of internal control and risk management of the Group. Such systems were set up by the Group to fulfill specific needs of the Group and the risks that its management faces. The Group has set up rigorous procedures to avoid unauthorised use or disposal of the Group's assets, ensure proper maintenance of accounting records, and provide reliable financial information for internal and external uses.

The Board has assigned internal audit department to conduct a review on the internal control system, work flow and management system of the Group. The result was satisfactory. Such systems and work flow are compliant to the internal compliance guidelines of the Group.

For the year ended 31 December 2014, through reviews conducted by the Audit Committee and study results from internal audit department, the Board has conducted a review on the compliance of internal control system and internal compliance guidelines, and has come to the conclusion that such system and guidelines have been effectively executed and followed.

CORPORATE GOVERNANCE MEASURES

During the Year Under Review, since no new opportunities relating to the Restricted Activity (as defined in the Company's prospectus dated 12 November 2010, the "Prospectus") were referred to the Group, the Independent Non-executive Directors had not reviewed any decision in relation to new opportunities referred to the Group.

The Independent Non-executive Directors had, however, reviewed the compliance with the non-competition undertaking entered into by Golden Land International Limited ("Golden Land"), Mr. Zhao Li Sheng ("Mr. Zhao"), Golden Morning International Limited ("Golden Morning") and Ms. Chan Lok San ("Ms. Chan"), the controlling shareholders of the Company (the "Controlling Shareholders"), in favour of the Company under the Deed of Non-Competition (as defined in the Prospectus), the options, pre-emptive rights or first rights of refusals, if any, provided by the Controlling Shareholders on its existing or future competing businesses. The Independent Non-executive Directors confirmed that the terms of the Deed of Non-Competition were complied with by the Controlling Shareholders during the Year Under Review. The Independent Non-executive Directors are not aware of any breach of the terms of the Deed of Non-Competition by the Controlling Shareholders and therefore, no enforcement action was taken against the Controlling Shareholders by the Company during the Year Under Review.

Each of the Controlling Shareholders has confirmed that he/she/it has, during the Year Under Review, complied with the non-competition undertaking under the Deed of Non-Competition.

DIRECTORS' INSURANCE

The Company has arranged appropriate insurance cover in respect of the legal action against the Directors.

COMPANY SECRETARY

Mr. Chan Hon Wan was appointed as the company secretary of the Company on 25 June 2009. He is an employee of the Company and has day-to-day knowledge of the Company's affairs. He is responsible for ensuring a good information flow within the Board and the compliance of the board policy and procedures.

During the Year Under Review, Mr. Chan has confirmed that he has duly complied with the relevant requirement under Rule 3.29 of the Listing Rules and taken no less than 15 hours of relevant professional training. His biographical details are set out in the paragraph headed "Directors' and Senior Management's Biographies" in this report.

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to convene and putting forward proposals at an extraordinary general meeting

Extraordinary general meetings shall be convened on the written requisition of any one or more Shareholder(s) holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. Such requisition shall be made in writing to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself/themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for directing Shareholders' enquiries to the Board

Shareholders may at any time send their enquires and concerns to the Board in writing through the company secretary by mail to Rooms 1906-1907, 19th Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong, or by e-mail to kingw@kingworld.com.cn.

Shareholders may also make enquiries with the Board at the general meetings of the Company.

INVESTOR RELATIONS

The Company believes that maintaining effective communication with the investors is crucial so as to let them have a deeper understanding of the Company's business and its development. To achieve this goal and increase transparency, the Company will continue to adopt proactive measures to foster better investor relations and communications. As such, the Company has formulated investor relations policies for the purpose of letting investors have access to information of the Group in a fair and timely manner, so that they can make an informed decision.

We welcome investors to write to the Company or send their inquiries to the Company's website www.kingworld.com.cn to share their opinions with the Board. The Company's website also discloses the latest business information of the Group to investors and the public.

On behalf of the Board
Kingworld Medicines Group Limited
Mr. Zhao Li Sheng
Chairman of the Board

Hong Kong, 24 March 2015

Report of the Directors

The Directors have pleasure in presenting the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2014.

PRINCIPAL BUSINESS

The Company is an investment holding company. The Group is principally engaged in distribution of imported branded pharmaceutical and healthcare products in the PRC. As at 31 December 2014, the Group managed a portfolio of ten categories with more than sixty products including pharmaceutical products, healthcare products, general foodstuffs and medical products from fourteen suppliers and/or manufacturers in Japan, United States, Canada, Hong Kong, Taiwan, Thailand and the PRC. Many of the products distributed by the Group are established brand names including Nin Jiom Chuan Bei Pei Pa Koa, Taiko Seirogan, Kawai Product Range, Flying Eagle Wood Lok Medicated Oil, Kyushin Pill and Mentholatum Product Series. Amongst these brands, "Nin Jiom" has always been the best-seller of the Group. Nin Jiom Chuan Bei Pei Pa Koa is also the best-selling Chinese medical cough relieving product in the PRC, which is the leading product with the largest market share.

RESULTS AND DIVIDENDS

Profit of the Group for the year ended 31 December 2014 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 62 to 66.

To extend the Company's gratitude for the support of the Shareholders, the Board has recommended the distribution of a final dividend for the year ended 31 December 2014 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 from 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 approximately RMB40,360,000, 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.

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 shareholders 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.

The principal terms of the Share Option Scheme are summarised as follows:

(a) The maximum number of the Company's shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company must not exceed 10% of the nominal amount of all issued shares of the Company as at the Listing Date (i.e. 25 November 2010, the "Listing Date") (which were 600,000,000 shares) unless shareholders' approval has been obtained, and which must not in aggregate exceed 30% of the shares of the Company in issue from time to time.

    As at the date of this report, the total number of shares available for issue under the Share Option Scheme is 60,000,000 shares, which represents 10% of the issued shares as at the Listing Date and approximately 9.64% of the issued shares of the Company as at the date of this report.

(b) The total number of shares issued and to be issued upon the exercise of options granted to each participant (including both exercised and outstanding options) under the Share Option Scheme and any other share option schemes of the Company in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue.

(c) The subscription price of a share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to the relevant participant and shall be at least the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a business day; (ii) the average of the closing prices of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of the Company's shares on the date of grant of the option.

(d) An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine, which shall not exceed 10 years from the date of grant subject to the provisions of early termination thereof.

(e) An offer for the grant of options must be accepted within 7 days inclusive of the day on which such offer was made and must be accepted in its entirety and any number of shares which is less than what has been offered under any circumstances shall not be accepted. The amount payable by the grantee of an option to the Company on acceptance for the grant of an option is HK$1.

(f) Any grant of an option to a director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by the Independent Non-executive Directors (excluding any Independent Non-executive Director who is the grantee of the option).

(g) The Share Option Scheme shall be valid and effective commencing on the date of adoption of the Share Option Scheme, (i.e. 5 November 2010), and expiring at the close of business on the business day immediately preceding the tenth anniversary thereof.

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 the available financing facilities, 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 report, 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, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 26 to the Financial Statements.

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 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 atthe Initial Conversion Price, the convertible bond will beconverted into approximately 62,250,000 Shares,representing approximately 10.00% of the existing issued share capital of the Company and approximately 9.09% ofthe 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 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.

RESERVES

Details of change in reserves of the Group and the Company are set out on page 67 of the Consolidated Statement of Changes in Equity and Note 26 to the Financial Statements.

DISTRIBUTABLE RESERVES

Under the Companies Law of the Cayman Islands, the funds in the share premium account and contributed surplus account of the Company are distributable to the owners of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

As at 31 December 2014, the aggregate amount of reserves available for distribution to owners of the Company was RMB226,804,000 (as at 31 December 2013: RMB253,758,000). After the end of the Year Under Review, the Directors proposed a final dividend of HK$1.92 cents (equivalent to RMB1.51 cents) (2013: HK$3.86 cents, equivalent to RMB3.03 cents) per share amounting to RMB9,400,000 (2013: RMB18,862,000). The proposed final dividend has not been recognised as a liability at the end of the Year Under Review.

CHARITY DONATIONS

Charity donations made by the Group during the Year Under Review was approximately RMB1,594,000 (2013: RMB3,325,000).

PROPERTY, PLANT AND EQUIPMENT

Details of changes in property, plant and equipment of the Group are set out in Note 13 to the Financial Statements.

INVESTMENT PROPERTIES

The Group's investment properties were revalued as at 31 December 2014. Increase in fair value of investment properties due to revaluation amounted to approximately RMB3,610,000, which has been included in the Consolidated Income Statement.

The Group has two investment properties. The first one is a shopping center located at Basement of Kingworld Department Store, Jiefang Road, Luohu District, Shenzhen, Guangdong Province, the PRC. The second one is an office located at Unit B on level 9 West, Yong Xing Office Building, No.22, Lane 376, Yan'an Road West, Jing'an District, Shanghai, the PRC.

Details of changes in the Group's investment properties for the year ended 31 December 2014 are set out in Note 14 of the Financial Statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the terms of the Company's Articles of Association or the laws in the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to its existing Shareholders.

SUBSIDIARY COMPANIES

Details of the major subsidiary companies of the Company as at 31 December 2014 are set out in Note 16 to the Financial Statements.

DIRECTORS

The Directors of the Company during the year ended 31 December 2014 and up to the date of this report have been:

Executive Directors

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

Non-executive Directors

Mr. Zhang Yi *(appointed on 17 December 2014)*

Independent Non-executive Directors

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

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Company are set out in pages 30 to 34 under the paragraph headed "Directors' and Senior Management's Biographies" in this report.

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company confirmed that it has received from each Independent Non-executive Director a written annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers, based on the confirmations received, the Independent Non-executive Directors remain independent.

REMUNERATIONS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

The Remuneration Committee considers and makes recommendation to the Board on the remuneration and other benefits payable to the Directors. The committee regularly oversees the remuneration of all Directors to ensure that their remuneration and compensation are at appropriate level. The Group maintains competitive remuneration packages with reference to the industry standard and according to the business development of the Group to attract and retain its Directors as well as to control costs.

The Board determines the remuneration of the Directors on the basis of the Company's performance, together with the relevant Directors' qualifications, responsibilities, experience, contributions and positions held with the Company. Details of the remuneration of the Directors are set out in Note 11 to the Financial Statements.

The five highest paid individuals of the Group in the Year Under Review include 4 (2013 : 4) Directors. Details of the five highest paid individuals are set out in Note 12 to the Financial Statements.

SERVICE CONTRACTS OF DIRECTORS

Executive Directors

Each of the executive Directors (other than Mr. Lin Yusheng) has entered into a service contract with the Company for a term of three years commencing from the Listing Date and may be terminated by not less than three months' prior notice in writing served by either party to the other. Subject to the retirement and re-election at the annual general meeting of the Company in accordance with (inter alia) the Memorandum and Articles, the service contract had been renewed until being terminated pursuant to the terms of the service contract. Mr. Lin Yusheng entered into a new service contract with the Company for the period from 5 November 2013 to 31 December 2014, which may be terminated by not less than three months' prior notice in writing served by either party on the other. Subject to the retirement and re-election at the annual general meeting of the Company in accordance with (inter alia) the Memorandum and Articles, the service contract had been renewed until being terminated pursuant to the terms of the service contract.

For the Year Under Review, the annual remuneration payable to each of the executive Directors was as follows:

	RMB'000
Mr. Zhao Li Sheng	1,136
Ms. Chan Lok San	950
Mr. Zhou Xuhua	810
Mr. Lin Yusheng	836

Under their respective service contracts, each of the executive Directors is entitled to a discretionary year-end bonus of an amount to be determined by the Remuneration Committee and approved by the Board. Mr. Lin Yusheng will also be entitled to an additional bonus if he can procure the completion of acquisitions by the Company during his term of service under the new service contract, the amount of which will depend on the number of acquisitions conducted and completed by the Company and/or the decision of the Remuneration Committee.

Each of the executive Directors will also be entitled to reimbursement of reasonable expenses including traveling, hotel, entertainment and other expenses properly incurred in the performance of his or her duties under the relevant service contract.

Non-executive Directors

Mr. Zhang Yi has entered into a letter of appointment with the Company for a term of three years commencing from 17 December 2014, subject to the requirements for retirement by rotation and re-election in accordance with the Company's articles of association. The letter of appointment may be terminated by three months' prior notice in writing served by either party to the other. Under the letter of appointment, Mr. Zhang is currently entitled to an annual basic salary of HK$176,400 (which will be pro-rated to the period of services in the year of his appointment). Mr. Zhang will also be entitled to reimbursement of reasonable expenses including travelling, hotel and other expenses properly incurred in the performance of his duties under the letter of appointment.

For the Year Under Review, the annual remuneration payable to the Non-executive Director was as follows:

	RMB'000
Mr. Zhang Yi *(appointed on 17 December 2014)*	—

Independent Non-executive Directors

Each of the Independent Non-executive Directors (other than Mr. Zhang Jianbin) has signed a letter of appointment with the Company for a term of three years commencing on the Listing Date and may be terminated by giving three months' notice in writing thereof by either party to the other. Subject to the retirement and re-election at the annual general meeting of the Company in accordance with (inter alia) the Memorandum and Articles, the letter of appointment had been renewed until being terminated pursuant to the terms of the letter of appointment. Mr. Zhang Jianbin has signed a letter of appointment with the Company for a term of three years commencing from 1 August 2013, which may be terminated by giving three months' notice in writing by either party to the other. Subject to the retirement and re-election at the annual general meeting of the Company in accordance with (inter alia) the Memorandum and Articles, the letter of appointment can be renewed until being terminated pursuant to the terms of the letter of appointment.

For the Year Under Review, the annual remuneration payable to each of the Independent Non-executive Directors was as follows:

	RMB'000
Mr. Duan Jidong	140
Mr. Wong Cheuk Lam	139
Mr. Zhang Jianbin	140

Each of the Independent Non-executive Directors will also be entitled to reimbursement of traveling expenses properly incurred in the performance of his/her duties under the relevant appointment letter.

Save as disclosed above, none of the Directors has entered or is proposed to enter into any service agreements with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed under the paragraph headed "Continuing Connected Transactions", during the year ended 31 December 2014, no Director is considered to have interests in the businesses which compete or are likely to compete directly or indirectly with the businesses of the Group.

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 31 December 2014, the interests and short positions held by 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) Interest 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	0.98%
	Interest of spouse	90,000,000	14.46%
	Interest of a controlled corporation	297,812,250	47.84%
Chan Lok San (Note 2)	Interest of spouse	303,920,250	48.82%
	Interest of a controlled corporation	90,000,000	14.46%
Zhou Xuhua (Note 3)	Interest of spouse	3,800,000	0.61%
Zhang Yi (Note 4)	Interest of a controlled corporation	62,250,000	10.00%

Notes:

1. In addition to 6,108,000 shares which are beneficially owned by Mr. Zhao Li Sheng, Mr. Zhao is deemed (by virtue of the SFO) to be interested in 387,812,250 shares in the Company. These shares are held in the following capacities:

    (a) 297,812,250 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 297,812,250 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. Ms. 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 Lok San is deemed (by virtue of the SFO) to be interested in 393,920,250 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 Mr. Zhao Li Sheng, the spouse of Ms. Chan, in his own name and 297,812,250 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 297,812,250 shares held by Golden Land.

3. Mr. Zhou is deemed (by virtue of the SFO) to be interested in 3,800,000 shares in the Company held by his spouse, Huang Xiaoli.

4. Pursuant to the subscription agreement dated 15 September 2014 (as supplemented by the supplemental agreements dated 9 October 2014 and 15 December 2014), Sinopharm Capital designated Shine Light Investment Fund and Legend Times Corporation Limited as its nominees to hold the convertible bonds in the principal amount of HK$93,686,250 and HK$40,151,250, respectively. The long position represents the interests in the 62,250,000 shares to be allotted and issued upon the full exercise of the conversion rights attached to the convertible bond in the aggregate principal amount of HK$133,837,500 at an initial conversion price of HK$2.15 issued by the Company on 17 December 2014.

   Shine Light Investment Fund is deemed to be interested in 62,250,000 shares/underlying shares of the Company within the meaning of Part XV of the SFO, representing 10% of the issued share capital of the Company, by virtue of a concert party agreement with Legend Times Corporation Limited. Hwabao Trust Co. Ltd* (華寶信託有限責任公司) holds 95,000 non-voting shares in Shine Light Investment Fund, representing approximately 99.89% of the issued share capital of Shine Light Investment Fund, as the trustee of a fixed trust which the beneficiary is Shanghai Shengzhong Investments Management Partnership Enterprise (Limited Partnership)* (上海聖眾投資管理合夥企業). Mr. Zhang Yi controls one-third of the voting power at matters of Shanghai Shengzhong Investments Management Partnership Enterprise (Limited Partnership). Hence, Mr. Zhang Yi is deemed to be interested in 62,250,000 shares/underlying shares of the Company within the meaning of Part XV of the SFO.

(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%
Zhang Yi	Shine Light Investment Fund	Beneficial owner	33.33%

As at 31 December 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 31 December 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 the Shares and Underlying Shares of the Company*

As at 31 December 2014, so far as was known to the Directors, the interests or short positions held by the following persons (other than the Directors) 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	297,812,250	47.84%
Golden Morning	Beneficial owner	90,000,000	14.46%
Zhao Li Sheng (Note 1)	Beneficial owner	6,108,000	0.98%
	Interest of spouse	90,000,000	14.46%
	Interest of a controlled corporation	297,812,250	47.84%
Chan Lok San (Note 2)	Interest of spouse	303,920,250	48.82%
	Interest of a controlled corporation	90,000,000	14.46%
Sinopharm Healthcare Fund L.P. (Note 3)	Beneficial owner	62,187,750	9.99%
Sinopharm Capital Limited (Note 4)	Interest of a controlled corporation	62,187,750	9.99%
Shine Light Investment Fund (Note 5)	Interest of a party to an agreement to acquire interests	62,250,000	10.00%
Shine Light Fund Management Limited (Note 6)	Interest of a controlled corporation	62,250,000	10.00%
Hwabao Trust Co. Ltd. (Note 7)	Trustee of a trust	62,250,000	10.00%
上海聖眾投資管理合伙企業(有限合伙) Shanghai Shengzhong Investments Management Partnership Enterprise (Limited Partnership) (Note 8)	Beneficiary of a trust (other than a discretionary trust)	62,250,000	10.00%
Zhang Yi (Note 9)	Interest of a controlled corporation	62,250,000	10.00%
Legend Times Corporation Limited (Note 5)	Interest of a party to an agreement to acquire interests	62,250,000	10.00%

Name of Shareholders	Capacity/Nature of Interest	Number of shares in the Company held	Approximate percentage of the Company's total issued share capital
Chief Marine Limited (Note 10)	Interest of a controlled corporation	62,250,000	10.00%
CDBI Parnters Fund I, L.P. (Note 11)	Interest of a controlled corporation	62,250,000	10.00%
CDBI Parnters GP, Ltd (Note 12)	Interest of a controlled corporation	62,250,000	10.00%
Tan Ching (Note 13)	Interest of a controlled corporation	62,250,000	10.00%
Sun Hill Capital Investments Limited (Note 14)	Interest of a controlled corporation	124,437,750	19.99%
Wu Aimin (Note 15)	Interest of a controlled corporation	124,437,750	19.99%

Notes:

1. In addition to 6,108,000 shares which are beneficially owned by Mr. Zhao Li Sheng, Mr. Zhao is deemed (by virtue of the SFO) to be interested in 387,812,250 shares in the Company. These shares are held in the following capacities:

   (a) 297,812,250 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 297,812,250 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. Ms. 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 393,920,250 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 297,812,250 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 297,812,250 shares held by Golden Land.

3. Pursuant to the share purchase agreement entered into between Golden Land and Sinopharm Capital dated 16 September 2014 (as supplemented by the supplemental agreements dated 7 November 2014 and 15 December 2014), Sinopharm Capital designated Sinopharm Healthcare Fund L.P. as its nominee to acquire 62,187,750 shares of the Company from Golden Land for a consideration of HK$133,703,662.5.

4. The corporate substantial shareholder notice filed by Sinopharm Capital Limited indicated that it controlled 1.91% interest in Sinopharm Healthcare Fund L.P.

5. Pursuant to the subscription agreement dated 15 September 2014 (as supplemented by the supplemental agreements dated 9 October 2014 and 15 December 2014), Sinopharm Capital designated Shine Light Investment Fund and Legend Times Corporation Limited as its nominees to hold the convertible bond in the principal amount of HK$93,686,250 and HK$40,151,250, respectively. The long position represents the interests in the 62,250,000 shares to be allotted and issued upon the full exercise of the conversion rights attached to the convertible bond in the aggregate principal amount of HK$133,837,500 at an initial conversion price of HK$2.15 issued by the Company on 17 December 2014.

Shine Light Investment Fund is deemed to be interested in 62,250,000 shares/underlying shares of the Company within the meaning of Part XV of the SFO, representing 10% of the issued share capital of the Company, by virtue of a concert party agreement with Legend Times Corporation Limited.

6. The corporate substantial shareholder notice filed by Shine Light Fund Management Limited indicated that it controlled 0.11% interest in Shine Light Investment Fund.

7. The corporate substantial shareholder notice filed by Hwabao Trust Co. Ltd. indicated that it controlled 99.89% interest in Shine Light Investment Fund and is a trustee of a trust namely 華寶-境外市場投資1號系列2期QDII單一資金信託合同(HwaBao QDII Investment in Overseas Market Contract).

8. The corporate substantial shareholder notice filed by 上海聖眾投資管理合伙企業(有限合伙) Shanghai Shengzhong Investments Management Partnership Enterprise (Limited Partnership) indicated that it is a beneficiary of a trust namely 華寶-境外市場投資1號系列2期QDII單一資金信託合同 (HwaBao QDII Investment in Overseas Market Contract).

9. The director's notice filed by Zhang Yi indicated that he controlled 33.33% interest in Shanghai Shengzhong Investments Management Partnership Enterprise (Limited Partnership).

10. The corporate substantial shareholder notice filed by Chief Marine Limited indicated that it controlled 100% interest in Legend Times Corporation Limited.

11. The corporate substantial shareholder notice filed by CDBI Parnters Fund I, L.P. indicated that it controlled 100% interest in Chief Marine Limited and indirectly controlled 100% interest in Legend Times Corporation Limited.

12. The corporate substantial shareholder notice filed by CDBI Parnters GP, Ltd indicated that it, through CDBI Parnters Fund I, L.P., indirectly controlled 100% interest in Chief Marine Limited and Legend Times Corporation Limited.

13. The individual substantial shareholder notice filed by Tan Ching indicated that he controlled 99% interest in CDBI Parnters GP, Ltd and, indirectly through CDBI Parnters Fund I, L.P., controlled 100% interest in Chief Marine Limited and Legend Times Corporation Limited.

14. The corporate substantial shareholder notice filed by Sun Hill Capital Investments Limited indicated that it controlled 100% interest in Sinopharm Capital Limited and indirectly controlled 1.91% interest in Sinopharm Healthcare Fund L.P., 100% interest in Shine Light Fund Management Limited and 0.11% interest in Shine Light Investment Fund.

15. The individual substantial shareholder notice filed by Wu Aimin indicated that he controlled 70% interest in Sun Hill Capital Investments Limited and, indirectly controlled 100% interest in Sinopharm Capital Limited, 1.91% interest in Sinopharm Healthcare Fund L.P., 100% interest in Shine Light Fund Management Limited and 0.11% interest in Shine Light Investment Fund.

Save as disclosed above, to the best knowledge of the Directors of the Company, as at 31 December 2014, no person (other than the Directors) 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.

DIRECTORS' RIGHTS IN ACQUIRING SHARES AND DEBENTURES

Save as disclosed in the paragraph headed "Share Option Scheme" in this report, at no time during the Year Under Review, the Company or any of its subsidiaries had no arrangements to enable the Directors or executives (including their spouse and children under 18 years of age) of the Company to have the rights to acquire securities of the Company or its associated companies (as defined in the SFO), or to acquire benefits by means of acquisition of securities of the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the paragraph headed "Continuing Connected Transactions", as at 31 December 2014 and during any time for the year ended 31 December 2014, there was no contract of significance (as defined in Appendix 16 to the Listing Rules) subsisting in which a Director is or was materially interested, whether directly or indirectly.

Save as disclosed under the paragraph headed "Continuing Connected Transactions", as at 31 December 2014 and during any time for the year ended 31 December 2014, there was no contract of significance in relation to the Company's business subsisting to which the Company, its subsidiary, its holding company or a subsidiary of its holding company was a party and in which a Director has or had, or at any time during that period, in any way, whether directly or indirectly, a material interest.

Save as disclosed under the paragraph headed "Continuing Connected Transactions", as at 31 December 2014 and during any time for the year ended 31 December 2014, none of the Directors was in any way, directly or indirectly, materially interested in any contract of significance entered into or proposed to be entered into with the Company in relation to the Company's business.

MANAGEMENT CONTRACTS

There was no contracts concerning the management or administration of the whole or any substantial part of the business of the Company which was entered into or existed during the Year Under Review.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2014, the Group had entered into various transactions with certain individuals and entities that are regarded as connected persons of the Company (as defined under Chapter 14A of the Listing Rules). Details of these individuals and entities are set out in Note 31 to the Financial Statements.

The recurring related party transactions set out in Note 31 to the Financial Statements fall within the definition of "continuing connected transaction" under Chapter 14A of the Listing Rules while the key management remuneration set out in Note 11 to the Financial Statements do not fall within the definition of "connected transaction" or "continuing connected transaction" under Chapter 14A of the Listing Rules. The Company has complied with the relevant disclosure requirements in accordance with Chapter 14A of the Listing Rules.

As disclosed in the announcement of the Company dated 16 November 2012 and the circular of the Company dated 7 December 2012 (the "Circular"), on 16 November 2012, the Company entered into two new master distribution agreements with Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited (深圳市金活利生藥業有限公司) ("SZ Kingworld Lifeshine") and Yuen Tai Pharmaceuticals Limited (遠大製藥廠有限公司) ("Yuen Tai") respectively (collectively, the "New Master Distribution Agreements").

Unless otherwise defined herein, terms used in this section headed "New master distribution agreements for the three years ending 31 December 2015" shall have the same meanings as defined in the Circular.

New Master Distribution Agreements for the three years ending 31 December 2015

Transaction	Member of the Group	Connected person	Actual transaction amounts for the year ended 31 December 2014 RMB'000	Approximate annual cap for the year ended 31 December 2014 RMB'000
Purchase and distribution of Pharmaceutical and Healthcare Products from SZ Kingworld Lifeshine	SZ Kingworld	SZ Kingworld Lifeshine	584	67,730
Purchase and distribution of Pharmaceutical and Healthcare Products from Yuen Tai	SZ Kingworld	Yuen Tai	1,618	25,220

Principal terms of the New Master Distribution Agreements are as follows:

SZ Kingworld Lifeshine Master Distribution Agreement

SZ Kingworld Lifeshine is a wholly-owned subsidiary of Morning Gold Medicine Company Limited, which is owned as to 51% by Mr. Zhao Li Sheng and 49% by Ms. Chan Lok San (both being the executive Directors of the Company).

On 16 November 2012, SZ Kingworld Lifeshine and the Company entered into the SZ Kingworld Lifeshine Master Distribution Agreement, pursuant to which the Group will purchase certain pharmaceutical and healthcare products from SZ Kingworld Lifeshine and act as the exclusive distributor for distribution of such pharmaceutical and healthcare products in the PRC for a term of three years commencing from 1 January 2013 and ending on 31 December 2015 (both days inclusive).

The terms and conditions (including but not limited to the prices) on which the pharmaceutical and healthcare products are to be purchased by members of the Group should be on normal commercial terms and no less favourable than those obtained from independent third parties by such member of the Group.

40% of the purchase price shall be paid in advanced by the relevant member of the Group within three days after such member of the Group has placed an order for each batch of products and the remaining purchase price shall be paid upon delivery of the products and the passing of the product examination.

Yuen Tai Master Distribution Agreement

Yuen Tai is a wholly-owned subsidiary of Morning Gold Medicine Company Limited, which is owned as to 51% by Mr. Zhao Li Sheng and 49% by Ms. Chan Lok San.

On 16 November 2012, Yuen Tai and the Company entered into the Yuen Tai Master Distribution Agreement, pursuant to which the Group will purchase certain pharmaceutical and healthcare products from Yuen Tai and act as the exclusive distributor for distribution of such pharmaceutical and healthcare products in the PRC for a term of three years commencing from 1 January 2013 and ending on 31 December 2015 (both days inclusive).

The terms and conditions (including but not limited to the prices) on which the pharmaceutical and healthcare products are to be purchased by members of the Group should be on normal commercial terms and no less favourable than those obtained from independent third parties by such member of the Group.

40% of the purchase price shall be paid in advanced by the relevant member of the Group within three days after such member of the Group has placed an order for each batch of products and the remaining purchase price shall be paid upon delivery of the products and the passing of the product examination.

The Independent Non-executive Directors have reviewed the above continuing connected transactions and confirm that these transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

(iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The auditor of the Company has issued a letter to the Board confirming that the above continuing connected transactions:

(i) have received the approval of the Board;

(ii) did not involve the provision of goods or services by the Group;

(iii) have been entered into in accordance with the relevant agreements governing the transactions; and

(iv) did not exceed the respective annual caps as disclosed in the Circular.

PLEDGE OF ASSETS

As at 31 December 2014, the Group had pledged investment property, bank deposits and bills receivable to the bank in the total amount of approximately RMB218,133,000. As at 31 December 2013, the Group had pledged investment property, bank deposits and bills receivable in total amount of approximately RMB127,789,000.

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long and short-term bank borrowings. For the Year Under Review, the effective interest rate for fixed rate loans was from 2.0% to 5.0%. Taking into account the cash flow generated from operations and the long and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this 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.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year Under Review, the total turnover of the Group's five largest customers accounted for approximately 18.8% of the Group's revenue, in which turnover from the largest customer of the Group accounted for approximately 4.5% of the total revenue of the Group. During the same period, total purchases of the Group's five largest suppliers accounted for approximately 88.7% of the Group's total purchase, in which purchase from the largest supplier of the Group accounted for approximately 68.5% of the total purchase of the Group.

None of the Directors, their respective associates or any Shareholders (interested in 5% or more of the share capital, to the best knowledge of the Board) has any interest in any of the five largest suppliers or the Group's five largest customers.

TAX RELIEF AND EXEMPTION

The Company is not aware that any holders of securities of the Company are entitled to any tax relief or exemption by reason of their holdings of such securities.

EMPLOYEE BENEFITS

Details of the employee benefits of the Group for the year ended 31 December 2014 are set out in Note 2(w) to the Financial Statements. No forfeited contributions (by the Group on behalf of employees who leave the defined contribution plans prior to vesting fully in such contributions) can be used by the Group to reduce the existing level of contributions.

EVENTS AFTER THE REPORTING PERIOD

Pursuant to the Cooperation Agreement, Kingworld (Hong Kong) Holdings Limited (金活(香港)控股有限公司) (as the purchaser) has agreed to acquire, and Zhao Zhigang and Zhao Wen (as the vendors) have agreed to transfer 55% equity interest in Dong Di Xin for a consideration of RMB189,366,892.

On 13 February 2015, all the conditions precedent to completion of the transfer of 55% equity interest in Dong Di Xin contemplated under the Cooperation Agreement were fulfilled and the equity transfer of Dong Di Xin was completed. Upon completion of the equity transfer, the equity interest in Dong Di Xin is owned as to 55% by Kingworld (Hong Kong) Holdings Limited (金活(香港)控股有限公司), 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.

AUDITOR

The consolidated financial statements for the year ended 31 December 2014 have been audited by Crowe Horwath (HK) CPA Limited, who shall retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Crowe Horwath (HK) CPA Limited as auditor of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board
Kingworld Medicines Group Limited
Mr. Zhao Li Sheng
Chairman of the Board

Hong Kong, 24 March, 2015

Independent Auditor's Report

國富浩華(香港)會計師事務所有限公司
Crowe Horwath (HK) CPA Limited
Member Crowe Horwath International

9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

TO THE SHAREHOLDERS OF KINGWORLD MEDICINES GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Kingworld Medicines Group Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 62 to 133, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong, 24 March 2015

Leung Chun Wa
Practising Certificate Number P04963

Consolidated Statement of Profit or Loss

For the year ended 31 December 2014
(Expressed in Renminbi)

	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	14	**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	8	**37,865**	47,177
Earnings per share	10		
Basic (RMB cents)		**6.07**	7.58
Diluted (RMB cents)		**6.07**	7.58

The notes on pages 70 to 133 form part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014
(Expressed in Renminbi)

	2014 RMB'000	2013 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

The notes on pages 70 to 133 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2014
(Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Non-current assets			
Property, plant and equipment	13	**5,121**	4,888
Investment properties	14	**92,420**	88,810
Interest in a joint venture	17	**45,033**	38,793
Deposit paid for property, plant and equipment	15	**75,000**	75,000
		217,574	207,491
Current assets			
Inventories	18	**70,016**	39,917
Trade and other receivables	19	**417,774**	373,156
Pledged bank deposits	20	**84,097**	18,103
Cash and bank balances	21	**230,028**	91,416
		801,915	522,592
Current liabilities			
Trade and other payables	22	**186,062**	154,370
Bank loans	23	**228,677**	98,378
Liability component of mandatorily convertible bonds	24	**7,277**	—
Current taxation	25(a)	**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	24	**3,326**	—
Deferred tax liabilities	25(b)	**10,304**	9,402
		13,630	9,402
NET ASSETS		**570,975**	457,424

The notes on pages 70 to 133 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2014
(Expressed in Renminbi)

	Note	**2014** **RMB'000**	2013 RMB'000
CAPITAL AND RESERVES	26		
Share capital		**53,468**	53,468
Reserves		**517,507**	403,956
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**570,975**	457,424

Approved and authorised for issue by the board of directors on 24 March 2015.

Mr. Zhao Li Sheng
Director

Ms. Chan Lok San
Director

The notes on pages 70 to 133 form part of these financial statements.

Statement of Financial Position

At 31 December 2014
(Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Non-current assets			
Investments in subsidiaries	16	**216,957**	216,223
Current assets			
Other receivables	19	**114**	—
Amount due from a subsidiary	19	**9,957**	25,416
Cash and bank balances	21	**139,122**	43,247
		149,193	68,663
Current liabilities			
Other payables	22	**617**	737
Amounts due to subsidiaries	22	**7,900**	5,907
Liability component of mandatorily convertible bonds	24	**7,277**	—
		15,794	6,644
Net current assets		**133,399**	62,019
Total assets less current liabilities		**350,356**	278,242
Non-current liabilities			
Liability component of mandatorily convertible bonds	24	**3,326**	—
NET ASSETS		**347,030**	278,242
CAPITAL AND RESERVES	26		
Share capital		**53,468**	53,468
Reserves		**293,562**	224,774
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**347,030**	278,242

Approved and authorised for issue by the board of directors on 24 March 2015.

Mr. Zhao Li Sheng
Director

Ms. Chan Lok San
Director

The notes on pages 70 to 133 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014
(Expressed in Renminbi)

	Share capital RMB'000 (note 26(a))	Share premium RMB'000 (note 26(b))	Statutory and discretionary reserves RMB'000 (note 26(c))	Contributed surplus RMB'000 (note 26(d))	Property revaluation reserve RMB'000 (note 26(e))	Convertible bonds equity reserve RMB'000 (note 26(f))	Warrant reserve RMB'000 (note 26(g))	Exchange reserve RMB'000 (note 26(h))	Retained profits RMB'000	Total RMB'000
At 1 January 2014	**53,468**	**152,700**	**32,681**	**29,068**	**5,003**	**—**	**—**	**(13,683)**	**198,187**	**457,424**
Changes in equity:										
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**37,865**	**37,865**
Other comprehensive loss for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(357)**	**—**	**(357)**
Total comprehensive income/(loss) for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(357)**	**37,865**	**37,508**
Issuance of mandatorily convertible bonds	**—**	**—**	**—**	**—**	**—**	**94,905**	**—**	**—**	**—**	**94,905**
Appropriation of statutory and discretionary reserves	**—**	**—**	**1,255**	**—**	**—**	**—**	**—**	**—**	**(1,255)**	**—**
Dividends (note 9(b))	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(18,862)**	**(18,862)**
At 31 December 2014	**53,468**	**152,700**	**33,936**	**29,068**	**5,003**	**94,905**	**—**	**(14,040)**	**215,935**	**570,975**
At 1 January 2013	53,468	152,700	30,558	29,068	517	—	300	(10,995)	167,214	422,830
Changes in equity:										
Profit for the year	—	—	—	—	—	—	—	—	47,177	47,177
Other comprehensive income/(loss) for the year	—	—	—	—	4,486	—	—	(2,688)	—	1,798
Total comprehensive income/(loss) for the year	—	—	—	—	4,486	—	—	(2,688)	47,177	48,975
Expiry of warrants	—	—	—	—	—	—	(300)	—	300	—
Appropriation of statutory and discretionary reserves	—	—	2,123	—	—	—	—	—	(2,123)	—
Dividends (note 9(b))	—	—	—	—	—	—	—	—	(14,381)	(14,381)
At 31 December 2013	53,468	152,700	32,681	29,068	5,003	—	—	(13,683)	198,187	457,424

The notes on pages 70 to 133 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2014
(Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Operating activities			
Profit before taxation		**48,667**	63,214
Adjustments for:			
Depreciation	6(c)	**1,724**	1,519
Finance costs	6(a)	**6,873**	3,330
Interest income	5(a)	**(2,100)**	(4,958)
Loss on disposal of property, plant and equipment	6(c)	**21**	26
Impairment losses of trade receivables	6(c)	**—**	775
Write-off of other receivables	6(c)	**—**	233
Share of profit of a joint venture		**(6,239)**	(9,810)
Valuation gain on investment properties	14	**(3,610)**	(12,060)
Write-down of inventories	18	**1,102**	3,475
Changes in working capital			
Increase in inventories		**(31,201)**	(22,067)
Increase in trade and other receivables		**(44,618)**	(74,153)
Increase in trade and other payables		**31,692**	12,744
Cash generated from/(used in) operations		**2,311**	(37,732)
PRC income tax paid		**(7,541)**	(12,117)
Net cash used in operating activities		**(5,230)**	(49,849)

The notes on pages 70 to 133 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2014
(Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Investing activities			
Payment for the purchase of property, plant and equipment		**(1,973)**	(1,866)
Proceeds from sale of property, plant and equipment		**2**	12
Deposit paid for property, plant and equipment		**—**	(15,000)
(Increase)/decrease in bank deposits with maturity over three months		**(29,850)**	40,000
Interest received		**2,100**	4,958
Net cash (used in)/generated from investing activities		**(29,721)**	28,104
Financing activities			
(Increase)/decrease in pledged bank deposits		**(65,994)**	11,739
Proceeds from new bank loans		**437,081**	38,498
Repayment of bank loans		**(306,782)**	—
Proceeds from issuance of mandatorily convertible bonds		**105,448**	—
Finance costs paid		**(6,813)**	(3,330)
Dividend paid		**(18,862)**	(14,381)
Net cash generated from financing activities		**144,078**	32,526
Net increase in cash and cash equivalents		**109,127**	10,781
Cash and cash equivalents at beginning of year		**91,416**	83,262
Effect of foreign exchange rate changes		**(365)**	(2,627)
Cash and cash equivalents at end of year	21	**200,178**	91,416

The notes on pages 70 to 133 form part of these financial statements.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 (see note 2(f)); and

— financial assets at fair value through profit or loss

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 28.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

c) *Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less any impairment losses (see note 2(j)).

d) *Joint ventures*

A joint venture is an arrangement whereby the Group or the Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(j)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

d) Joint ventures (Continued)

If an investment in a joint venture becomes an investment in an associate or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

e) Financial assets at fair value through profit or loss

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

— such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

— the financial asset forms part of a Group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

— it forms part of a contract containing one or more embedded derivatives, and HKAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Investment in equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Any attributable transaction costs are recognised in profit or loss as incurred.

At the end of each reporting period subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

f) *Investment properties*

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(h)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated in the consolidated statement of financial position at fair value, unless they are still in course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(s) (ii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(h)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2(h).

g) *Property, plant and equipment*

Property, plant and equipment, other than construction in progress, are stated in the consolidated statement of financial position at cost less any accumulated depreciation and any accumulated impairment losses (see note 2(j) (ii).

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

—	leasehold improvements	5 years or over the remaining term of the lease, if shorter
—	furniture, fixtures and office equipment	5 to 10 years
—	motor vehicles	5 years

Changes arising on the revaluation of properties held for own use are generally dealt with in other comprehensive income and are accumulated separately in equity in the property revaluation reserve. The only exceptions are as follows:

(i) when a deficit arises on revaluation, it will be charged to profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and

(ii) when a surplus arises on revaluation, it will be credited to profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

g) *Property, plant and equipment* *(Continued)*

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Properties, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

h) *Leased assets*

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

i) *Classification of assets leased to the Group*

Assets held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

— Property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 2(f)); and

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) Leased assets *(Continued)*

i) Classification of assets leased to the Group (Continued)

— Land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged as expenses in the accounting period in which they are incurred.

i) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) *Impairment of assets*

i) *Impairment of investments in equity securities and trade and other receivables*

Investments in equity securities and trade and other receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For interest in a joint venture accounted for under the equity method in the consolidated financial statements (see note 2(d)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(j) (ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(j) (ii).

— For trade and other receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) Impairment of assets (Continued)

i) Impairment of investments in equity securities and trade and other receivables (Continued)

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— deposit paid for property, plant and equipment; and

— investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a cash-generating unit).

Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying amount of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) Impairment of assets **(Continued)**

ii) Impairment of other assets (Continued)

Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim Financial Reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(j) (i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see note 2(j) (i)).

l) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

m) *Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

n) *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

o) *Income tax*

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case they are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary differences or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

o) *Income tax (Continued)*

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(f), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
    - the same taxable entity; or
    - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

p) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

q) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

r) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of operations outside Mainland China are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

r) *Translation of foreign currencies (Continued)*

On the disposal of an operation outside Mainland China, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

s) *Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

i) *Sales of goods*

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax and other sales taxes and is stated after deduction of returns and discounts.

ii) *Rental income from operating leases*

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

iii) *Promotional service income*

Promotional service income is recognised when the services are rendered.

iv) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

t) *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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

t) *Segment reporting* *(Continued)*

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.

u) *Mandatorily convertible bonds*

Mandatorily convertible bonds issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. An instrument that is mandatorily convertible into a fixed number of the Company's ordinary shares and the Company does not have contractual obligation to redeem the principal amount is, in substance, a prepaid forward purchase of the Company's equity shares. This component shall be classified as equity of the Group. When the instrument carries an obligation for the Company to make fixed interest payments during the life of the mandatorily convertible bonds, the instrument includes a financial liability component. On initial recognition, the fair value of the liability component is determined using prevailing market interest rate of similar non-convertible debts. The difference between the gross proceeds of the issue of the instrument and the fair value assigned to the liability component was included in equity (convertible bonds equity reserve).

In subsequent periods, the liability component of the instrument is carried at amortised cost using the effective interest method. The equity component, representing the mandatory conversion option to convert into a fixed number of ordinary shares of the Company, will remain in reserve as convertible bonds equity reserve until the instrument is mandatorily converted into shares at maturity date or the mandatory conversion option is exercised by the holders, in which case the balance stated in convertible bonds equity reserve will be transferred to share capital and share premium accounts.

v) *Warrants*

Warrants issued by the Company that will be settled by a fixed amount of cash for a fixed number of the Company's own equity instruments are equity instruments. The net proceeds received from the issue of warrants are recognised in equity (warrant reserve). The warrant reserve will be transferred to share capital and share premium accounts upon the exercise of the warrants. When the warrants are still not exercised at the expiry date, the amount previously recognised in the warrant reserve will be transferred to retained profits.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

w) *Employee benefits*

i) *Short term employee benefits and contribution to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contribution to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii) *Defined contribution retirement plan obligation*

Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

iii) *Termination benefits*

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

x) *Related parties*

a) A person, or a close member of that person's family, is related to the Group if that person:

- i) has control or joint control over the Group;
- ii) has significant influence over the Group; or
- iii) is a member of the key management personnel of the Group or the Group's parent.

b) An entity is related to the Group if any of the following conditions applies:

- i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- iii) Both entities are joint ventures of the same third party.
- iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- vi) The entity is controlled or jointly controlled by a person identified in (a).
- vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(Expressed in Renminbi unless otherwise indicated)

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	2013
	RMB'000	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	2013
	RMB'000	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	2013
	RMB'000	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 RMB'000	2013 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 (note 18)	**504,013**	423,584
	Depreciation	**1,724**	1,519
	Impairment losses on trade receivables (note 19(c))	**—**	775
	Reversal of impairment loss on trade receivables (note 19(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

a) *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 (note 25(b))		
– 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%).

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

	2014 **RMB'000**	2013 RMB'000
Profit before taxation	**48,667**	63,214
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned	**10,000**	16,196
Tax effect of non-deductible expenses	**2,352**	1,905
Tax effect of non-taxable income	**(282)**	(2,035)
Tax effect of utilised tax losses	**(2,027)**	—
Tax effect of unrecognised temporary differences	**729**	—
Under/(over)-provision in previous years	**30**	(29)
Actual tax expense	**10,802**	16,037

7. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(Continued)*

c) As at 31 December 2014, the undistributed profits of the Group's PRC subsidiaries amounted to RMB221,316,000 (2013: RMB189,943,000) for which the potential deferred tax liabilities of RMB11,066,000 (2013: RMB9,497,000) have not been recognised in these financial statements because the Company can control the PRC subsidiaries' dividend distribution policy.

8. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company includes a loss of RMB8,092,000 (2013: profit of RMB11,962,000) which has been dealt with in the financial statements of the Company (note 26).

9. 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 **RMB'000**	2013 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

10. 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
	'000	'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

* As disclosed in note 24 the convertible bonds are mandatorily convertible into ordinary shares of the Company on the maturity date. 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, 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.

11. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32) are as follows:

	Fees	Salaries, allowances and other benefits	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2014					
Executive directors:					
Zhao Li Sheng (chief executive officer)	**—**	**1,110**	**—**	**26**	**1,136**
Chan Lok San	**—**	**924**	**—**	**26**	**950**
Lin Yusheng	**—**	**829**	**—**	**7**	**836**
Zhou Xuhua	**—**	**758**	**—**	**52**	**810**
Independent non-executive directors:					
Duan Jidong	**140**	**—**	**—**	**—**	**140**
Wong Cheuk Lam	**139**	**—**	**—**	**—**	**139**
Zhang Jianbin	**140**	**—**	**—**	**—**	**140**
Non-executive director:					
Zhang Yi (appointed on 17 December 2014)	**—**	**—**	**—**	**—**	**—**
	419	**3,621**	**—**	**111**	**4,151**
2013					
Executive directors:					
Zhao Li Sheng (chief executive officer)	—	1,105	—	24	1,129
Chan Lok San	—	918	—	24	942
Lin Yusheng	—	820	—	4	824
Zhou Xuhua	—	740	—	51	791
Independent non-executive directors:					
Duan Jidong	139	—	—	—	139
Wong Cheuk Lam	137	—	—	—	137
Zhang Jianqi (resigned on 1 Aug 2013)	93	—	—	—	93
Zhang Jianbin (appointed on 1 Aug 2013)	47	—	—	—	47
	416	3,583	—	103	4,102

During the years ended 31 December 2014 and 2013, no amount was paid or payable to the directors or chief executive or any of the five highest paid individuals set out in note 12 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which any director or chief executive waived or agreed to waive any remuneration during both years.

12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group include 4 (2013: 4) directors during the year, whose emoluments are disclosed in note 11. The aggregate of the emoluments in respect of the remaining individual are as follows:

	2014 **RMB'000**	2013 RMB'000
Salaries, allowance and other benefits	**760**	538
Discretionary bonuses	**—**	—
Retirement scheme contributions	**21**	—
	781	538

The emoluments of individuals other than directors with the highest emoluments are within the following band:

	2014	2013
Nil to HK$1,000,000	**1**	1

13. PROPERTY, PLANT AND EQUIPMENT

The Group

	Leasehold improvements RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost				
At 1 January 2013	667	4,277	7,369	12,313
Exchange adjustments	(3)	(3)	(106)	(112)
Additions	704	779	383	1,866
Disposal	—	(330)	(148)	(478)
At 31 December 2013	1,368	4,723	7,498	13,589
At 1 January 2014	1,368	4,723	7,498	13,589
Exchange adjustments	1	1	12	14
Additions	228	1,745	—	1,973
Disposal	—	(175)	—	(175)
At 31 December 2014	1,597	6,294	7,510	15,401
Accumulated depreciation				
At 1 January 2013	362	2,799	4,512	7,673
Exchange adjustments	(3)	(2)	(46)	(51)
Charge for the year	252	422	845	1,519
Disposals	—	(292)	(148)	(440)
At 31 December 2013	611	2,927	5,163	8,701
At 1 January 2014	611	2,927	5,163	8,701
Exchange adjustments	(2)	(1)	10	7
Charge for the year	218	661	845	1,724
Disposals	—	(152)	—	(152)
At 31 December 2014	827	3,435	6,018	10,280
Carrying amount				
At 31 December 2014	770	2,859	1,492	5,121
At 31 December 2013	757	1,796	2,335	4,888

14. INVESTMENT PROPERTIES

	The Group
	RMB'000
Fair value	
At 1 January 2013	76,750
Fair value adjustment	12,060
At 31 December 2013 and 1 January 2014	88,810
Fair value adjustment	3,610
At 31 December 2014	92,420

a) The Group's investment properties were revalued as at 31 December 2014 and 2013 respectively on an open market value basis calculated by reference to 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. The Group's property manager and the chief financial officer have discussions with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each annual reporting date.

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

c) At 31 December 2014, the Group's investment properties with a carrying amount of RMB86,920,000 (2013: RMB83,610,000) were pledged to secure bank loans and banking facilities granted to the Group (note 23(c)).

d) Fair value measurement of properties

(i) Fair value hierarchy

The following table presents the fair value of the Group's properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair Value Measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

14. INVESTMENT PROPERTIES *(Continued)*

d) *Fair value measurement of properties (Continued)*

(i) *Fair value hierarchy (Continued)*

		Fair value measurements as at 31 December 2014 categorised into		
	Fair value at 31 December 2014 RMB'000	**Level 1 RMB'000**	**Level 2 RMB'000**	**Level 3 RMB'000**
Group				
Recurring fair value measurement				
Investment properties:				
– Commercial – PRC	**92,420**	**—**	**—**	**92,420**

		Fair value measurements as at 31 December 2013 categorised into		
	Fair value at 31 December 2013 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Group				
Recurring fair value measurement				
Investment properties:				
– Commercial – PRC	88,810	—	—	88,810

During the years ended 31 December 2014 and 2013, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

14. INVESTMENT PROPERTIES *(Continued)*

d) *Fair value measurement of properties (Continued)*

(ii) *Information about Level 3 fair value measurements*

	Valuation techniques	Unobservable input	Range
Investment properties – Commercial – Mainland China	(i) Direct comparison method	Sales evidence of comparable properties (adjusted for the difference in the quality and location of the properties)	—
	(ii) Discounted cash flow	Risk-adjusted discount rate (i.e. market rental yield)	3.5% - 4.5% (2013: 4.5%)
		Expected market rental growth	2% - 5% (2013: 3% - 5%)
		Expected occupancy rate	100% (2013: 60% - 80%)

The fair value of investment properties located in Mainland China is determined by (i) direct comparison method with reference to the sales evidence of comparable properties (adjusted for difference in the quality and location of the properties) or where appropriate, (ii) 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 rate used has been adjusted for the quality and location of the buildings and the tenant credit quality. The fair value measurement is positively correlated to the sales price of comparable properties, the expected market rental growth and the occupancy rate, and negatively correlated to the risk-adjusted discount rate.

The movements during the year in the balance of these Level 3 fair value measurements are as follows:

	The Group	
	2014	**2013**
	RMB'000	RMB'000
Investment properties – Commercial – Mainland China		
At 1 January	**88,810**	76,750
Net gain from a fair value adjustment recognised in valuation gains on investment properties in profit or loss	**3,610**	12,060
At 31 December	**92,420**	88,810

14. INVESTMENT PROPERTIES *(Continued)*

e) The Group leases out investment properties under operating leases. The leases run for a period for two to four years (2013: two to three years). None of the leases include contingent rentals.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2014 **RMB'000**	2013 RMB'000
Within 1 year	**2,709**	1,238
After 1 year but within 5 years	**3,300**	993
	6,009	2,231

f) All properties held under operating lease that would otherwise meet the definition of investment property are classified as investment property.

15. 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).

16. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2014	2013
	RMB'000	RMB'000
Unlisted shares, at cost	**216,957**	216,223

16. INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

Name	Place of incorporation/ operations	Proportion of ownership interest held by the Group at effective interest	Class of shares held	Particulars of issued and paid up capital	Principal activities
Kingworld Medicine and Healthcare Group Limited ("BVI Kingworld")	BVI/Hong Kong	100%	Ordinary	111 shares of US$1 each	Investment holding
Kingworld Medicine Healthcare Limited	Hong Kong	100%	Ordinary	195,546,680 shares	Investment holding and distribution sale of branded imported pharmaceutical and healthcare products in Hong Kong
金活(香港)控股有限公司 Kingworld (Hong Kong) Holdings Limited	Hong Kong	100%	Ordinary	1 share	Investment holding
深圳市金活醫藥有限公司 SZ Kingworld Medicine Company Limited (note (b))	The PRC	100%	Registered	RMB180,900,000	Distribution sale of branded imported pharmaceutical and healthcare products in the PRC

Notes:

a) Except for BVI Kingworld which is directly owned by the Company, all other subsidiaries are indirectly owned by the Company.

b) Wholly-foreign owned enterprise established in the PRC.

c) The English name of the above PRC subsidiary is for identification purpose only.

17. 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.

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

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

	2014 RMB'000	2013 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 RMB'000	2013 RMB'000
Share of the joint venture's capital commitments		
at the end of the reporting period (note 29):		
Contracted but not provided for:		
Capital expenditure for construction of office premise and warehouse	**1,730**	1990

(Expressed in Renminbi unless otherwise indicated)

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

For the year ended 31 December 2014, net gains, after deducting the deferred taxation thereon, arising from revaluation of properties in construction of Zhuhai Jinming which was reclassified from property, plant and equipment to investment properties with effect on 31 July 2013, of RMB81,000 (2013: RMB11,672,000) and Nil (2013: RMB8,972,000) have been credited to Zhuhai Jinming's profit or loss and other comprehensive income, respectively.

The fair value of Zhuhai Jinming's investment properties as at 31 December 2014, 31 December 2013 and 31 July 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 31 December 2014, 31 December 2013 and 31 July 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% (2013: 6.5%)
– Commercial-Mainland China		Expected market rental growth	2% - 5% (2013: 3%-5%)
		Expected occupancy rate	70% - 90% (2013: 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.

18. INVENTORIES

	The Group	
	2014	2013
	RMB'000	RMB'000
Trading stocks	**70,016**	39,917

The analysis of the amount of inventories recognised as an expense is as follows:

	2014	2013
	RMB'000	RMB'000
Carrying amount of inventories sold	**502,911**	420,109
Write-down of inventories	**1,102**	3,475
	504,013	423,584

19. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**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	**114**	—
Amount due from a subsidiary (note (g))	**—**	—	**9,957**	25,416
Amount due from a director (note (h))	**2,853**	—	**—**	—
Loans and receivables	**372,505**	349,476	**10,071**	25,416
Prepayments	**22,548**	16,098	**—**	—
Trade and other deposits (note (f))	**15,812**	1,034	**—**	—
Trade deposits to related parties (note 31(b))	**6,909**	6,548	**—**	—
	417,774	373,156	**10,071**	25,416

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

19. TRADE AND OTHER RECEIVABLES *(Continued)*

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	
	2014 RMB'000	2013 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. Further details on the Group's credit policy are set out in note 27(a).

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:

	The Group	
	2014 RMB'000	2013 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.

19. 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 is as follows:

	The Group	
	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 (note 23(c)).

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 33.

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

g) The amount due from a subsidiary is unsecured, interest free and have no fixed terms of repayment.

19. TRADE AND OTHER RECEIVABLES *(Continued)*

h) Name of director — Zhao Li Sheng

Name of director	Zhao Li Sheng
Position	Executive director and chief executive officer
Terms of the amount due	
– duration and repayment terms	Repayable on demand
– interest rate	Interest free
– security	None
Balance of the amount due	
– at 1 January 2013, 31 December 2013 and 1 January 2014	Nil
– at 31 December 2014	RMB2,853,000
Maximum balance outstanding	
– during 2014	RMB2,853,000
– during 2013	Nil

There was no amount due but unpaid, or any provision made against the amount due from a director at 31 December 2014.

20. PLEDGED BANK DEPOSITS

All bank deposits are pledged to banks as security for bank loans and banking facilities granted to the Group (see note 23(c)). Pledged banks deposits carry effective interest rate of 0.35%-3.95% (2013: 0.35%) per annum as at 31 December 2014.

21. CASH AND BANK BALANCES

	The Group		The Company	
	2014 RMB'000	2013 RMB'000	**2014 RMB'000**	2013 RMB'000
Bank balances	**199,995**	91,206	**139,122**	43,247
Cash on hand	**183**	210	**—**	—
Cash and cash equivalents in the consolidated statement of cash flows	**200,178**	91,416	**139,122**	43,247
Bank deposits with maturity over three months	**29,850**	—	**—**	—
Cash and bank balances in the consolidated and the Company's statements of financial position	**230,028**	91,416	**139,122**	43,247

Deposits with banks carry effective interest rates ranging from 0.01% to 2.9% (2013: 0.01% to 3.0%) per annum as at 31 December 2014.

22. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables (note (b))	**157,172**	122,105	**—**	—
Accruals	**4,818**	4,677	**607**	737
Other payables	**21,848**	25,339	**10**	—
Amounts due to subsidiaries (note (c))	**—**	—	**7,900**	5,907
Financial liabilities measured at amortised cost	**183,838**	152,121	**8,517**	6,644
Trade deposits received	**2,224**	2,249	**—**	—
	186,062	154,370	**8,517**	6,644

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.

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

c) The amounts due to subsidiaries are unsecured, interest free and have no fixed terms of repayment.

23. BANK LOANS

The bank loans are secured and repayable as follows:

	The Group	
	2014	2013
	RMB'000	RMB'000
Within 1 year or on demand	**228,677**	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:

	The Group	
	2014	2013
Effective interest rates:		
Fixed rate loans	**2.0% - 5.0%**	3.9% - 7.2%

c) As at 31 December 2014, the bank loans were secured by the following assets of the Group.

	The Group	
	2014	2013
	RMB'000	RMB'000
Investment property (note 14(c))	**86,920**	83,610
Bills receivables (note 19(e))	**47,116**	26,076
Pledged bank deposits (note 20)	**84,097**	18,103
	218,133	127,789

24. MANDATORILY CONVERTIBLE BONDS

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Liability component:				
Fair value of interest payments up to 16 June 2016	**10,603**	—	**10,603**	—
At 31 December	**10,603**	—	**10,603**	—
Representing:				
Current portion	**7,277**	—	**7,277**	—
Non-current portion	**3,326**	—	**3,326**	—

On 15 September 2014, the Company and 國藥集團資本管理有限公司 (Sinopharm Capital Management Company Limited*) (the "Subscriber"), an independent third party, entered into a subscription agreement (as supplemented by a supplemental agreement and second supplemental agreement dated 9 October 2014 and 15 December 2014 respectively), pursuant to which the Subscriber agreed to subscribe and pay for the Company's mandatorily convertible bonds with an aggregate principal amount of HK$133,837,500 (equivalent to RMB105,584,000). On 17 December 2014, the mandatorily convertible bonds were issued to Shine Light Investment Fund and Legend Times Corporation Limited (the "Holders"), as designated by the Subscriber, with net proceeds of RMB105,448,000 after deducting issue expenses. The mandatorily convertible bonds bear interest at 7.4% per annum and will mature on 16 June 2016. The mandatorily convertible bonds entitle the Holders to convert the mandatorily convertible bonds into 62,250,000 ordinary shares of the Company at a conversion price of HK$2.15 at any time on or after 17 December 2014 up to the maturity date, provided that each conversion must be in respect of a minimum aggregate principle amount of HK$13,383,750 (equivalent to RMB10,558,000). Any mandatorily convertible bonds not converted up to the maturity date are mandatory to be converted into ordinary shares of the Company at the maturity date.

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

	Liability component RMB'000	**Equity component RMB'000**	**Total RMB'000**
At 1 January 2013, 31 December 2013 and 1 January 2014	—	—	—
Mandatorily convertible bonds issued	10,543	94,905	105,448
Imputed interest charged to consolidated statement of profit or loss	60	—	60
At 31 December 2014	**10,603**	**94,905**	**105,508**

24. MANDATORILY CONVERTIBLE BONDS *(Continued)*

At the date of issue of the mandatorily convertible bonds, the fair value of the liability component of the mandatorily convertible bonds was determined based on a valuation performed by ROMA Appraisals Limited, an independent firm of professional valuers with recognised qualifications and experiences using discounted cash flow model. The effective interest rate of the liability component is 12.9% per annum. The liability component represents the fair value of the future interest payable to the Holders up to its maturity date on 16 June 2016. The residual amount was assigned as the equity component of the mandatorily convertible bonds.

No new shares of the Company were issued upon exercise of the mandatorily convertible bonds during the year ended 31 December 2014.

25. CURRENT AND DEFERRED TAX

a) *Current taxation in the consolidated statement of financial position represents:*

	The Group	
	2014	2013
	RMB'000	RMB'000
At 1 January	**10,509**	9,604
Provision for the year		
– Hong Kong Profits Tax	**642**	—
– PRC Income Tax	**9,258**	13,022
	9,900	13,022
Paid during the year	**(7,541)**	(12,117)
At 31 December	**12,868**	10,509
Representing		
– Hong Kong Profits Tax	**642**	—
– PRC Income Tax	**12,226**	10,509

25. CURRENT AND DEFERRED TAX *(Continued)*

b) *Deferred tax liabilities recognised*

The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	The Group		
	Revaluation of investment properties	**Revaluation of other property**	**Total**
	RMB'000	RMB'000	RMB'000
At 1 January 2013	6,215	172	6,387
Charged to consolidated statement of profit or loss (note 7(a))	3,015	—	3,015
At 31 December 2013	9,230	172	9,402
At 1 January 2014	**9,230**	**172**	**9,402**
Charged to consolidated statement of profit or loss (note 7(a))	**902**	**—**	**902**
At 31 December 2014	**10,132**	**172**	**10,304**

c) *Deferred tax assets and liabilities not recognised*

Save as disclosed in note 7(c), there were no significant unrecognised deferred tax assets and liabilities of the Group and the Company as at 31 December 2014 and 2013.

26. SHARE CAPITAL AND RESERVES

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of the equity between the beginning and the end of the year are set out below:

	Share capital RMB'000 (note a)	Share premium RMB'000 (note b)	Contributed surplus RMB'000 (note d)	Convertible bonds equity reserve RMB'000 (note f)	Warrant reserve RMB'000 (note g)	Exchange reserve RMB'000 (note h)	Retained profits RMB'000	Total RMB'000
At 1 January 2014	**53,468**	**152,700**	**95,863**	**—**	**—**	**(28,984)**	**5,195**	**278,242**
Change in equity:								
Loss for the year	**—**	**—**	**—**	**—**	**—**	**—**	**(8,092)**	**(8,092)**
Other comprehensive income for the year	**—**	**—**	**—**	**—**	**—**	**837**	**—**	**837**
Total comprehensive income/(loss) for the year	**—**	**—**	**—**	**—**	**—**	**837**	**(8,092)**	**(7,255)**
Issuance of mandatorily convertible bonds	**—**	**—**	**—**	**94,905**	**—**	**—**	**—**	**94,905**
Dividends (note 9(b))	**—**	**—**	**—**	**—**	**—**	**—**	**(18,862)**	**(18,862)**
At 31 December 2014	**53,468**	**152,700**	**95,863**	**94,905**	**—**	**(28,147)**	**(21,759)**	**347,030**
At 1 January 2013	53,468	152,700	95,863	—	300	(20,198)	7,314	289,447
Change in equity:								
Profit for the year	—	—	—	—	—	—	11,962	11,962
Other comprehensive loss for the year	—	—	—	—	—	(8,786)	—	(8,786)
Total comprehensive (loss)/income for the year	—	—	—	—	—	(8,786)	11,962	3,176
Expiry of warrants	—	—	—	—	(300)	—	300	—
Dividends (note 9(b))	—	—	—	—	—	—	(14,381)	(14,381)
At 31 December 2013	53,468	152,700	95,863	—	—	(28,984)	5,195	278,242

26. SHARE CAPITAL AND RESERVES *(Continued)*

a) *Share Capital*

	Number of shares '000	Amount HK$'000	Amount equivalent to RMB$'000
Authorised:			
Ordinary shares of HK$0.1			
At 1 January 2013, 31 December 2013, 1 January 2014 and 31 December 2014	10,000,000	1,000,000	877,900
Issued and fully paid:			
Ordinary shares of HK$0.1			
At 1 January 2013, 31 December 2013, 1 January 2014 and 31 December 2014	622,500	62,250	53,468

b) *Share premium*

The application of the share premium account of the Company is governed by the Companies Law of the Cayman Islands.

c) *Statutory and discretionary reserves*

The Group's PRC subsidiaries are required to transfer 10% of their net profits as determined in accordance with the PRC regulations to the statutory reserve until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders.

The transfer of net profits to the discretionary reserve of the Group's PRC subsidiaries is determined by the shareholders in general meetings in accordance with the articles of association and the PRC regulations.

The statutory and discretionary reserves are non-distributable. They can be used to reduce previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

d) *Contributed surplus*

The Group's contributed surplus represents the difference between the nominal value of the shares issued by the Company and the aggregate of the share capital and share premium of the subsidiaries acquired upon a group reorganisation (the "Reorganisation") which was completed on 3 November 2010 in preparation for listing of shares of the Company on the Main Board of the Stock Exchange and rationalising the Group's structure.

The Company's contributed surplus represents the excess of total net assets of the subsidiaries acquired, pursuant to the Reorganisation, over the nominal value of the Company's shares issued in exchange thereof.

26. SHARE CAPITAL AND RESERVES *(Continued)*

e) *Property revaluation reserve*

The property revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for leasehold land and buildings held for own use in notes 2(g).

f) *Convertible bonds equity reserve*

The convertible bonds equity reserve represents the value of the unexercised equity component of the mandatorily convertible bonds issued by the Group, as set out in note 24, recognised in accordance with the accounting policy adopted for mandatorily convertible bonds in note 2(u).

g) *Warrant reserve*

Warrant reserve represented the net proceeds received from the issue of warrants of the Company. The reserve would be transferred to share capital and share premium accounts upon the exercise of the warrants.

On 22 September 2011, the Company issued 37,000,000 unlisted warrants at the issue price of HK$0.01 per warrant. Each warrant was entitled to subscribe for one new ordinary share of the Company at an exercise price of HK$1.4 per share for a period of 18 months commencing from the issue date of the warrants. During the year ended 31 December 2013, no new shares were issued upon exercise of the warrants. The entire warrants of the Company had not been exercised and were fully lapsed on 21 March 2013.

h) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of the Group's operations outside Mainland China. The reserve is dealt with in accordance with the accounting policy set out in note 2(r).

i) *Distributable reserves*

i) Under the Companies Law of the Cayman Islands, the funds in the share premium account and contributed surplus account of the Company are distributable to the owners of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

ii) At 31 December 2014, the aggregate amount of reserves available for distribution to owners of the Company was RMB226,804,000 (2013: RMB253,758,000). After the end of the reporting period, the directors proposed a final dividend of HK1.92 cents (equivalent to RMB1.51 cents) (2013: HK3.86 cents (equivalent to RMB3.03 cents)) per share amounting to RMB9,400,000 (2013: RMB18,862,000) (note 9(a)). The proposed final dividend has not been recognised as a liability at the end of the reporting period.

26. SHARE CAPITAL AND RESERVES *(Continued)*

j) *Capital management*

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while structure regularly. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt.

The Group monitors its capital structure on the basis of net debt to equity ratio. The Group defines net debt as interest-bearing bank loans and liability component of mandatorily convertible bonds, less pledged bank deposits and cash and bank balances. Equity comprises all components of equity.

The Group's net debt to equity ratio at 31 December 2014 and 2013 were as follows:

	2014 **RMB'000**	2013 RMB'000
Bank loans	**228,677**	98,378
Liability component of mandatorily convertible bonds	**10,603**	—
Total debt	**239,280**	98,378
Less: Pledged bank deposits	**(84,097)**	(18,103)
Cash and bank balances	**(230,028)**	(91,416)
Adjusted net debt	**—**	—
Total equity	**570,975**	457,424
Net debt to equity ratio	**0%**	0%

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements in either the current or prior years.

27. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The Group's major financial instruments include cash and bank balances, pledged bank deposits, trade and other receivables and payables and bank loans. The Company's major financial instruments include cash and bank balances, amounts due from and to subsidiaries and other payables. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, interest rate risk, currency risk and business risk. The policies on how to mitigate these risks are set out as below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

a) *Credit risk*

i) As at 31 December 2014, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated and the Company's statements of financial position after deducting any impairment allowance.

ii) In respect of trade receivables, in order to minimise risk, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of its customers' financial position and condition is performed on each and every major customer periodically. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group does not require collateral in respect of its financial assets. Trade receivables are usually due within 30 days to 90 days.

iii) In respect of trade receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk. At the end of the reporting period, the Group had certain concentration of credit risk of 10% (2013: 7%) of the total trade receivables due from the Group's largest customer and 28% (2013: 25%) of the total trade receivables due from the Group's five largest customers as at 31 December 2014.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 19.

iv) In respect of other receivables, the credit quality of the debtors is assessed by taking into account of their financial position, relationship with the Group, credit history and other factors. Management regularly reviews the recoverability about these other receivables and follow up the amounts overdue, if any. The directors are of the opinion that the probability of default by counterparties is low.

v) The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings given by international credit-rating agencies.

vi) With respect to credit risk arising from amounts due from a subsidiary and a director, the Company's exposure to credit risk arising from default of the counterparties is limited as the counterparties have good history of repayment and the Company does not expect to incur a significant loss for uncollected amounts due from a subsidiary and a director.

27. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

b) *Liquidity risk*

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to board approval. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following liquidity risk tables set out the remaining contractual maturities at the end of the reporting period of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current rates at the end of the reporting period) and the earliest date the Group and the Company is required to pay:

	The Group		
	Within 1 year or on demand RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amount RMB'000
2014			
Non-derivative financial liabilities			
Trade and bills payables	**157,172**	**157,172**	**157,172**
Accruals	**4,818**	**4,818**	**4,818**
Other payables	**21,848**	**21,848**	**21,848**
Bank loans	**234,832**	**234,832**	**228,677**
Liability component of mandatorily convertible bonds	**11,893**	**11,893**	**10,603**
	430,563	**430,563**	**423,118**
2013			
Non-derivative financial liabilities			
Trade and bills payables	122,105	122,105	122,105
Accruals	4,677	4,677	4,677
Other payables	25,339	25,339	25,339
Bank loans	101,409	101,409	98,378
	253,530	253,530	250,499

27. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

b) *Liquidity risk* *(Continued)*

	The Company		
	Within 1 year or on demand RMB'000	**Total contractual undiscounted cash flow RMB'000**	**Carrying amount RMB'000**
2014			
Non-derivative financial liabilities			
Accruals	**607**	**607**	**607**
Other payables	**10**	**10**	**10**
Amounts due to subsidiaries	**7,900**	**7,900**	**7,900**
Liability component of mandatorily convertible bonds	**11,893**	**11,893**	**10,603**
	20,410	**20,410**	**19,120**
2013			
Non-derivative financial liabilities			
Accruals	737	737	737
Amounts due to subsidiaries	5,907	5,907	5,907
	6,644	6,644	6,644

c) *Interest rate risk*

The Group is exposed to cash flow interest rate risk in relation to bank balances (note 21) and fair value interest rate risk in relation to fixed-rate bank loans, bank balances and pledged bank deposits (notes 23, 21 and 20).

Interest rate risks are managed by the Group by maintaining an appropriate mix between fixed and variable rate borrowings.

27. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

c) *Interest rate risk* *(Continued)*

i) *Interest rate profile*

The following table details the interest rate profile of the Group's bank loans, bank balances and deposits and the Company's bank balances at the end of the reporting period:

	The Group			
	2014		2013	
	Effective interest rates %	**RMB'000**	Effective interest rates %	RMB'000
Fixed rate borrowings:				
Bank loans	**2.0-5.0**	**228,677**	3.9-7.2	98,378
Variable rate borrowings:				
Bank loans	**—**	**—**	—	—
Total borrowings		**228,677**		98,378
Net fixed rate borrowings as a percentage of total borrowings		**100%**		100%
Variable rate bank balances	**0.01-0.35**	**85,038**	0.01-0.35	18,863
Fixed rate bank balances	**0.9-2.9**	**144,807**	3.0	72,343
Fixed rate pledged bank deposits	**0.35-3.95**	**84,097**	0.35	18,103

27. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

c) *Interest rate risk (Continued)*

i) *Interest rate profile (Continued)*

	The Company			
	2014		2013	
	Effective interest rates		Effective interest rates	
	%	**RMB'000**	%	RMB'000
Fixed rate borrowings:				
Bank loans	**—**	**—**	—	—
Variable rate borrowings:				
Bank loans	**—**	**—**	—	—
Total borrowings		**—**		—
Net fixed rate borrowings as a percentage of total borrowings		**—**		—
Variable rate bank balances	**0.01**	**4,315**	0.01	1,892
Fixed rate bank balances	**0.9-2.9**	**134,807**	3.0	41,355
Fixed rate pledged bank deposits	**—**	**—**	—	—

27. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

c) *Interest rate risk* ***(Continued)***

ii) ***Sensitivity analysis***

All of the bank loans, bank balances and the pledged deposits of the Group which are fixed rate instruments are insensitive to any change in interest rates. A change in interest rates at the end of the reporting period would not affect profit or loss.

At 31 December 2014, it is estimated that a general increase/decrease of 100 basis points in interest rates for variable rate bank loans and bank balances, with all other variables held constant, would increase/decrease the Group's and the Company's profit after tax and retained profits by approximately RMB850,000 (2013: RMB189,000) and RMB43,000 (2013: RMB19,000) respectively. Other components of consolidated and the Company's equity would not change in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until end of next annual reporting period. The analysis is performed on the same basis for the 2013.

d) *Currency risk*

The Group is exposed to currency risk primarily through purchases which give rise to trade and other payables, cash and bank balances, trade and other receivables and bank loans and the Company is exposed to currency risk primarily in bank balances. The carrying values of these financial assets and liabilities are denominated in foreign currencies other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily US$, HK$ and RMB to the extent that they are not the functional currency of the operations to which the transactions and balances related. The Group currently does not use any derivative contracts to hedge against its exposure to currency risk. The management monitors foreign exchange exposure by closely reviewing the movement of the foreign currency rate and consider hedging significant foreign currency exposure should the need arise.

27. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

d) *Currency risk (Continued)*

i) *Exposure to currency risk*

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Assets/(Liabilities)				
Cash and bank balances				
US$	**33**	—	**—**	—
HK$	**77**	78	**—**	—
RMB	**32,262**	73,107	**32,231**	41,952
Trade and other receivables				
US$	**1,838**	—	**—**	—
RMB	**10,000**	—	**—**	—
Trade and other payables				
HK$	**(157,172)**	(118,586)	**—**	—
Bank loans				
HK$	**(184,677)**	(60,378)	**—**	—
Total assets				
US$	**1,871**	—	**—**	—
HK$	**77**	78	**—**	—
RMB	**42,262**	73,107	**32,231**	41,952
Total liabilities				
HK$	**(341,849)**	(178,964)	**—**	—

27. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

d) *Currency risk (Continued)*

ii) Sensitivity analysis

The following table indicates the approximate change in the Group's and the Company's profit after tax (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the Group and the Company has significant exposure at the end of the reporting period.

	The Group			The Company		
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
At 31 December 2014						
US$	**5%**	**94**	**—**	**5%**	**—**	**—**
	(5%)	**(94)**	**—**	**(5%)**	**—**	**—**
HK$	**5%**	**(17,089)**	**—**	**5%**	**—**	**—**
	(5%)	**17,089**	**—**	**(5%)**	**—**	**—**
RMB	**5%**	**2,113**	**—**	**5%**	**1,612**	**—**
	(5%)	**(2,113)**	**—**	**(5%)**	**(1,612)**	**—**
At 31 December 2013						
HK$	5%	(3,655)	—	5%	—	—
	(5%)	3,655	—	(5%)	—	—
RMB	5%	(8,944)	—	5%	2,098	—
	(5%)	8,944	—	(5%)	(2,098)	—

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the Group entities' exposure to currency risk for non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until end of next annual reporting period. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes. The analysis is performed on the same basis for 2013.

27. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

e) *Business risk*

The Group has a certain concentration of business risk as 77% (2013: 74%) of its total turnover during the year from a principal product, Nin Jiom Pei Pa Koa (京都念慈庵蜜煉川貝枇杷膏), which was purchased from a sole supplier that is the designated distributor of the manufacturer of Nin Jiom Pei Pa Koa. In November 2013, the Group entered into a one-year period distribution agreement with the manufacturer and the supplier of Nin Jiom Pei Pa Koa, pursuant to which the Group is entitled the non-exclusive distribution right to sell Nin Jiom Pei Pa Koa in certain provinces in the PRC and is granted the credit terms of 60 days. The distribution agreement was renewed in December 2014 for one-year period. If there is any change in consumer taste and demand of the product, or the supplier does not further renew the purchase agreement, the Group's turnover and profitability will be adversely affected.

f) *Estimation of fair values*

The following summarises the major methods and assumptions used in estimating the fair values of the following financial instruments.

i) Liability component of mandatorily convertible bonds

The fair value of the liability component of mandatorily convertible bonds is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments. The fair value of the liability component of mandatorily convertible bonds approximates to its carrying amount at the end of the reporting period.

Save as disclosed above, the fair values of cash and bank balances, pledged bank deposits, trade and other receivables and payables, amounts due from and to subsidiaries, amount due from a director and bank loans with maturity within one year are not materially different from their carrying amounts because of the immediate or short-term maturity of these financial instruments.

28. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set forth in note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

a) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

b) Impairment of assets

If circumstances indicate that carrying value of the Group's property, plant and equipment and deposit paid for property, plant and equipment may not be recoverable, the assets may be considered impaired, and an impairment loss may be recognised in profit or loss. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs of disposal and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volumes, sales revenue and amount of operating costs.

28. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

c) *Valuation of investment properties*

Investment properties are included in the consolidated statement of financial position at their open market value, which is assessed annually by independent qualified valuers, after taking into consideration on an open market value basis calculated by reference to recent market transactions in comparable properties or the net rental income allowing for reversionary income potential.

The assumptions adopted in the property valuations are based on the market conditions existing at the end of the reporting period, with reference to current market sales prices and the appropriate capitalisation rate.

d) *Impairment of receivables*

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers and other debtors to make the required payments. The Group bases the estimates on the aging of the receivable balance, debtors' credit-worthiness, and historical write-off experience. If the financial condition of the customers and debtors were to deteriorate, actual impairment losses would be higher than estimated.

e) *Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the historical experience of selling merchandise of similar nature. It could change significantly as a result of changes in customer taste or competitor actions. The Group reassesses these estimates at the end of the reporting period.

f) *Income tax*

Determining income tax provision involves judgement on the future tax treatment of certain transactions. The directors carefully evaluate tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations.

g) *Investments in subsidiaries*

Investments in subsidiaries are carried at cost less any impairment. Judgement is required when determining whether an impairment existed. In making this judgement, historical data and factors such as industry, sector performance and financial information regarding the subsidiaries are taken into account.

29. COMMITMENTS

a) *Commitments under operating lease*

The Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	2014	2013
	RMB'000	RMB'000
Within one year	**4,100**	4,171
In the second to fifth year inclusive	**953**	3,562
	5,053	7,733

The Group leases certain premises for use as its office and warehouse under operating leases arrangements. Leases for properties are negotiated for terms ranging from one to three years (2013: one to three years). None of the leases include contingent rentals.

b) *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 33)	**189,367**	—
Share of the joint venture's capital commitments (note 17)	**1,730**	1,990

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

30. EMPLOYEE RETIREMENT BENEFITS

The Group participates in a state-managed scheme. The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

Defined contribution retirement plan

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000 (HK$25,000 prior to June 2014). Contributions to the plan vest immediately.

The total expense recognised in profit or loss of RMB5,663,000 (2013: RMB5,828,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

31. 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.

31. RELATED PARTY TRANSACTIONS *(Continued)*

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	The Group 2014 RMB'000	The Group 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	The Group 2014 RMB'000	The Group 2013 RMB'000
Trade deposits included in trade and other receivables (note 19)			
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 19)			
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.

31. RELATED PARTY TRANSACTIONS *(Continued)*

c) Key management personnel remuneration:

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 11 and certain of the highest paid employees as disclosed in note 12, is as follows:

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

32. 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.

33. 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 29). 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.

33. EVENTS AFTER REPORTING PERIOD *(Continued)*

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

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. The goodwill arising on acquisition, provisionally determined, is primarily attributable to expected future profitability of the Target Company.

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.

(Expressed in Renminbi unless otherwise indicated)

34. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATION ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2014

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments and new standards which are not yet effective for the year ended 31 December 2014.

The Group has not early applied any of the following new and revised standards or amendments that have been issued but are not yet effective.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle[6]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle[5]
HKFRS 9	Financial Instruments[1]
HKFRS 14	Regulatory Deferral Accounts[2]
HKFRS 15	Revenue from Contracts with Customers[3]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[5]
Amendments to HKAS 1	Disclosure Initiative[5]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[5]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[4]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[5]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 July 2014
5 Effective for annual periods beginning on or after 1 January 2016
6 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

The Group is in the process of making an assessment of what the impact of these new and revised HKFRSs is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

Financial Summary

The following table summarizes the consolidated results of the Group for the five years ended 31 December:

	For the year ended 31 December				
	2014	2013	2012	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(restated)	(restated)	(restated)
Results					
Turnover	**660,323**	554,763	626,840	606,268	562,534
Profit before taxation	**48,667**	63,214	61,191	71,353	56,816
Income tax	**(10,802)**	(16,037)	(12,656)	(20,322)	(13,953)
Profit for the year	**37,865**	47,177	48,535	51,031	42,863
Attributable to					
Owners of the Company	**37,865**	47,177	48,535	51,031	42,863
Asset and Liabilities					
Total assets	**1,019,489**	730,083	640,327	606,651	733,029
Total liabilities	**448,514**	272,659	217,497	212,154	362,721
Equity attributable to owners of the Company	**570,975**	457,424	422,830	394,497	370,308