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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 01110)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2016

RESULTS HIGHLIGHTS

- Revenue increased by 13.8% to approximately RMB417,467,000 (2015: RMB366,998,000).
- Gross profit increased by 18.3% to approximately RMB136,552,000 (2015: RMB115,427,000).
- Gross profit margin reached 32.7%, representing an increase of 1.2% points (2015: 31.5%).
- Profit for the period for the six months ended 30 June 2016 increased by 41.2% to approximately RMB30,052,000 (2015: RMB21,283,000)
- Basic earnings per share is approximately RMB3.00 cents (2015: RMB2.62 cents).
- The Board did not recommend the payment of any dividends for the six months ended 30 June 2016 (2015: nil).

The board (the “Board”) of directors (the “Directors”) of Kingworld Medicines Group Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2016 (the “Reporting Period” or the “period”) together with the comparative figures for the six months ended 30 June 2015 with the selected notes as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX MONTHS ENDED 30 JUNE 2016 — UNAUDITED
(Expressed in Renminbi)

| | | Six months ended 30 June | |
|------------------------------------|------|---------------------------------|-------------|
| | Note | 2016 | 2015 |
| | | (unaudited) | (unaudited) |
| | | RMB'000 | RMB'000 |
| Revenue | 4 | 417,467 | 366,998 |
| Cost of sales | | (280,915) | (251,571) |
| Gross profit | | 136,552 | 115,427 |
| Other revenue and other net income | | 14,398 | 4,759 |
| Selling and distribution costs | | (64,467) | (43,753) |
| Administrative expenses | | (37,057) | (35,964) |
| Amortisation of intangible assets | | (9,415) | (6,773) |
| Profit from operations | | 40,011 | 33,696 |
| Finance costs | 6(a) | (4,307) | (7,989) |
| Share of profit of a joint venture | | 2,690 | 2,595 |
| Profit before taxation | 6 | 38,394 | 28,302 |
| Income tax | 7 | (8,342) | (7,019) |
| Profit for the period | | 30,052 | 21,283 |
| Attributable to: | | | |
| Owners of the Company | | 20,115 | 17,326 |
| Non-controlling interests | | 9,937 | 3,957 |
| Profit for the period | | 30,052 | 21,283 |
| Earnings per share | 9 | | |
| Basic (RMB cents) | | 3.00 | 2.62 |
| Diluted (RMB cents) | | 3.00 | 2.62 |

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

FOR THE SIX MONTHS ENDED 30 JUNE 2016 - UNAUDITED

(Expressed in Renminbi)

| | Six months ended 30 June | |
|--|---------------------------------|-------------|
| | 2016 | 2015 |
| | (unaudited) | (unaudited) |
| | RMB'000 | RMB'000 |
| Profit for the period | 30,052 | 21,283 |
| | <hr/> | <hr/> |
| Other comprehensive (loss)/income for the period | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange differences on translation of financial statements of entities outside the PRC | (345) | 1,440 |
| Release of fair value reserve upon disposal of available-for-sale financial assets | (2,396) | — |
| | <hr/> | <hr/> |
| | (2,741) | 1,440 |
| | <hr/> | <hr/> |
| Total comprehensive income for the period (net of tax) | 27,311 | 22,723 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Attributable to: | | |
| Owners of the Company | 18,453 | 18,766 |
| Non-controlling interests | 8,858 | 3,957 |
| | <hr/> | <hr/> |
| Total comprehensive income for the period | 27,311 | 22,723 |
| | <hr/> <hr/> | <hr/> <hr/> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE SIX MONTHS ENDED 30 JUNE 2016 - UNAUDITED

(Expressed in Renminbi)

| | Note | At 30 June 2016 (unaudited) RMB'000 | At 31 December 2015 (audited) RMB'000 |
|---|------|---|---|
| Non-current assets | | | |
| Property, plant and equipment | | 18,407 | 15,811 |
| Investment properties | | 107,880 | 107,880 |
| Interest in a joint venture | | 65,630 | 62,940 |
| Deposits paid for property, plant and equipment and leasehold land | | 93,988 | 75,000 |
| Goodwill | | 90,693 | 90,693 |
| Intangible assets | | 106,750 | 116,165 |
| Available-for-sale financial assets | | 16,248 | 9,609 |
| | | 499,596 | 478,098 |
| Current assets | | | |
| Inventories | | 80,083 | 79,005 |
| Trade and other receivables | 10 | 277,552 | 287,110 |
| Available-for-sale financial assets | | 60,500 | 86,296 |
| Other financial asset | | 4,604 | 4,604 |
| Financial assets at fair value through profit or loss | | 17,314 | 14,040 |
| Cash and bank balances | | 153,260 | 132,478 |
| | | 593,313 | 603,533 |
| Current liabilities | | | |
| Trade and other payables | 11 | 134,999 | 159,047 |
| Other financial liability | | 16,362 | 16,362 |
| Bank loans | | 189,604 | 167,560 |
| Liability component of mandatorily convertible bonds | 12 | — | 4,155 |
| Liability component of convertible bonds | 12 | 4,825 | — |
| Current taxation | | 16,438 | 17,059 |
| | | 362,228 | 364,183 |
| Net current assets | | 231,085 | 239,350 |
| Total assets less current liabilities | | 730,681 | 717,448 |
| Non-current liabilities | | | |
| Liability component of convertible bonds | 12 | 102,989 | — |
| Deferred tax liabilities | | 28,770 | 30,182 |
| | | 131,759 | 30,182 |
| NET ASSETS | | 598,922 | 687,266 |
| CAPITAL AND RESERVES | | | |
| Share capital | | 53,468 | 53,468 |
| Reserves | | 440,716 | 537,918 |
| TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY | | 494,184 | 591,386 |
| NON-CONTROLLING INTERESTS | | 104,738 | 95,880 |
| TOTAL EQUITY | | 598,922 | 687,266 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2016 - UNAUDITED
(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 Island on 10 July 2008. The Company is an investment holding company whereas its subsidiaries (the “Group”) are principally engaged in (i) distribution sales of branded imported pharmaceutical and healthcare products, and (ii) manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices in the People’s Republic of China (“PRC”) and Hong Kong.

2. BASIS OF PREPARATION

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

The condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Detail of any changes in accounting policy are set out in note 3.

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 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 its presentation currency.

The preparation of a condensed consolidated financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This condensed consolidated financial statements contain selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2015 annual financial statements. The condensed consolidated financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs.

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties, other financial asset, other financial liability, financial instruments classified as available-for-sale or as trading securities and financial assets at fair value through profit of loss, which are measured at fair value.

The condensed consolidated financial statements are unaudited, but has been reviewed by the Company's audit committee.

3. CHANGES IN ACCOUNTING POLICIES

In the current interim period, the Group adopted and applied, for the first time, the following amendments to HKFRSs issued by the HKICPA:

| | |
|--|--|
| Amendments to HKAS 1 | Disclosure Initiative |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer Plants |
| Amendments to HKAS 27 | Equity Method in Separate Financial Statements |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2012-2014 Cycle |
| Amendments to HKFRS 11 | Accounting for Acquisitions of Interests in Joint Operations |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment Entities: Applying the Consolidation Exception |

The application of the above revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

Save as disclosed in the annual report for the year ended 31 December 2015, the directors of the Company anticipate that the application of the other new and revised standards and amendments issued but not yet effective will have no material impact on the results and financial position of the Group.

4. REVENUE

Revenue represents sales of branded imported pharmaceutical and healthcare products, electrotherapeutic and physiotherapeutic devices, and general medical examination devices at net invoiced value of goods sold, less value-added and sales taxes, returns and discounts, during the period.

| | Six months ended 30 June | |
|---------------------------|--------------------------------|--------------------------------|
| | 2016 (unaudited) RMB'000 | 2015 (unaudited) RMB'000 |
| Sales of | | |
| – pharmaceutical products | 256,675 | 229,804 |
| – healthcare products | 78,681 | 65,110 |
| – medical devices | 82,111 | 72,084 |
| | <u>417,467</u> | <u>366,998</u> |

5. SEGMENT INFORMATION

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's director, i.e., the chief operating decision-makers, for the purposes of resource allocation and performance assessment, the Group presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

Distribution sales of pharmaceutical and healthcare products: this segment distributes and sells branded imported pharmaceutical and healthcare products primarily in Hong Kong and the PRC.

Manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices: this segment manufactures and sells electrotherapeutic and physiotherapeutic devices and general medical examination devices. Currently, these activities are primarily carried out in the PRC.

(a) Information about profit or loss, assets and liabilities

Information regarding the Group's reportable segments as provided to the chief operating decision-makers for the purposes of resource allocation and assessment of segment performance for the period is set out below.

| | Distribution sales of pharmaceutical and healthcare products | | | | Manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices | | Total | |
|---|--|--------------------------------|--------------------------------|--------------------------------|---|--------------------------------|--------------------------------|--------------------------------|
| | Hong Kong | | PRC | | PRC | | | |
| | 2016 (unaudited) RMB'000 | 2015 (unaudited) RMB'000 | 2016 (unaudited) RMB'000 | 2015 (unaudited) RMB'000 | 2016 (unaudited) RMB'000 | 2015 (unaudited) RMB'000 | 2016 (unaudited) RMB'000 | 2015 (unaudited) RMB'000 |
| For the six months ended | | | | | | | | |
| Revenue from external customers | 66,941 | 44,122 | 336,565 | 250,792 | 82,111 | 72,084 | 485,617 | 366,998 |
| Inter-segment revenue | 9,415 | — | — | — | — | — | 9,415 | — |
| Reportable segment revenue | <u>76,356</u> | <u>44,122</u> | <u>336,565</u> | <u>250,792</u> | <u>82,111</u> | <u>72,084</u> | <u>495,032</u> | <u>366,998</u> |
| Reportable segment profit/(loss) (adjusted EBITDA) | <u>14,464</u> | <u>17,777</u> | <u>(1,266)</u> | <u>12,929</u> | <u>30,434</u> | <u>16,207</u> | <u>43,632</u> | <u>46,913</u> |
| As at 30 June (unaudited)/ 31 December (audited) | | | | | | | | |
| Reportable segment assets | 197,692 | 178,598 | 578,797 | 569,161 | 227,250 | 278,054 | 1,003,739 | 1,025,813 |
| Reportable segment liabilities | 29,197 | 32,685 | 132,974 | 117,677 | 54,098 | 52,817 | 216,269 | 203,179 |

The measure used for reporting segment profit is “adjusted EBITDA” i.e. “adjusted earnings before interest, taxes, depreciation and amortisation”, where “interest” is regarded as including investment income and “depreciation and amortisation” is regarded as including impairment losses on non-current assets. To arrive at adjusted EBITDA the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as directors' and auditors' remuneration and other head office or corporate administration costs.

(b) Reconciliations of reportable segment profit or loss

| | Six months ended 30 June | |
|---|--------------------------------|--------------------------------|
| | 2016 (unaudited) RMB'000 | 2015 (unaudited) RMB'000 |
| Reportable segment profit derived from Group's external customers and joint venture | 43,632 | 46,913 |
| Other revenue and other net income | 14,398 | 4,759 |
| Depreciation and amortisation | (11,519) | (8,628) |
| Finance costs | (4,307) | (7,989) |
| Unallocated head office and corporate expenses | (3,810) | (6,753) |
| Consolidated profit before taxation | <u>38,394</u> | <u>28,302</u> |

6. PROFIT BEFORE TAXATION

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

| | Six months ended 30 June | |
|--|---|---|
| | 2016 (unaudited) RMB'000 | 2015 (unaudited) RMB'000 |
| a) Finance costs | | |
| Total interest expense on financial liabilities not at fair value through profit or loss: | | |
| Interest on bank loans | 3,959 | 7,261 |
| Interest imputed on the liability component of mandatorily convertible bonds | 266 | 728 |
| Other finance costs | 82 | — |
| Total finance costs | <u>4,307</u> | <u>7,989</u> |
| b) Other items | | |
| Amortisation of intangible assets | 9,415 | 6,773 |
| Cost of inventories (note i) | 280,915 | 251,571 |
| Depreciation | 2,104 | 1,855 |
| Impairment loss on other receivables | 179 | 18 |
| Impairment loss on trade receivables | — | 584 |
| Reversal of impairment loss on trade receivables | (41) | (45) |
| Loss on disposal of property, plant and equipment | 3 | 9 |
| Operating lease charges in respect of land and buildings | 5,362 | 2,366 |
| Rental income from investment properties less direct outgoings of RMB175,000 (six months ended 30 June 2015: RMB210,000) | (1,206) | (1,059) |
| Research and development cost (note ii) | <u>2,355</u> | <u>2,445</u> |

Notes:

- i) Cost of inventories includes approximately RMB1,670,000 (2015: RMB1,287,000) relating to depreciation and operating lease rentals which are included in the respective total amounts disclosed separately above.
- ii) Research and development cost includes approximately RMB339,000 (2015: RMB385,000) relating to depreciation and operating lease rental which are included in the respective total amounts disclosed separately above.

7. INCOME TAX

| | Six months ended 30 June | |
|-------------------------------|--------------------------------|--------------------------------|
| | 2016 (unaudited) RMB'000 | 2015 (unaudited) RMB'000 |
| Hong Kong Profits Tax | | |
| Provision for the period | 2,660 | 2,507 |
| PRC income tax | | |
| Provision for the period | 7,010 | 5,528 |
| Under-provision in prior year | 84 | — |
| | <u>9,754</u> | <u>8,035</u> |
| Deferred tax | | |
| Current period | (1,412) | (1,016) |
| | <u>8,342</u> | <u>7,019</u> |

Notes:

- i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the “BVI”), the Group is not subject to any income tax in the Cayman Islands and the BVI.
- ii) The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2015: 16.5%) to the six months ended 30 June 2016.
- iii) The PRC income tax charge of the Group during the six months ended 30 June 2016 represented mainly the PRC income tax charge from the Group’s PRC subsidiary, Shenzhen Kingworld Medicine Company Limited (“SZ Kingworld”) and is based on a statutory rate of 25% (six months ended 30 June 2015: 25%), except for one of the PRC subsidiaries, Shenzhen Dong Di Xin Technology Company Limited, which is based on a preferential income tax rate of 15% (six months ended 30 June 2015: 15%).

8. DIVIDENDS

- a) The Company’s directors do not recommend the payment of an interim dividend for the six months ended 30 June 2016 and 2015.
- b) Dividends payable to owners of the Company attributable to the previous financial year, approved and paid during the reporting period:

| | Six months ended 30 June | |
|---|--------------------------------|--------------------------------|
| | 2016 (unaudited) RMB'000 | 2015 (unaudited) RMB'000 |
| Final dividend in respect of the previous financial year ended, approved and paid during the reporting period, of HK\$1.53 cents (equivalent to approximately RMB1.31 cents) (2015: HK\$1.92 cents (equivalent to approximately RMB1.51 cents)) | <u>8,140</u> | <u>9,425</u> |

9. EARNINGS PER SHARE

a) *Basic earnings per share*

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

i) *Profit attributable to owners of the Company*

| | Six months ended 30 June | |
|--|---------------------------------|---------------|
| | 2016 | 2015 |
| | (unaudited) | (unaudited) |
| | RMB'000 | RMB'000 |
| Profit for the year attributable to owners of the Company | 20,115 | 17,326 |
| Interest imputed on the liability component of mandatorily convertible bonds | 266 | 608 |
| Earnings for the purpose of basic earnings per share | <u>20,381</u> | <u>17,934</u> |

ii) *Weighted average number of ordinary shares*

| | Six months ended 30 June | |
|---|---------------------------------|--------------------|
| | 2016 | 2015 |
| | (unaudited) | (unaudited) |
| Weighted average number of ordinary shares in issue | 622,500,000 | 622,500,000 |
| Effect of weighted average number of ordinary shares to be issued upon the conversion of mandatorily convertible bonds* | 56,777,473 | 62,250,000 |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | <u>679,277,473</u> | <u>684,750,000</u> |

* Prior to 15 June 2016, 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.

On 15 June 2016, the terms of the convertible bonds were amended pursuant to an agreement entered into between the Company and the Subscriber on 18 May 2016, of which the convertible bonds are no longer mandatorily convertible into ordinary shares of the Company on maturity date, whereas the intension of convention is subject to the consent from both the Company and the Subscriber. Details of the amendments of the convertible bonds are stated in note 12.

b) *Diluted earnings per share*

Diluted earnings per share for the six months ended 30 June 2016 and 2015 was the same as the basic earnings per share because both of the exercise price of the share options granted and the conversion price of the convertible bonds were higher than the weighted average market price of the Company's shares during the period.

10. TRADE AND OTHER RECEIVABLES

As of the end of the reporting period, the ageing analysis of trade and bills receivables (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

| | At 30 June 2016 (unaudited) RMB'000 | At 31 December 2015 (audited) RMB'000 |
|--|--|--|
| 0-90 days | 116,363 | 132,703 |
| 91-180 days | 37,046 | 23,094 |
| 181-365 days | 1,319 | 15,412 |
| More than 1 year | 248 | 249 |
| | <hr/> | <hr/> |
| Total trade and bills receivables, net of allowance for doubtful debts | 154,976 | 171,458 |
| Other receivables | 27,605 | 27,271 |
| Other loan | 46,362 | 45,446 |
| Amount due from a director | 2,935 | 2,914 |
| | <hr/> | <hr/> |
| Loans and receivables | 231,878 | 247,089 |
| Prepayments | 17,925 | 23,275 |
| Trade and other deposits | 1,255 | 964 |
| Trade deposits to related parties | 26,494 | 15,782 |
| | <hr/> | <hr/> |
| | 277,552 | 287,110 |
| | <hr/> <hr/> | <hr/> <hr/> |

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

11. TRADE AND OTHER PAYABLES

The credit terms granted by the suppliers were generally 45 days to 90 days. Ageing analysis of trade payable is presented based on invoice date as of the end of the reporting period as follows:

| | At 30 June 2016 (unaudited) RMB'000 | At 31 December 2015 (audited) RMB'000 |
|--|--|--|
| 0-90 days | 98,295 | 116,386 |
| 91-180 days | 1,764 | — |
| 181-365 days | 6 | — |
| More than 1 year | 8 | — |
| | <hr/> | <hr/> |
| Total trade payables | 100,073 | 116,386 |
| Accruals | 6,144 | 10,314 |
| Other payables | 14,703 | 22,087 |
| | <hr/> | <hr/> |
| Financial liabilities measured at amortised cost | 120,920 | 148,787 |
| Trade deposits received | 14,079 | 10,260 |
| | <hr/> | <hr/> |
| | 134,999 | 159,047 |
| | <hr/> <hr/> | <hr/> <hr/> |

12. Convertible bond

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 (“Original Maturity Date”). 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. As at 31 December 2015, the carrying amount of liability component and equity component was RMB 4,155,000 and RMB 94,905,000 respectively.

On 18 May 2016, the Company entered into a supplemental deed (the “Supplemental Deed”) with Holders pursuant to which the Company, the Subscriber and the Holders agreed to amend certain terms and conditions of the convertible bond in the aggregate principal of HK\$133,837,500 issued by the Company to the Holders pursuant to the subscription agreement (as supplemented and amended from time to time) on 15 September 2014 (the “New Convertible Bond”) as follows:

- 1) the maturity date of the Convertible Bond will be extended for 18 months from 16 June 2016 (the “Original Maturity Date”) and the conversion period will accordingly be extended for 18 months to 16 December 2017 (the “New Maturity Date”);
- 2) from the first date after the Original Maturity Date to the New Maturity Date, the New Convertible Bond will bear interest at the rate of 5.0% per annum of the outstanding principal amount of the Convertible bond;
- 3) the Company and the Holders has to obtain mutual agreement and agree in writing to convert the whole of the principal moneys outstanding under the New Convertible Bond into conversion shares on the New Maturity Date (“Full Conversion”). If either the Company or the Holders does not agree the Full Conversion, on the New Maturity Date, the Company shall redeem the principal moneys outstanding under the Convertible Bond together with any unpaid interest accrued up to and including the New Maturity Date (if any); and
- 4) the Holders and/or their respective connected person(s) (as defined in the Listing Rules) and/or person(s) acting in concert (as defined in the Takeovers Code) shall, at any time during the conversion period, have no right to nominate one non-executive director to the board of director of the Company and/or other positions of the Group (if applicable) when such persons hold in aggregate less than 5% of the total issued share capital of the Company and shall procure the nominated person(s) to resign from the position of non-executive director and other position of the Group (if applicable).

The amendment of conditions was duly passed as an ordinary resolution by the independent shareholders at the extraordinary general meeting on 15 June 2016. On this date, the original mandatorily convertible bonds was extinguished, and the New Convertible Bonds was recognised. As at 30 June 2016, the carrying amount of the liability component and equity component of the New Convertible Bonds was RMB 107,814,000 and RMB7,506,000 respectively.

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

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET AND INDUSTRY REVIEW

1. Intensified reform with innovation and upgrade is fully implemented in the pharmaceutical industry

Pharmaceutical industry is one of the world's fastest-growing sunrise industry in recent years. With the economic development of countries all over the world, especially that of emerging markets, and improving standard of living, global medical expense has been rising, which foster the growth of pharmaceutical manufacturing industry. According to the statistical report of IMS, a globally authoritative pharmaceutical marketing consultancy, the sales of global pharmaceutical market increased from US\$601.1 billion in 2014 to US\$989.3 billion in 2015, with a CAGR of 5.7%, which is higher than the growth rate of the global GDP of the same period.

China's pharmaceutical industry is also undergoing gradual reform and active transformation. Since 2015, a number of policies regarding pharmaceutical industry has been put in place. Tighter restriction on spending of medical insurance, implementation of hierarchical diagnosis, multi-site practice of physicians, reform on the system for review and approval of medicines and medical apparatus, precision medicine and other plans lead the overall pharmaceutical industry towards a more efficient and reasonable direction.

During 2016, China's pharmaceutical industry has entered the stage of intensified reform. As mentioned by Premier of the State Council, Li Keqiang, in the Report on the Work of the Government at the Fourth Session of the 12th National People's Congress in March 2016, main tasks in 2016 are to advance the coordinated reform of medical services, medical insurance, and the medicine industry; to promote innovation and upgrading of pharmaceutical industry to improve public service and maintain stable growth; to focus on people's urgent needs through strengthening the research, development and innovation of original ground medicine and first generic drug as well as accelerating the industrialization of medicines for tumors, diabetes, cardiovascular diseases and other frequently occurring diseases and rare diseases; to improve taxation, pricing, government procurement and other policies and to support industrialization of pharmaceutical industry and promotion of new products. In the meantime, the NDRC has issued the draft outline of the 13th Five-Year Plan, which mentioned the need to work for progress in building a Healthy China. In view of these, intensifying pharmaceutical reform will be one of the important tasks of China in 2016.

In addition, there has been a surge in the number of mergers and acquisitions in the pharmaceutical industry. A number of large-sized pharmaceutical enterprises is speeding up their progress of mergers, acquisitions and reorganization. Through seeks opportunities for mergers and acquisitions in the fields of medical equipment, medical service, internet + medical and biotechnology, enterprises could expand the dimensions of their market and build an industrial chain.

2. Supervision on internet + pharmaceutical industry is enhanced to ensure healthy development which benefits both the country and the people

In recent years, driven by policy support, upgrading internet technology, reform of operating model of traditional pharmaceutical enterprises, assistance from social capital and changes in the consumption habits, internet + pharmaceutical industry has been maintaining its rapid growth momentum as a combination of traditional industry and internet economy. In terms of policies, following the the issuance of Circular of the China Food and Drug Administration on Seeking Comments for the Measures for the Supervision and Administration of Online Food Operation (Draft for Comment) 《互聯網食品藥品經營監督管理辦法(徵求意見稿)》 by China Food and Drug Administration in 2014, which includes appropriate relaxation of sales of prescription drug on internet platforms which has obtained respective qualification certificates as well as the Opinions of the State Council on Vigorously Developing E-Commerce and Accelerating the Cultivation of New Economic Momentum 《國務院關於大力發展電子商務加快培育經濟新動力的意見》 in 2015, there is a gradual relaxation of the restrictions on China's pharmaceutical e-commerce, which encourages the development of pharmaceutical e-commerce.

According to China Medical E-Commerce Industry Market Research and Investment Forecast Report, 2016 – 2020 《二零一六至二零二零年中國醫藥電商行業深度調研及投資前景預測報告》 issued by CIconSulting, the transaction size of pharmaceutical e-commerce in China increased from RMB150 million in 2010 to 6.8 billion in 2014, with an annual growth rate of 174% on average, accounting for 2.41% of pharmaceutical retailing market, 0.51% of pharmaceutical market and 0.06% of e-commerce market.

The year 2016 has been a challenging year for internet + pharmaceutical industry for the reason that a series of issues including pharmaceutical quality and safety, distribution safety and medication safety have been revealed despite rapid growth of internet pharmaceutical sales. In this regard, the State has expanded efforts in supervising examination of operational qualification and quality assessment of medicines of pharmaceutical e-commerce platforms this year. In June 2016, as a representative of pharmaceutical internet retailing pilot of B2C third-party platform, Tmall Drugstore delivered the Notice on Urgent Controls of Drug Categories to the vendors at its platform to announce the suspension of internet pharmaceutical retailing business while business of medical devices and health products operate normally. The reason was that the certificate for “pharmaceutical internet retailing pilot of B2C third-party platform” previously granted by the China Food and Drug Administration expired and was not renewed. The industry are of view that the State has initiated reform of internet pharmaceutical sales and will continue to build a comprehensive regulatory system.

In such favorable environment with transformation and reform of the internet + pharmaceutical industry, the Group will adhere to standard operation and improve the sales and marketing of its health products on e-commerce platforms.

3. New tax policy for cross border e-commerce has been issued to promote systematical and healthy development of the industry

China's cross border e-commerce industry has seen rapid developments in recent years and transaction volume continues to grow. According to the China's E-commerce Market Monitoring Report 2015 《二零一五年度中國電子商務市場資料監測報告》 issued by the China E-Business Research Center in 2015, the transaction volume of China's cross border e-commerce was RMB5.4 trillion, an increase of 28.6% year-on-year, of which the transaction volume of cross-border exports reached RMB4.49 trillion and that of cross-border imports reached RMB907.2 billion. Cross-border e-commerce has already become part of the economy linking China with the world. According to the estimate of the Ministry of Commerce, in 2016, the transaction volume of China's cross-border e-commerce will reach RMB6.5 trillion, accounting for 19% of total volume of foreign trade, with an annual growth rate of almost 30%.

In March 2016, the Ministry of Finance of the PRC issued a Notice of Taxation on the Tax Policies on Cross-Border E-Commerce Retail Imports 《關於跨境電子商務零售進口稅收政策的通告》, which provides that the limit for a single transaction of an individual is RMB2,000 and that for full year is RMB20,000. Import goods of cross-border e-commerce retailing within the limit are exempted from tariffs but subject to 70% of value-added tax and consumption tax.

The new taxation system reflects further improvement made by the State on cross-border e-commerce industry as well as enhancement of regulatory efforts for such industry, which allow the overall industry to move towards standardization and institutionalization and to achieve long-term healthy growth.

4. Health consciousness of the public has raised and boosts demand for the market of imported health product

With increasing national income and living standard, rapidly aging population, the complete introduction of two-child policy and deepening public concept of health and well-being, there are higher demand and more investment in the field of daily health care. Consumption on health products are becoming more popular, thereby drive rapid growth in China's health product market.

With the health product industry started in the 1980s, China has developed rapidly into the world's leading nation for health products. There is an increasing demand in the market, especially for premium health products imported from overseas. According to the Research Report on China's Health Product Industry Development 《中國保健品行業發展研究報告》, import volume of health products has been increasing annually from US\$466 million in 2010 to US\$1.258 billion in 2015. As of 2012, China Food and Drug Administration has approved a total of 693 imported health food, which are mainly from the United States, followed by Hong Kong and Japan. Immune boosting products account for the majority of registered imported species, representing approximately 26%, while nutritional supplement products and antihyperlipidemic agents account for approximately 18% and 12% respectively.

The report also states that average spending on health products represents 0.07% of total expenditure of consumers from China; and that average spending on health products represents 25% of total expenditure of consumers from European countries or the United States. Hence, as people's demand for health products gradually increases, there will be huge space for development of China's health product market.

BUSINESS REVIEW

1. Launched Strategies of integrated operation to foster growth in regional market

During the six months ended 30 June 2016, with respect to its operational strategies, the Group through deepened market penetration, strategic exploration of new markets and diversified development of new products, effectively expanded the distribution network of the Group in the Greater China (including Hong Kong and Macau), optimized and enriched the product mix, continuously improved the sales revenue and profit structure of the Group, and thus fostered intensive growth of product sales. Moreover, the Group has further enhanced management on product prices at terminals as well as placed focus on distribution of product at terminals, display strategies, and deepened the cooperation with the top 100 chains and regional chains, so as to achieve a scientific and reasonable allocation of distribution channels, terminals, human and product resources.

During the Reporting Period, the Group had more than 1,000 distributors throughout the Greater China (including Hong Kong and Macau), covering over 200,000 retail stores and including more than 4,400 Kingworld Health Family product display booths.

With respect to the core products of the Group, namely Nin Jiom Chuan Bei Pei Pa Koa (京都念慈菴蜜煉川貝枇杷膏) and Nin Jiom Chuan Bei Pei Pa Candies (念慈菴枇杷糖) series of products, the Group continuously regarded the sales and marketing control of that series of products as its business focus during the Reporting Period. In April 2015, the import registration licence of Nin Jiom Chuan Bei Pei Pa Koa product has entered the renewal process which lasted for about a year, during which supply and demand as well as sales of the product were affected. In April 2016, the new import registration licence of the product has been successful approved, followed by a rapid recovery of normal supply of the product, distribution and sales of product at terminals in order to meet the huge market demand. Meanwhile, by further strengthening the multi-level market channels control, focusing on the product prices at terminals and display maintenance, sales rebate of distributors, integrated marketing among products and kicking off brand promotional campaigns, etc., the Group effectively facilitates the rapid recovery of monthly sales of the product. With respect to Nin Jiom Chuan Bei Pei Pa Candies product, the Group successfully maintained a steady growth in the market share of the product through the development of diversified sales channels and platforms, constant enrichment in the product specifications and its integrated marketing with Pei Pa Koa products during the Reporting Period. For the six months ended 30 June 2016, sales of Nin Jiom Chuan Bei Pei Pa Koa was approximately RMB236,001,000, representing an increase by 47.6% when comparing to the same period in 2015. Sales of Nin Jiom Chuan Bei Pei Pa Candies was approximately RMB17,193,000, representing a decrease by 27.0% when comparing to the same period in 2015.

With respect to Taiko Seirogan (喇叭牌正露丸), another popular product of the Group, the Group has further enhanced the regional market distribution of the product and placed focus on the terminal control strategy for chains. With strategies such as a reasonable increase in retail price at terminals and to ensure an ample supply of product at terminals in Grade A markets (Fujian and Guangdong), the strengths in selling the product in these markets are continuously enhanced. With respect to terminal network in second and third tier markets, the Group also significantly increased the coverage and sales of Seirogan product in such market network, by practical means of maintaining consistent chain prices, ensuring ample supply, improving product distribution rate on shelves as well as training for staff serving in chain stores. In addition, April to June each year is the exam peak seasons for students, especially for Form 3 students who are under pressure with mid-term exams, the phenomenon of which has affected millions of families. In particular to this special group, with the collaboration of Kingworld Care and Health Foundation with Shenzhen Evening News, the Group organized a series of “Caring our Candidates’ community event, and donated a Candidate Caring Pack comprising of Seirogan to candidates. Through such charitable event, the Group is able to further introduce Seirogan product to target consumer families, which can greatly enhance the recognition and influence of the brand. For the six months ended 30 June 2016, sales of Taiko Seirogan (喇叭牌正露丸) was approximately RMB33,932,000, representing a decrease by 35.5% when comparing to the same period in 2015.

With respect to the third major category of the Group’s products –“External Use Medication category”, which includes Imada Red Flower Oil, Flying Eagle Wood Lok Medicated Oil, Hoe Hin White Flower Embrocation and Mentholatum Menthol Cream, the Group continuously enhanced the building of sales terminals for this category of products during the reporting period. The coverage of terminal network in the second and third tier cities were diffused and expanded upon the stabilization at stable and developed markets, so as to realize further extension of market coverage of the products. As to branding, by carrying out diversified on-site promotional campaigns, combined with donation of supplies and sponsorship for city marathon, community events, charitable events etc., the Group is able to relate more to such target group, and has successfully established a reputable brand image, effectively enhancing its brand recognition and market influence. Furthermore, the GMP modification as conducted by the manufacturers of Imada Red Flower Oil is still progressing in rapid pace. Upon completion, the Group will increase the overall market supply, distribution and marketing effort for the product. Regarding the latest introduction of Hoe Hin White Flower Embrocation product, the Group has placed focus on its consumer market, and developed a diversified community promotional campaign as well as accurate and effective pricing and display strategies, so that the product could achieve sales better than expected during the Reporting Period.

The fourth major category of the Group's products –“Maternal and child product series” includes Culturelle probiotic series product from USA (美國康萃樂益生菌), BRAINSTRONG Prenatal DHA (BRAINSTRONG孕婦DHA), FATBLASTER slimming coconut water from Australia (澳洲減肥瘦身品牌菲拉思德椰子水), BLACKMORES fish oil (澳佳寶魚油), FUYUNHON body care products and Lifeline Care fish oil nutrients from Norway (挪威Lifeline Care魚油營養素) etc. In response to the rapid growth in the current healthcare products consumer market in China, and against the backdrop of huge consumer demand for overseas quality healthcare products by consumers, the Group has been focusing on overseas quality healthcare product brands since it successfully introduced Culturelle probiotic series product from USA (美國康萃樂益生菌) in 2014, and adhering to conduct in-depth market research for the product, introduce quality products, promote branding and marketing, foster consumers' loyalty and strategically deploy market coverage at terminals, which indicated the rapid opening up of online and offline target market for new healthcare products, and effectively enhanced brand recognition. On 24 May 2016, 10brandchina.com announced the Top Ten Brand Ranking for Probiotics in China, in which Culturelle probiotic was ranked first among other probiotic brands in China, becoming China's mostly preferred brand of probiotic in 2016. Thus, the brand has successfully established popularity and recognition within the target group and industry, and has laid a solid foundation for its product development in future market. During the Reporting Period, with the successful launch of Culturelle powder and chewable tablet product (PRC version) in the offline retail market in China, such kind of products has further expanded into the new and professional retail channel relating to maternity and babies and major retail pharmacies network, combined with its existing network sales originated from Hong Kong, Macau market and cross-border e-commerce platform, the market development of the product has continuously achieved healthy growth during the Reporting Period.

During the Reporting Period, sales of the Group's healthcare product as represented by Culturelle had achieved significant growth, thus effectively optimize the overall sales income and profit structure of the Group. For the six months ended 30 June 2016, the sales of Culturelle probiotic series product from USA reached RMB52,965,000, an increase of 25.4% comparing to the same period of 2015; the sales of FATBLASTER coconut water (菲拉思德椰子水) had also a healthy growth when comparing to the same period of 2015; the sales of BRAINSTRONG Prenatal DHA (BRAINSTRONG孕婦DHA), FUYUNHON body care products and other new health products also recorded positive sales.

2. Continuously introduced overseas quality brands to diversify the health segment

During the Reporting Period, in order to timely capture the development opportunities brought by the growth of demand in domestic health market, the Group constantly speeded up its pace of seeking target health brands, and with its own strong distribution network in China's market and the ability of brand promotion, it has introduced various overseas renowned health products to further enrich its product mix and provide more diversified choices of health brands for consumers.

After the introduction of Culturelle probiotic series product from USA (美國康萃樂益生菌), BRAINSTRONG Prenatal DHA (BRAINSTRONG孕婦DHA), FATBLASTER slimming coconut water from Australia (澳洲減肥瘦身品牌菲拉思德椰子水), BLACKMORES fish oil (澳佳寶魚油), FUYUNHON body care products and other quality products, the Group smoothly introduced the product series of Lifeline Care fish oil nutrients from Norway (挪威Lifeline Care魚油營養素) to expand the maternity and childcare product series during the Reporting Period. Meanwhile, the Group also introduced African Sea-Coconut Lozenges to diversify the cough relieving product line of the Group.

In addition, during the Reporting Period, the Group entered into an agency agreement with the manufacturers of slimming health products such as Tilman herbal tea bags (fat-burning) from Belgium (比利時Tilman植物燃脂茶包) and VL slimming gel from Japan (日本VL瘦身霜系列) to enrich our own slimming product mix. The Group will also expand to Hong Kong and Macau markets and cross-border e-commerce platforms with such products. Through the joint introduction and synergy effect of various brands and products, the Group aims at building a health slimming concept from all aspects and thereby actively seize shares of Hong Kong-Macau-Mainland China slimming market.

Regarding the operation of new products, the Group strategically established Hong Kong-Macau-Mainland China cross-border online platforms and offline retail terminals according to regional market needs. Furthermore, as of the date of this report, the Group's negotiation in relation to the inspection and introduction of new products with manufacturers is still on-going.

3. Furthered Key Account (“KA”) chain cooperation to promote sales growth of regional market

During the Reporting Period, the Group furthered the KA chain cooperation with key terminals. Through the first-class commercial platform supported by direct supply, with the strategies of refining market allocation and resources allocation among products, the Group has established cooperation with the top 100 enterprises in the industry and the head offices of chains ranking top 30 in regional markets, increasing the annual growth rate in KA sales to 30% or above.

In addition, the Group insisted on refining the management of key regional markets and intensifying the management of stable regional markets and further promoted the growth of emerging regional markets, which strategically improved the management efficiency of regional markets and boosted the market share and sales growth of products distributed by the Group.

4. Adapted to the changing trend of consumption habits to enable active expansion on e-commerce platform network

During the Reporting Period, China’s internet + pharmaceutical industry and cross-border e-commerce platforms have maintained rapid growth. In 2015, the Group gained access to e-commerce platform and built an online sales network. During the Reporting Period, the Group has strengthened its control of existing online platform and its efforts of sales promotion while further expanded into a new e-commerce platform with its enriching health product mix, which gave rise to all-around strategic establishment of products both online and offline and effectively promoted the growth of product sales.

During the Reporting Period, the Group strengthened its management of launching, promotion, sales, before-sale and after-sale service on various domestic comprehensive and professional cross-border e-commerce platforms. Through the strategic cooperation for direct supply of specified brands with leading self-operated B2C e-commerce platforms as well as sales regulations, it has taken full advantages of supply and sales being the exclusive agency. In addition, the Group continued to promote the sales operation of its products on Shenzhen Qianhai Cross-border E-commerce Platform (深圳前海跨境電商平台). During the Reporting Period, the Group commenced the construction of self-operated “Kingworld Health” WeChat Shop (「金活健康」微信商城) and selected popular health products, skin care and slimming products to be launched on such platform, so as to satisfy the huge demand of consumption brought by its rapid growth.

As the Group insists its network expanding strategies on diversified e-commerce platforms, refining control of supply of goods, targeted marketing strategies as well as improving before-sale and after-sale service standards, the Group's sales on online platforms have seen significant monthly increase. For the six months ended 30 June 2016, the sales of cross-border e-commerce business reached RMB39,209,000, an increase of 10.6% as compared with the same period of 2015.

5. Strengthened management of acquisition and investment projects to optimize the Group's capital operation

Regarding the project of acquiring Shenzhen Dong Di Xin Technology Company Limited ("Dong Di Xin"), during the Reporting Period, the Group continued to monitor and manage the corporate governance, business operation, capital operation, financial condition and other aspects of such company. Meanwhile, the Group furthered the synergy and integration of resources of both parties in terms of corporate operation, business development and other aspects, which enabled normal operation of such project. During the Reporting Period, Dong Di Yin maintained stable growth in its business and sales.

In respect of investment projects, the Group continued to foster and refine management of several major investment projects in operation during the Reporting Period. In 2015, the Group entered into a partnership agreement with Sinopharm Capital Limited (as general partner) in respect of the overseas fund of Sinopharm Capital, Sinopharm Healthcare Fund L.P. (the "Fund"), pursuant to which, the Group committed to invest US\$5,000,000 (approximately HK\$38,900,000) in subscribing approximately 3.89% of the aggregate initial limited partners' interest of the Fund; in addition, the Group acquired 15% equity interest of Dong Hua Tong Investments Limited (東華通投資有限公司) and provided a shareholder's loan with total amount of HK\$54,929,000 to held indirect interest in Miquel Alimentació (a leading corporate in Spain engaging in food distribution and wholesale, brand operation and management of supply chain) and Manassen Foods Australia (a large food company). In respect of subscribing new shares, the Group previously subscribed 2,302,000 allocated shares of Chuangmei Pharmaceutical Co., Ltd. (stock code: 2289 HK) in its initial public offering at the offer price of HK\$8.6 per share at a consideration of approximately HK\$20,000,000. During the Reporting Period, the above projects were all on-going. Hence, the Group has enriched its investment portfolio, expanded its source of revenue and strategically established in various segments.

In addition, on 14 May 2016, Shenzhen Kingworld Medicine Co., Ltd. (“Shenzhen Kingworld”), a wholly-owned subsidiary of the Company, entered into a cooperation agreement with Shenzhen Xinda Shanghenggang Cooperative Stock Company* (深圳市新大上橫崗股份合作公司) (“Shenzhen Shanghenggang”) in relation to the establishment of a project company for the land parcel at Baolong Industrial Zone, Longgang District, Shenzhen City, the PRC. Pursuant to the cooperation agreement and the articles of association of the project company, Shenzhen Kingworld shall pay RMB18,988,000 to Shenzhen Shanghenggang and shall make capital contribution to project company by way of cash injection of RMB25,920,000 and Shenzhen Shanghenggang shall make capital contribution by means other than cash in the equivalent value of RMB 2,880,000. Upon the establishment of the project company, it is owned as to 90% by Shenzhen Kingworld and 10% by Shenzhen Shanghenggang. Hence, the Group will make full use of such land parcel to build its own logistic center and ancillary facilities to further the standard of strategic development with its self-operated business and resource allocation.

6. Intensified cooperation with strategic cooperation partners to protect long-term common interests

Regarding the cooperation with the Group’s strategic cooperation partner, Sinopharm Capital Management Company Limited* (國藥資本管理有限公司, formerly known as 國藥集團資本管理有限公司) (“Sinopharm Capital”), during the Reporting Period, both parties have carried out in-depth integration work in terms of product resources, channel expansion, end terminal, capital operation and other aspects, which take full advantages of the long-term strategic cooperation.

During the Reporting Period, the Group entered into a supplemental deed with Sinopharm Capital (as subscriber), Shine Light Investment Fund and Legend Times Corporation Limited (as bondholders) in relation to the issuance of convertible bonds for an aggregate principal amount of HK\$133,837,500 (convertible into approximately 62,250,000 shares) to amend certain terms and conditions of the convertible bonds, including but not limited to the conversion period is extended from 18 months from the issue date to 36 months from the issue date and the interest rate per annum is reduced from 7.4% to 5.0%. Leveraging on the business and industrial cooperation with Sinopharm Capital, the Group will be able to enhance its interaction in the capital market and achieve intensified long-term development in the strategic cooperation.

MANAGEMENT REVIEW

1. Commenced the management model of data platform to enhance efficiency of operation

During the Reporting Period, the Group has launched the SAP ERP-based digital management center to enable comprehensive data management for financial accounting, business management, master data management and human resources management, which improve the management and supervision effectiveness.

In addition, the Group's BI data system was officially put into operation during the Reporting Period, which allows automatic data acquisition for the customers and coverage of direct data acquisition, enabling the Group's management center to timely access to the changes in sales information of products in each regions, distributor data connection as well as information of networking and operation. Meanwhile, leveraging on the new PMS data management system, the Group has refined its control on the activities of staffs and conducted in-depth data evaluation on the effectiveness of each promotion and marketing activities.

Currently, through SAP ERP data management center, with BI and PMS system, the Group has built an all-around integrated platform for data management. With the assistance of such platform, the Group has formulated a series of scientific, efficient and accurate strategies for operation and management, which has fostered rapid growth of its business.

2. Continued to conduct performance appraisal to provide incentive for the improvement of working ability of staff

During the Reporting Period, the Group insisted to conduct performance appraisal for its sales staff based on the achievement of business targets including the expansion of distribution network, acceleration of proactive sales of the products, comprehensive management of major terminal stores and seamless link of flow from sales. The Group executed an award scheme for all sales staff based on the above criteria. An open and transparent allocation mechanism was formed. Meanwhile, the Group provided special awards for those marketing positions, including sales representatives, supervisor, officers and managers who over-fulfilled their tasks, as well as award and incentive policies based on different levels. After smooth implementation of appraisal and incentive mechanism, the initiative and efficiency of the Group's sales personnel have been raised. The Group has nurtured a number of professional talents with strong executive ability and thereby boost the growth of sales business.

During the Reporting Period, the Group has commenced the “key employees” identification project, i.e. an evaluation on all employees based on factors including the importance of their position, their contribution, substitutability, job requirements, skills and attitude, to select the “key employees” and prioritize them for promotion, pay adjustment, training, caring and other aspects, so as to maintain a team of talents.

In addition, the Group has closely monitored the exercise of stock incentive scheme to ensure smooth implementation of the stock incentive scheme.

3. Improved the allocation of human resources to build up a reserve of talents

During the Reporting Period, the Group remained its key focus on admitting talents, nurturing internal talents and improving allocation of human resources, so as to expand the Group’s reserve of talents. The admission and training programs of Kingworld Business School have intensified the cooperation between schools and enterprises and providing more talents for the Group’s online and offline business. During the Reporting Period, the Group furthered the cooperation with Guangdong Food and Drug Vocational College to provide 2016 Kingworld training courses and offer internship for 2014 graduates. It takes full advantages of cooperation between schools and enterprises by recruiting interns to take up entry-level and management positions to secure talents for corporate development.

4. Formulated refined brand promotion strategies to build an image of health brand

During the Reporting Period, in respect of product brand promotion, with market promotion of newly-introduced products and expansion plan of new market network, the Group has formulated accurate and efficient marketing strategies for different products and exerted more efforts in promotion, including television, new media, print and mobile advertisements on public facilities; organized promotion on social media; actively participated in relevant exhibitions, pharmaceutical expo and sponsored health lectures; and through various promotion models, organized offline promotional activities including product promotion and sponsorship in key regional markets and end terminals, It enhanced the brand recognition and effectively simulated the penetration and sales of products in the target market.

In respect of corporate brand promotion, the Group promoted its image through its official website, Weibo, WeChat and other media during the Reporting Period. Furthermore, through Kingworld Care and Health Foundation, by way of voluntary work and donation of medicine, the Group actively organized and participated in “Caring for Candidates (考生關愛季)”, “Healthy Community (社區送健康)”, “Caring for the Elderly (老人院送關愛)” and various charitable activities. Meanwhile, the Group cooperated with mainstream media such as Shenzhen Evening Newspaper to support community charitable activities and social promotion. It enabled the Group to fulfil its social corporate responsibility and enjoy higher corporate and product brand awareness and reputation. It built a healthy brand image for Kingworld.

FINANCIAL REVIEW

1. Revenue

Revenue of the Group for the six months ended 30 June 2016 amounted to approximately RMB417,467,000, representing an increase of approximately RMB50,469,000 or 13.8% compared to approximately RMB366,998,000 for the six months ended 30 June 2015. The increase was mainly as a result of the increase in sales of Culturelle and Nin Joim Chuan Bei Pei Pa Koa.

2. Cost of sales

For the six months ended 30 June 2016, cost of sales for the Group amounted to approximately RMB280,915,000, increased by approximately RMB29,344,000 or 11.7% when compared to approximately RMB251,571,000 for the six months ended 30 June 2015. The increase in cost of sales was consistent with the increase in revenue. Gross profit margin increased from 31.5% for the six months ended 30 June 2015 to 32.7% for the six months ended 30 June 2016 as a result of the increase in revenue of the higher margin products such as Culturelle during the Reporting Period.

3. Other revenue and other net income

Other revenue and other net income mainly included rental income, interest income, promotion service income, commission income, investment gain and exchange loss. For the six months ended 30 June 2016, other revenues and other net income amounted to approximately RMB14,398,000, increased by approximately RMB9,639,000 or 202.5% when compared to approximately RMB4,759,000 for the six months ended 30 June 2015. This increase was mainly due to the increase in commission income, promotion service income, investment gain and the decrease in exchange loss.

4. Selling and distribution costs

For the six months ended 30 June 2016, selling and distribution costs amounted to approximately RMB64,467,000, increased by approximately RMB20,714,000 or 47.3% when compared to approximately RMB43,753,000 for the six months ended 30 June 2015. This increase was mainly due to an increase in advertising and promotion expenses. This expenses increased from approximately RMB9,186,000 for the six months ended 30 June 2015 to approximately RMB27,692,000, increased by approximately RMB18,506,000 or 201.5%. Secondly, there was an increase in salaries expenses by approximately RMB1,451,000 or 14.0% from RMB10,365,000 for the six months period ended 30 June 2015 to RMB11,816,000 as a result of the fact that many post vacancies in 2015 were filled up during the Reporting Period.

5. Administrative expenses

For the six months ended 30 June 2016, administrative expenses amounted to approximately RMB37,057,000, increased by approximately RMB1,093,000 or 3.0% when compared to approximately RMB35,964,000 for the six months ended 30 June 2015. This increase was mainly due to the increase in donation.

6. Profit from operations

For the six months ended 30 June 2016, profit from operations for the Group amounted to approximately RMB40,011,000, increased by approximately RMB6,315,000 or 18.7% when compared to approximately RMB33,696,000 for the six months ended 30 June 2015. Increase in profit from operations was mainly due to the increase in gross profit of approximately RMB21,125,000, while partially off-set by the increase in the overall operating expenses in particular the advertising and promotion expenses.

7. Finance costs

For the six months ended 30 June 2016, finance costs amounted to approximately RMB4,307,000, decreased by approximately RMB3,682,000 or 46.1% when compared to approximately RMB7,989,000 for the six months ended 30 June 2015. The decrease was mainly due to the decrease in interest charged on bank loans.

8. Profit before taxation

For the six months ended 30 June 2016, profit before taxation for the Group amounted to approximately RMB38,394,000 increased by approximately RMB10,092,000 or 35.7% when compared to approximately RMB28,302,000 for the six months ended 30 June 2015. Increase in profit before taxation was mainly due to the increase in profit from operations and the decrease in finance costs.

9. Income tax expenses

For the six months ended 30 June 2016, income tax expenses for the Group amounted to approximately RMB8,342,000, increased by approximately RMB1,323,000 or 18.8% when compared to approximately RMB7,019,000 for the six months ended 30 June 2015. This increase was mainly due to an increase in profit before taxation. The effective tax rate during the Reporting Period was 21.7% and for the six months ended 30 June 2015 was 24.8%.

10. Profit for the period

For the six months ended 30 June 2016, profit for the period amounted to approximately RMB30,052,000, increased by approximately RMB8,769,000 or 41.2% when compared to approximately RMB21,283,000 for the six months ended 30 June 2015. The increase in profit for the period is mainly due to the increase in profit before tax of approximately RMB10,092,000 while partially off-set by the increase in income tax expenses of approximately RMB1,323,000.

11. Liquidity and capital resources

The Group has met its working capital needs mainly through cash generated from operations and various short-to-long term bank borrowings. During the Reporting Period, the effective interest rate for fixed rate loans was 4.2%. Taking into account the cash flow generated from operations and the bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least twelve months from the date of publication of this report.

As at 30 June 2016, the Group had cash and cash equivalents of RMB153,260,000 mainly generated from operations of the Group and funds raised by the Company in its initial public offering in November 2010.

12. Cash flows

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

Net cash generated from operating activities

The Group's cash inflow generated from operations primarily derives from payments for the sale of the Group's products. During the Reporting Period, the Group's net cash generated from operating activities amounted to approximately RMB26,096,000, representing a decrease of net cash generated from operating activities of approximately RMB58,403,000 from approximately RMB84,499,000 for the six months ended 30 June 2015.

Net cash used in investing activities

The Group's net cash outflow used in investing activities amounted to approximately RMB5,728,000 during the Reporting Period, representing a decrease of approximately RMB272,697,000 as compared with the cash outflow used in investing activities of approximately RMB278,425,000 for the six months ended 30 June 2015. The decrease is mainly due to the decrease in net outflow for acquisition of subsidiary and purchase of structured bank deposits.

Net cash (used in)/generated from financing activities

The Group's net cash used in financing activities amounted to approximately RMB2,032,000 during the Reporting Period, representing a decrease of approximately RMB223,059,000 as compared with net cash generated from financing activities of approximately RMB221,027,000 for the six months ended 30 June 2015. The decrease is mainly due to the decrease in net proceeds from bank loans.

13. Capital structure

Indebtedness

Total amount of the borrowings of the Group as at 30 June 2016 was approximately RMB189,604,000, which will be due within one to four years. During the Reporting Period, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

Asset-liability ratio

As at 30 June 2016, the Group's asset-liability ratio was 17.3% (31 December 2015: 15.5%), calculated as the total bank borrowings divided by total assets multiplied by 100%. The increase was mainly due to the increase in bank borrowings.

Pledge of assets

As at 30 June 2016, the Group pledged its investment property with carrying value of RMB96,100,000 to secure a bank loan and banking facilities (31 December 2015: nil).

Capital expenditure

The capital expenditures of the Group primarily included purchases of plant and equipment, leasehold improvements and purchases of motor vehicles. The Group's capital expenditures amounted to RMB4,748,000 and RMB2,765,000 for the Reporting Period and the six months ended 30 June 2015 respectively.

Foreign exchange risk

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

14. Contingent liabilities, legal and potential proceedings

As at 30 June 2016, except for a claim filed against the former substantial shareholder of Dong Di Xing and Dong Di Xing by the former chief executive officer of Dong Di Xin as disclosed in the section headed “Litigation” of the 2015 annual report of the Company, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings. As at the date of this announcement, the judgment of the aforesaid claim has not yet issued, and the Company will make further announcement(s) as and when appropriate according to the Listing Rules.

15. Major acquisitions and disposals

For the six months ended 30 June 2016, the Group did not make any material acquisition and disposal.

16. Going concern

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

FUTURE OUTLOOK

1. Sticking to the strategy of integrated operation and regional market operation to deepen market penetration

In the future, the Group will insist on integrated operation strategy. Through expanding market penetration, exploring new markets and selecting and developing new quality products, it will push forward business development to consolidate the advantageous position of the Group as an “agency for brand names and a brand-named agency” in the health segment.

Meanwhile, the Group will continue to implement hierarchical regional management strategies to strengthen the refined management of key regional markets; intensify management of sound regional markets; and rapidly cultivate emerging regional markets. In addition, the Group will formulate targeted channel management and marketing plans based on the situation of each level of regional markets and implement regional strategies so as to improve the efficiency of channels, sales and operation of each level of markets. The Group will continue to establish close cooperation with key pharmaceutical chains and raise KA sales growth rate through marketing strategies such as comprehensive pricing, displaying and launching.

2. Formulating scientific network deployment strategy, promoting the joint growth of traditional products and new health products

Looking forward, the Group will reasonably promote the sales growth of each product in different regional markets in accordance with the different market promotion and deployment stages of traditional core products and new health products and by combining the integrated operation and regional market management strategy.

With respect to the traditional core products of the Group, namely Nin Jiom (念慈菴) series of product, with the successful renewal of the import registration licence for Pei Pa Koa (枇杷膏) product, the Group will rapidly recover such product’s supply and distribution on first-tier and second-tier mature markets, continue to maintain the monopolistic strength of such product in such markets. Meanwhile, the Group will also accelerate such product’s development in third-tier and fourth-tier cities, as well as the sales recovery and growth of such product by fully exploring the distribution channels and end resources, scientifically formulate pricing and distribution strategies and enhancing the promotion. In addition, the Group will also proactively capture the opportunity brought by the loosen of Internet pharmaceutical sales policies, select pharmaceuticals and specifications appropriate for e-commerce sales, so as to achieve the development of traditional products in new e-commerce channels.

With respect to the new typical health product of the Group - Culturelle probiotic series product from USA (美國康萃樂益生菌產品系列), the Group will maintain the continuous high-speed growth of their sales on Hong Kong and Macau markets and cross-border e-commerce platforms, and will focus on the such product's expansion on the Mainland off-line retailing market. While strategically deploying regionalized markets and key distribution channels, the Group will actively develop and expand Mainland hospital channels as well as maternal and child stores, combining the large-scale brand promotions, so as to accelerate the market growth of Culturelle probiotic series products. In addition, as for the slimming serious health product, the Group will continue to select and introduce natural, health and effective premium products around the global, fully leveraging new online platform resources including e-commerce and WeChat commerce, combine the multimedia promotion strategy for target group, and promote the market development of such serious product and establish the concept of "Global Sliming".

The Group will continue to improve the expansion of each product in on-line and off-line market networks, achieve the multi-channel resources integration and coordination, so as to promote the joint growth of our traditional products and new health products.

3. Accelerating the introduction of new products, and enhancing the healthy brand positioning

The Group will persist on its product advantages, continue to focus on searching medicines and healthcare products in the world to meet its healthy brand positioning and the consumer demand. The Group will speed up the introduction of target quality brand products to constantly improve its diversified product mix. The Group will constantly optimise the income level and profit structure and raise the market share and influence of its products in the health market, so as to fully strengthen its health corporate brand positioning.

4. Actively promoting the construction of e-commerce platform network to realise strategic layout of full channels

With the extensive quality product mix and the experience of operating and developing e-commerce platform, the Group will regard e-commerce business as the new growth and implement key development strategy. Focusing on the development of the business, the Group will follow the policies closely, constantly optimise the operation strategies including the tiered management over channels, delivery of diversified products, control and management over online sources and price, and promotion and marketing, and further achieve the strategic cooperation with key e-commerce platform. Meanwhile, the Group will focus on the operation development of "Kingworld Health" WeChat shop. By seizing the current WeChat market and the opportunities arising from the rapid growth of mobile platform consumption demand, the Group will develop the WeChat shop into one of our diversified online sales platform, further achieving the sales strategic layout of full channels.

Furthermore, the Group will continue to exert effort in the development of new Qianhai cross-border e-commerce platform and speed up the launching and operation of Qianhai B2B2C e-commerce platform of Kingworld Health Family product.

5. Expanding the social influence of charity funds, assist enterprises in advertising and marketing

The Group will promote the growth and development of the “ Kingworld Care and Health Foundation “ in full scale. Looking ahead, the Group will persist in organizing and engaging in various public welfare and charitable activities, and actively participate in charity fairs in China and connect with large charity bodies in China, combined with multimedia advertising resources, to enable the spread of influence of the charity fund of the company nationwide. Thus, the Group will fully consolidate the multi-platform resources, to strengthen the development of charity and philanthropy business, enabling the society to be further benefited from more high-quality health products and the concept of macro-health, so as to establish a psychological bond between the Kingworld brand and the community, so that the company and the brand are closely aligned to the consumers which in turn facilitate the sales and marketing of its products.

6. Continuously encouraging investment and M&A projects to tighten strategic cooperation

For strategic investments and M & A projects, the Group will continue to adhere to the concept of macro-health, to continuously look for valuable targets in accordance with the industry status quo, development trend and its own operating conditions and future development direction, and accelerate the completion of high-quality investments and M & A projects, to increase revenue and achieve capital appreciation. Looking forward, the Group will continue to focus on the capital cooperation with its associated companies and to deepen strategic partnership, enabling the consolidation and coordination of industry resources to promote the strategic development of the company.

7. Deepening the implementation of “third five-year strategy” while formulating the “fourth five-year strategy”

Leveraging on the industry condition, the advantages in resources and the business development of the Company, the Group will evaluate and summarize the implementation of its third five-year strategy for 2012 to 2016, and take it as the basis for researching and formulating the fourth five-year strategy of the Group for 2017 to 2021 in line with the development trend of pharmaceutical industry, industrial policies, market diversification and our own development needs in future.

Looking forward, under the guidance of new “fourth five-year strategy”, the Group aimed to further enhance its industrial layout, accelerate its business development, while strengthening marketing management and information management platform, so as to put forward the strategic upgrade of the Group’s business operation and the sustainable long-term development of the company in full scale.

HUMAN RESOURCES AND TRAINING

As at 30 June 2016, the Group had a total of 954 employees, of which 122 worked at the Group's headquarters in Shenzhen, and 379 stationed in 34 regions, mainly responsible for sales and marketing; 453 worked at Dong Di Xin. Total staff cost for the Reporting Period amounted to approximately RMB27,613,000 (2015: RMB27,180,000). 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 Sales Directors and Product Managers). They are responsible for coordinating front-line sales and marketing teams to meet the annual sales target.

During the Reporting Period, the Group adopted a people-oriented management concept to have its staff closely involved in the management and development of the Group. The Group has implemented a strict selection process for hiring its employees and a number of initiatives to enhance the productivity of its employees. The Group conducts periodic performance review on its employees, and revises their salaries and bonuses accordingly. In addition, the Group has arranged training programs for employees in various positions.

OTHER INFORMATION

USE OF PROCEEDS FROM THE LISTING OF THE COMPANY

The net proceeds from the listing of the shares of the Company on the Stock Exchange on 25 November 2010, after deduction of related expenses, was approximately HK\$241,862,000 (equivalent to approximately RMB206,167,000). As at 30 June 2016, the Group had used net proceeds of approximately RMB134,920,000, of which approximately RMB4,000,000 had been applied for upgrading the transportation and delivery services to customers, approximately RMB15,760,000 had been applied for expanding the product display booth scheme, approximately RMB20,600,000 as working capital and approximately RMB94,560,000 has been applied for acquisition of Dong Di Xin. The remaining net proceeds are intended to be applied in accordance with the proposed application set forth in the Prospectus.

CAPITAL COMMITMENT

As at 30 June 2016, the Group had capital commitment of approximately RMB16,609,000 (31 December 2015: approximately RMB23,800,000).

PUBLIC FLOAT

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

DIVIDENDS

Pursuant to a resolution passed by the shareholders of the Company on 30 May 2016, the Company declared the audited distributable profits as at 31 December 2015 amounting to approximately HK\$9,524,000 (equivalent to approximately RMB8,140,000) to the shareholders of the Company. The dividend was fully paid on 27 June 2016 by the internal cash resources of the Company.

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2016 (2015: nil).

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

During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE PRACTICES

The Board strives to uphold the principles of corporate governance set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and adopted various measures to enhance the internal control system, the Directors' continuing professional training and other areas of practice of the Company. While the Board strives to maintain a high level of corporate governance, it also works hard to create value and achieve maximum return for its shareholders. The Board will continue to conduct review and improve the quality of corporate governance practices with reference to local and international standards.

During the Reporting Period, the Company complied with the code provisions as set out in the CG Code, other than code provision A.2.1 of the CG Code.

According to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, Mr. Zhao Li Sheng is the Chairman of the Board and the chief executive officer. The Board is in the opinion that having Mr. Zhao to carry out both roles can bring about strong and consistent leadership for the Group, and can be more effective in planning and implementing long-term business strategies. The Board also considers that since members of the Board include competent and independent non-executive Directors, this structure will not impair the balance of power and authority between the Board and its management in the business of the Group. The Board is in the opinion that the structure described above will be beneficial to the Company and its business.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the “Model Code”) as its own code governing securities transactions of the Directors. Each of the Directors has confirmed his/her compliance with the Model Code during the Reporting Period. The Company has also adopted written guidelines on no less exacting terms than the Model Code for the relevant employees. The senior management, who, because of his/her office in the Company, is likely to be in possession of unpublished inside information, has been requested to comply with the provisions of the Model Code and the Company’s code of conduct regarding securities transactions by Directors. No incidence of non-compliance of the employees’ written guidelines by the relevant employees was noted by the Company during the Reporting Period.

AUDIT COMMITTEE

The Company established an audit committee (the “Audit Committee”) on 5 November 2010 and has formulated its written terms of reference, which have from time to time been modified, in accordance with the prevailing provisions of the CG Code. The primary duties of the Audit Committee are (among other things) to provide an independent review and supervision of financial reporting, and examine the effectiveness of the internal controls of the Group and to ensure the external auditor are independent and the audit process is effective. The Audit Committee examines all matters relating to the accounting principles and policies adopted by the Group, auditing functions, internal controls, risk management and financial reporting. The Audit Committee also serves as a channel of communication between the Board and the external auditor. The Audit Committee currently comprises of three members, namely Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam. Mr. Wong Cheuk Lam, who has appropriate professional qualifications and experience in accounting matters, has been appointed as the chairman of the Audit Committee.

The Audit Committee has reviewed the unaudited condensed consolidated financial statements, this results announcement and the interim report of the Company for the six months ended 30 June 2016 with the management of the Group and agreed with the accounting treatments adopted by the Company.

EVENTS AFTER THE REPORTING PERIOD

There is no material events after the Reporting Period as at the date of this announcement.

DISCLOSURE OF INFORMATION

The interim report for the six months ended 30 June 2016 will be duly dispatched to shareholders of the Company and published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.kingworld.com.cn>).

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

Hong Kong, 26 August 2016

As at the date of this announcement, the executive Directors are Mr. Zhao Li Sheng, Ms. Chan Lok San and Mr. Zhou Xuhua, and the non-executive Director is Mr. Zhang Yi, and the independent non-executive Directors are Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam.