
INTERIM REPORT
# 2017

# 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

elimin INTENSE
DETOXASE 10 DAYS TOTAL BODY RESET
coconut detox
KYUSHIN
NIN JIOM PEI PA KOA
SUPER ANANAS
BLACKMORES
Culturelle Kids

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# Corporate Information

## DIRECTORS

### *Executive Directors*

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

### *Non-executive Director*

Mr. Zhang Yi

### *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
The Landmark
15 Queen's Road Central
Central
Hong Kong

## AUDITOR

Crowe Horwath (HK) CPA Limited
9th Floor
Leighton Centre
77 Leighton Road
Causeway Bay
Hong Kong

## AUTHORISED REPRESENTATIVES

Mr. Zhao Li Sheng
Mr. Chan Hon Wan

## REGISTERED OFFICE

Estera Trust (Cayman) Ltd.
Clifton House
75 Fort Street
PO Box 1350
Grand Cayman KY1 - 1108
Cayman Islands

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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198 Daxin Road
Nanshan District, Shenzhen
Guangdong Province
The PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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6-8 Harbour Road
Wanchai
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Estera Trust (Cayman) Ltd.
Clifton House
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Grand Cayman KY1 - 1108
Cayman Islands

## PRINCIPAL BANKERS

China Construction Bank
Shenzhen Binhe Sub-branch
1st Floor, East Block
Financial Centre
Shennan Zhong Road
Shenzhen
Guangdong Province
The PRC

Agricultural Bank of China
Shenzhen Zhongxinqu Sub-branch
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Fuhua 1 Road 98
Shenzhen
Guangdong Province
The PRC

Nanyang Commercial Bank
Hong Kong Western Branch
1st Floor - 2nd Floor
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Hong Kong

## BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Wanchai
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. Zhang Jianbin
Mr. Wong Cheuk Lam

## STOCK CODE

01110

## WEBSITE ADDRESS

www.kingworld.com.cn

# Financial Highlights

| | Six months ended 30 June | | % Changes |
|---|---|---|---|
| | **2017** | 2016 | Increase/ |
| | **RMB '000** | RMB '000 | (Decrease) |
| **Financial Highlights** | | | |
| Revenue | **509,111** | 417,467 | 22.0% |
| Cost of sales | **(360,510)** | (280,915) | 28.3% |
| Gross profit | **148,601** | 136,552 | 8.8% |
| Gross profit margin | **29.2%** | 32.7% | (3.5)% points |
| Profit attributable to owners of the Company | **22,137** | 20,115 | 10.1% |
| Basic earnings per share (RMB cents) | **3.56** | 3.00 | 18.7% |

| | | | % Changes |
|---|---|---|---|
| | **At 30 June** | At 31 December | Increase/ |
| | **2017** | 2016 | (Decrease) |
| **Liquidity and Gearing** | | | |
| Current ratio(1) | **1.24** | 1.22 | 1.6% |
| Quick ratio(2) | **1.04** | 1.05 | (1.0)% |
| Asset-liability ratio(3) | **14.4%** | 22.3% | (7.9)% points |

Notes:

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

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

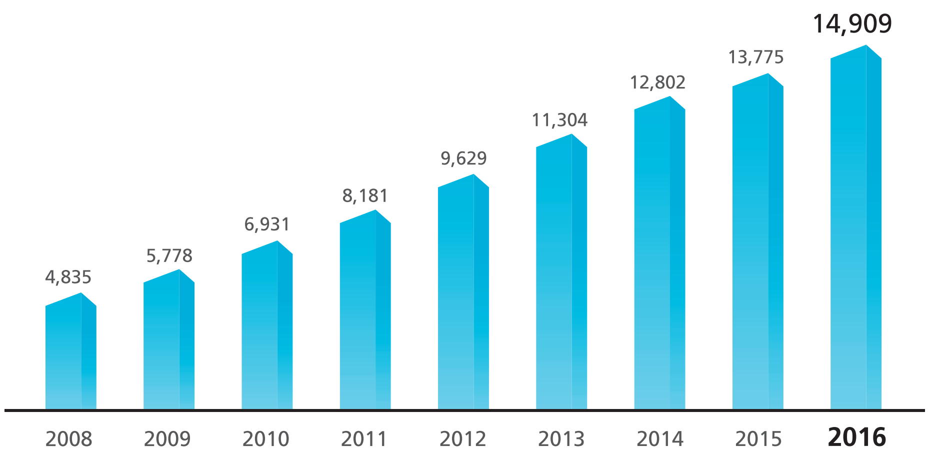
(3) Asset-liability ratio is calculated as total bank borrowings divided by total assets multiplied by 100%.

## MARKET AND INDUSTRY REVIEW

### *1. Global pharmaceutical industry continued to grow, and healthy China has become one of the focuses of the government*

The increase in global population, the intensifying aging problem, the rising healthcare awareness among the public and the change in spectrum of disease have led to an increasing attention to the healthcare industry. Meanwhile, factors such as the acceleration of urbanization across the world and the continuous improvement of healthcare system in different countries facilitate the development of global pharmaceutical industry and also the development of global drug market. A trend of continuous growth is shown in the global pharmaceutical industry.

The global pharmaceutical market will continue to grow at relatively fast pace in the next five years. For the terminal pharmaceutical market in the PRC, the market size grew from RMB483.5 billion in 2008 to over RMB1,000 billion in 2013, and grew further to RMB1,490.9 billion in 2016.




**Change in Size of Terminal Pharmaceutical Market in the PRC from 2008 to 2016 (in RMB hundred million)**

(Source: Sinohealth CMH)

Pharmaceutical industry is a strategic emerging industry in the PRC with promising future, and is also one of the focuses in the "Made in China 2025"initiative. With the PRC's unprecedented emphasis, the position of pharmaceutical industry has been strengthening continuously. In addition, the demand in pharmaceutical market is inelastic due to the large population in the PRC and the fact that the spectrum of human disease has gradually transited from contagious disease to chronic disease under the background of acceleration in the aging of population, deterioration in environment and change in people's lifestyle. The market size of pharmaceutical industry will experience further growth and is expected to exceed RMB2.2 trillion by 2019.

In October 2016, the Central Committee of the CPC and the State Council jointly published the "Healthy China 2030" Plan, which stated that by 2020, the total market size of the PRC's healthcare service industry shall increase to RMB8 trillion, a basic healthcare system with Chinese characteristics covering residents in urban and rural areas shall be established and the major health index shall be in leading position among countries with mid-to-high income level. It is also expected that by 2030, the market size shall further increase to RMB16 trillion, general health equality shall be achieved and the major health index shall be comparable to countries with high income level.

Facilitating the construction of healthy China was included as one of the focuses of the government in the 2017 report of the National People's Congress and the Chinese People's Political Consultative Conference which proposed to facilitate the construction of healthy China. The report also made the following proposals: to increase the financial subsidy for health insurance of urban and rural residents from RMB420 to RMB450 per year for one person, meanwhile raising the standard for the personal contribution and expanding the coverage for drugs available for use; and to promote the implementation of health insurance information network across the country to enable direct settlement of medical expenses in different places. The above mentioned proposals such as expansion of insurance coverage for drugs available for use, comprehensive implementation of two-child policy and support for development of Chinese medicine industry are beneficial policies for the Group. The expansion of the coverage of medical insurance and the medical insurance drug catalogue will facilitate the further expansion of market shares of the Group's products included in the medical insurance drug catalogue such as Nin Jiom Chuan Bei Pei Pa Koa (京都念慈菴蜜煉川貝枇杷膏), and the Group will strive to develop its business by leveraging on the favorable policies.

### 2. *The increase in pharmacy chain rate indicates the intensifying industry consolidation*

According to the 2016 Statistical Report for Food and Drug Administration published by China Food and Drug Administration on its official website, the number of pharmacies in China amounted to 447,034 pharmacies in 2016, a decrease of 1,023 pharmacies as compared with 448,057 pharmacies in 2015. In particular, the number of independent pharmacies recorded significant decrease of over 16,000 pharmacies during the last year. According to the statistics of CFDA, there were a total of 277,085 independent pharmacies in China in 2011, and such number changed to 226,331 pharmacies as of the end of November 2016, representing a decrease of over 50,000 independent pharmacies during these six years.

The pharmacy chain rate has been increasing over the years from 34.61% in 2011 to 49.37% in 2016, which is very close to 50%. Such increase indicated that the industry was further consolidated and has entered the phase of transformation, innovation and comprehensive upgrade with continuous emergence of innovative services and service models.

During the six months ended 30 June 2017 (the "Reporting Period"), by capturing the trend of pharmacy chain development, the Group improved the KA system in pharmaceutical sector, formed in-depth strategic cooperation with the top 100 enterprises in the industry and the head offices of chains ranking top 30 in regional markets, continuously strengthened the cooperation with key pharmaceutical chains and strengthened the terminal network and sales management and control.

### 3. *The gradual increase in proportion of pharmaceutical and healthcare expenditure indicates that the consumption has entered a phase of "quality services"*

With the growth of economy, the income of urban and rural residents in China has been increasing rapidly. According to the National Bureau of Statistics, in 2016, the national disposable income per capita for the year was RMB23,821. In 2015, the GDP per capita of China exceeded US$8,000, and the consumption entered a phase of "quality services". Demand for medical services is inelastic in nature to some extent. As such, with the rising health awareness among the public resulting from the rise in both income level and living standard, the demand for medical services will increase, thereby driving the growth of demand for drugs and facilitating the rapid development of pharmaceutical industry. In 2016, healthcare expenditure per capita of China amounted to RMB1,307, which accounted for 7.6% of the spending per capita. The increase of resident income and the consumers' pursuit of product quality provided favorable opportunity for imported products. With years of experience in health sector, the Group will capture such favorable opportunity by leveraging on its global supply chain resources to satisfy the consumers' demand.

In order to tackle the problem of imbalance in population structure affected by the aging population, China comprehensively implemented the two-child policy to boost the fertility rate. Under such policy, the number of newborn babies is expected to increase by 1 million to 2 million annually in the future, and the number of newborn babies may exceed 20 million by 2018. The comprehensive implementation of two-child policy will create significant growth in demand in the market of maternity and childcare products, especially the demand for healthy and quality products imported from overseas, thereby benefitting the maternity and childcare health products distributed by the Group such as Culturelle probiotic series from the United States (美國康萃樂益生菌) and the Lifeline Care fish oil series from Norway.

### 4. *The rapid development of e-commerce led to the rise of cross-border e-commerce*

The diversification and upgrade of consumption are reflected on the channel reform. In particular, with the rapid development of internet technology, the proportion of e-commerce channel in the consumption sector has been increasing gradually over the years.

According to the National Bureau of Statistics, the total retail sales amount of consumer goods amounted to RMB33,231.6 billion in 2016, representing an actual growth of 9.6%, in which online retail amount amounted to RMB5,155.6 billion, representing an increase of 26.2% as compared with last year, and accounted for 15.5% of the total retail sales amount of consumer goods.

According to the research conducted by iResearch, the size of cross-border e-commerce market of China amounted to RMB219.8 billion in 2016, representing an increase of over 80% as compared with last year, and is expected to reach RMB341.3 billion by 2017.The generation of Post-80s and Post-90s who prefer customized products are gradually becoming a major consumer group, and mobile e-commerce is their major shopping method.

During the Reporting Period, the Group's cross-border e-commerce business experienced rapid development. In addition to the existing cooperation with comprehensive e-commerce platforms such as T-mall, Suning.com and JD.com as well as the e-commerce platforms specialized in maternity and childcare products such as Beibei.com, Babytree.com and Lamabang.com, the Group also formed new strategic cooperation with major e-commerce platforms such as Kaola.com, AliHealth and Amazon. Moreover, the Group commenced the development of the new Qianhai cross-border e-commerce platform, and will speed up the launching and operation of the Qianhai cross-border e-commerce platform of Kingworld Health Family products in the future. It is expected that the Group's cross-border e-commerce business will continue to grow rapidly.

# Management Discussion and Analysis

## BUSINESS REVIEW

### *1. The Group's integrated operation strategies began to show effects with rapid year-on-year growth in sales*

During the Reporting Period which is also the first year of the Group's "fourth five-year strategy", all employees of the Company attached great importance to and put concerted efforts in implementation of detailed marketing strategies as their important tasks. We have included such elements in the KPI performance assessment of all employees and achieved satisfactory results during the Reporting Period.

With respect to the core product of the Group, namely Nin Jiom Chuan Bei Pei Pa Koa, during the Reporting Period, we focused on the cooperation with top 100 chain pharmacies and regional chain pharmacies, attracted younger consumers through new media promotion, and accelerated the expansion in third and fourth tier cities while consolidating the restorative growth of sales in first and second tier cities, in order to regain the loss in market shares during the stock-out period. During the Reporting Period, Nin Jiom Chuan Bei Pei Pa Koa recorded a similar sales volume as compared with the corresponding period in last year.


The display of Nin Jiom Chuan Bei Pei Pa Candies

# Management Discussion and Analysis

In order to boost the sales of Nin Jiom Chuan Bei Pei Pa Candies, the Group formulated combined marketing strategies with Nin Jiom Chuan Bei Pei Pa Koa, including adopting various marketing models such as sales display competition and holding various public welfare activities such as campus singing contest and product tasting, thereby increased the brand influence of Nin Jiom among the consumers and provided better understanding of product quality and social responsibility of the Company through social contribution activities. During the Reporting Period, Nin Jiom Chuan Bei Pei Pa Candies recorded a similar sales volume as compared with the corresponding period in last year.


The display of Nin Jiom Chuan Bei Pei Pa Koa

The Culturelle probiotic series product from USA has been growing rapidly in sales volume and became the second largest product series of the Group due to the quality of such products (containing 100% LGG) and its effective improvement to human health as well as the strong online and offline promotion and effective marketing strategies of the Group. During the Reporting Period, the Group further enhanced the distribution terminals of Hong Kong and Macau market, covering stores such as Mannings, CRCare, Eugene Baby stores and major chain pharmacies, and also increased the distribution and sales in high-end convenience stores. For mainland China market, the Group selected chain stores relating to maternity and babies, chain pharmacies, stores of maternity and baby products, high-end personal care stores and hospitals as key channels to strengthen distribution and sales. Up to now, Culturelle series product have been successfully distributed to Hong Kong and Macau markets, as well as maternal and child stores, pharmacies and high-end general merchandise stores covering more than 341 cities in 34 provincial administrative regions (including Tibet and Xinjiang) in mainland China. During the Reporting Period, the sales of Culturelle probiotic series has shown a significant increase of 91.6% as compared with the corresponding period in last year.

# Management Discussion and Analysis


The display of Culturelle

The display of Culturelle

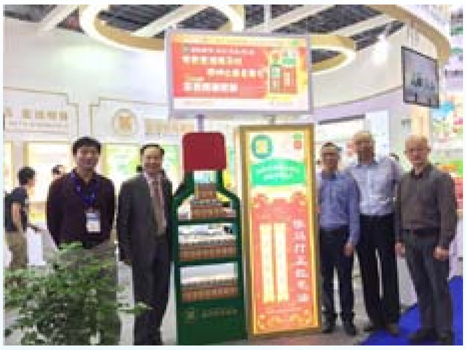
With respect to another core product of the Group, namely Taiko Seirogan (喇叭牌正露丸), during the Reporting Period, for key market, the Group carried out terminal display and price maintenance activities, increased the efforts in advertising promotion and consumer education, strengthened the training for partners, which increased the sales effectively. For general market, the Group mainly strengthened the training for staff and consumer education activities in carefully selected partnered chain pharmacies. For brand promotion, in addition to the advertisement on multi-unit trains and in downtown area, we also carried out brand marketing activities on Weibo and Wechat to promote brand awareness and recognition by using new digital tools to increase the brand interaction with consumers. In addition, the Group also carried out various marketing activities such as online e-commerce promotion with partnered companies and e-commerce platforms to facilitate both the online and offline integration. The Seirogan produced by Taiko Pharmaceutical in Japan ranked the fifth in the category of "intestinal anti-inflammatory/anti-infective" Chinese medicines of Sinohealth Intelligence. During the Reporting Period, the Taiko Seirogan recorded sales increase of 71.9% as compared with the corresponding period in 2016, and the 100-pill package recorded growth of 93.1% in sales revenue. As such, the market position of such product is expected to be further improved.


Advertisement at the tram station in Longhua District, Shenzhen

The display of Taiko Seirogan


The advertisement of Taiko Seirogan on the outside wall of Chuangmei Pharmaceutical Co., Ltd.'s head office building

The Kingworld Imada Red Flower Oil (金活依馬打正紅花油) went out of stock for over one year due to the GMP reconstruction of the manufacturer. Such product was longed for by the consumers and returned to the market in June and was sold out within a short period of time with demand outweighing supply. The Group captured the opportunity from sales activities of distributors by rapidly implementing the established marketing strategies, establishing cooperation relationship with distributors and retail terminals, carrying out consumer education activities and enhancing brand recognition. During the Reporting Period, the Kingworld Imada Red Flower Oil recorded a remarkable sales. In the future, the Group will put great efforts in carrying out channel distribution and terminal incentive activities to boost sales and facilitate the distribution by terminals. The Group will also strengthen the cooperation with the top 100 chain pharmacies in China to distribute the products rapidly in order to restore the market shares as soon as possible and regain its leading position in the market of medicated oil for external use.



The 77th PharmChina Event

### 2. *The penetration in target market was strengthened to facilitate the rapid development of products*

During the Reporting Period, the Group put emphasis on strengthening the penetration in target market in its detailed market strategies, that was to carry out in-depth development in the target markets of different products and duplicate the successful experience on other target markets. By adopting and implementing effective strategies, the Group recorded relatively fast growth in several other products and achieved more balanced development for the products distributed by it. Nin Jiom Chuan Bei Pei Pa Koa remained to be the largest traditional core products of the Group which accounted for 42.6% of the total sales. Meanwhile, the Culturelle probiotic series from USA gained popularity rapidly and became the second largest product series of the Group, accounted for 19.8% of the total sales of the Group. The traditional product with hundred-year history, namely Taiko Seirogan, was the third largest product of the Group, and accounted for 9.6% of the total sales. In addition, the newly introduced products, namely Hoe Hin White Flower Embrocation product and the Lifeline Care fish oil series from Norway, delivered remarkable performance.

During the Reporting Period, the Hoe Hin White Flower Embrocation (和興白花油) newly introduced by the Group recorded an increase in sales of 54.7% as compared with the corresponding period in 2016, and has formed a mutual complementary relationship with Flying Eagle Wood Lok Medicated Oil (飛鷹活絡油) and Kingworld Imada Red Flower Oil, becoming another powerful driver of the Group's product series of oil for external use. During the Reporting Period, the White Flower Embrocation celebrated its 90th anniversary. By fully leveraging on the Group's brand influence in key markets, the Group continuously strengthened the product distribution, explored the sales potentials, carried out a series of brand activities based on the theme of 90th anniversary, increased the efforts in brand promotion, brand education and consumer interactive activities, and participated in various brand promotion activities such as White Flower Embrocation 90th Anniversary Healthy Tour in Hangzhou and Xiamen in order to enhance the brand influence and reputation.

The promotion event of Hoe Hin White Flower Embrocation in China


The display of Hoe Hin White Flower Embrocation

In 2016, the Group was successfully granted the exclusive agency right of Lifeline Care fish oil nutrients from Norway (挪威Lifeline Care魚油營養素) in the Greater China. Since then, the Group tailored corresponding marketing and operation plans for such brand product. By leveraging the Group's mature distribution networks and product operation strategies, such brand product rapidly expanded into the online market, and was successfully launched on offline retail stores in Hong Kong and Macau regions such as Mannings, maternal and child stores and chain pharmacies. In the meantime, the Group also placed a wide range of product advertisements on diversified online and offline platforms, such as crowded subway stations, bus stations, customs clearances, and paper media, maternal and child websites and social media, which effectively established the brand recognition and laid a significant brand foundation for the market expansion and sales growth of the product, making a good sales start for such product series. During the Reporting Period, such product experienced rapid growth and recorded a remarkable sales. In addition, with the increasing demands of Chinese maternity and childcare healthcare market, the Lifeline Care fish oil nutrients series, as the top-selling fish oil brand in Norway with standards higher than EU's stringent standards, is expected to become another major new product of the Group after Culturelle.


Wah Ming Bus Terminal in Fanling, Hong Kong


Taxi body advertisement

### 3. *Strengthened the integration between online and offline operation to accelerate the development of "New Retail"*

Mr. Jack Ma stated that the real "New Retail" is the product from the combination of both online and offline operation and logistics. During the Reporting Period, the Group continuously strengthened the network expansion of different products in both online and offline markets to achieve integration and collaboration of multiple channels, thereby facilitating the mutual growth of the Group's traditional products and new health products.

During the Reporting Period, the Group began to unify the online and offline brand image, strengthened the online promotion and deepened the integration between online and offline operation, including establishing unified online brand image on the Baidu Baike, conducting SEO optimization by using Baidu Knows, Baidu Wenku, Baidu Jingyan, Baidu Tieba and forum sites, and carrying out online promotion through various methods such as blog, official Weibo account, Wechat, video, H5, product trial and recommendation and live broadcast of key opinion leaders.

The Group has over twenty years of experience in distribution through offline channels. During the Reporting Period, the Group focused on offline promotion and improvement of brand recognition. For example, the advertisement of Culturelle probiotic series was placed on the metros in Shanghai, Guangzhou and Shenzhen with coverage of over 20 million people during the Reporting Period. Culturelle also cooperated with the Child Development Center under the China National Committee for the Wellbeing of the Youth, participated in the One Thousand Miles Tour for Maternity and Babies in China, and carried out 16 offline brand promotion activities and child caring seminars in 13 cities during the Reporting Period. In addition, the Group also cooperated with Yuxuanyuan (育學園), a child healthcare management platform established by Cui Yutao (崔玉濤), an authoritative pediatrician in China, and participated in the speaking tour on scientific parenting. Through the participation in parenting advice activities across the country, the Group provided scientific parenting methods to the families while letting the consumers to try quality products and encouraging them to share their user experience, thereby getting positive word of mouth.

Culturelle advertisement in the Guangzhou Metro

Culturelle advertisement in the Hong Kong MTR


Participated in the US & China Leading Probiotics Science Forum through cooperation with Yuxueyuan by Cui Yutao


Culturelle participated in the 13th National Nutritional Science Conference and the Global Conference of Chinese Nutritionists

# Management Discussion and Analysis

### *4. Continued to expand the e-commerce platform to facilitate the implementation of the omni-channel layout strategy*

During the Reporting Period, the Group continued to actively capture the opportunities from the loosened policies related to online pharmaceutical sales by selecting drugs with product specification suitable for e-commerce sales to develop new e-commerce channel for traditional products, meanwhile seeking more health products from all over the world suitable for sales through e-commerce channel.

With the extensive quality product portfolio and the experience of operating and developing e-commerce platform, the Group followed the policies closely to actively strengthen the management and control of existing online platforms and increase the efforts in sales and marketing, meanwhile constantly optimising the operation strategies including the tiered management over channels, delivery of diversified products, control and management over online sources and price, promotion and marketing, pre-sale and after-sale services, membership management and services, and further established strategic cooperation with key e-commerce platforms, such as Kaola.com, AliHealth and Amazon, thereby achieving the comprehensive strategic online and offline collaboration of its products, which effectively facilitated the growth in product sales. Meanwhile, the Group also captured the opportunity of Wechat e-commerce by establishing its own Wechat shop with focus on the health products distributed by the Company, and achieved satisfactory results. During the six months ended 30 June 2017, the Group's cross-border e-commerce business experienced rapid growth, and recorded sales of a significant increase of 92.4% as compared with the corresponding period in last year.


Lifeline Care T-mall Overseas Flagship Store


Culturelle in T-mall Overseas Flagship Store


Kingworld Health Family Wechat Shop

During the Reporting Period, the Group has commenced the development of new Qianhai cross-border e-commerce platform, and will speed up the launching and operation of the Qianhai cross-border e-commerce platform of Kingworld Health Family products in the future.

### 5. *Strengthened the management of investment and financing projects to ensure the smooth operation of projects*

For the project of Shenzhen Dong Di Xin Technology Company Limited (深圳市東迪欣科技股份有限公司) ("Dong Di Xin"), during the Reporting Period, the Group continued to monitor and participate in the management of corporate governance, business operation, capital operation and financial position of such company. Meanwhile, during the Reporting Period, the Group also further promoted the deepening of collaboration and integration of resources between both parties in terms of corporate operation, business development and other aspects, thereby facilitating the normal operation of such project. During the Reporting Period, the business and revenue of Dong Di Xin experienced steady and stable growth, and fulfilled the results undertaking as agreed by both parties for over two years.

During the Reporting Period, other investment projects of the Group also operated smoothly. In 2015, the Group acquired equity interest of Dong Hua Tong Investments Limited (東華通投資有限公司) at a consideration of HK$50,000,000 to hold indirect interest in Miquel Alimentació (西班牙米蓋爾公司) (a leading corporate in Spain engaging in food distribution and wholesale, brand operation and management of supply chain) and Manassen Foods Australia (澳大利亞瑪納森公司) (a large food company). Such project operated smoothly during the Reporting Period.

Furthermore, the Group subscribed for 2,302,000 shares and allotted by Chuangmei Pharmaceutical Co., Ltd. (創美藥業股份有限公司) (stock code: 2289 HK) at the offer price of HK$8.6 per share at a consideration of approximately HK$20,000,000. Chuangmei Pharmaceutical Co., Ltd. is in the process of considering and discussing the feasibility of issuance of ordinary shares of such company traded in RMB on the Shanghai Stock Exchange or the Shenzhen Stock Exchange, and has appointed CSC Financial Co., Ltd. as the pre-listing tutoring agency for the proposed A share issuance.

## MANAGEMENT REVIEW

### 1. *Implemented the "fourth five-year strategy" and formulated detailed strategies*

In 2017, under the guidance of the "fourth five-year strategy", the Group continued to stick to the mission of "to serve the community and to heal the souls" and the vision of becoming a "globally leading and renowned health services provider", so as to continue to adopt the core value of "Everything is possible with the spirit" and to fully implement the spirit of the "fourth five-year strategy". Based on the relevant elements in the "fourth five-year strategy", the Group formulated various detailed strategies related to products, introduction, marketing and relevant support. Meanwhile, the elements of relevant detail strategies were included in the annual work plan and performance assessment of relevant departments to ensure the feasibility and implementation of strategies.

### 2. *Strengthened the KA system of the pharmaceutical line and promoted the KA system of maternity and childcare*

Affected by the national policy guidance, pharmacy chain rate continuously increased, and chain pharmacies had more and more influence on and contribution to the OTC market. As such, the Group considered the cooperation with KA chains as an important means. During the Reporting Period, both the number of products and the relevant data under the cooperation between the Group and the KA chains of the pharmaceutical line experienced growth. For major products, the Group further deepened the KA chain cooperation model with key terminals, and successfully established cooperation with the top 100 enterprises in the industry and the head offices of chains ranking top 30 in regional markets, thereby facilitating the increase in chain sales of the Group's major products.

Compared to the standardized management of the pharmaceutical line, the terminals in maternity and childcare channel remain to be scattered and lack of coordination and there is no leading retailer in the sector. However, such terminals are in the process of developing into national chains and regional chains. In particular, for first and second tier cities, with good geographical locations, high quality and professional staff services, products and after-sale services with quality assurance, nice shopping environment and membership management, chain stores are preferred by mothers in Post-80s and Post-90s generation, and chain operation will be the future development trend. As such, during the Reporting Period, the Group established cooperation with reputable maternity and childcare chains such as Leyou, and formulated relevant promotion strategies to boost sales. In order to accelerate the establishment of a diverse terminal network, the Group established cooperation with certain high-end personal care stores and nutrient stores such as Watsons, Mannings and CRCare in China.

Sales display in Mannings in Hongkong

Sales display in CRCare


Sales display in maternity and childcare store in Hong Kong

### *3. Improved the incentive and award policies to optimize management mechanism*

During the Reporting Period, the Group improved and implemented a combination of various incentive and award policies which fundamentally enhanced the initiative of sales staff. In terms of remuneration management, adjustments in the remuneration structure for staffs were made to update the annual salary system for sales management staff, which fundamentally resolved motivation problems of staff and increased the incentive as internal fairness in basic salary as well as efficiency are valued while profit share is in line with area performance. For frontline sales staff, the Group established the incentive system of quarterly reward for staff with sales exceeding the target to encourage the sales staff to increase their income by increasing the sales of products. The Group also continued to optimize assessment schemes, promoted the scientific, systematic and targeted assessment system, and highlighted the orientation of objectives to reorganize the KPI indicators among departments, simplified the performance assessment indicators for employees, and enhanced assessment efficiency. During the Reporting Period, these measures generally delivered the desired results. In the future, the Group will continue to implement and improve such incentive policies.

During the Reporting Period, the Group implemented the shift duties for the vice presidents of sales and closely followed up the arrangements, assessment, incentives, duty report, and evaluation of staff on shifts, which achieved satisfactory results. Regional presidents participated in the management of daily operation of the Group through the shift duties for the vice presidents of sales, and gained better understanding on the future development direction and business plan and requirements of the Group, which enabled them to integrate such requirements into the business operation, thereby enhancing the execution of sales team. Meanwhile, they may also provide information and feedback on existing issues in the market to the headquarter in a timely manner and provide solutions to improve the Group's responsiveness to the market.

### 4. *Optimized the information management and strengthened the construction of information team*

The Group recognizes the importance of informatization to the Group's long-term sustainable development. During the Reporting Period, the Group further optimized the process of existing operation system based on the requirements of business development, and developed an internal cloud-based platform on its own to share the internal analysis and data with the operation staff across mainland China, enabling them to access the relevant data of responsible customers and regions, understand the real-time market condition and formulate relevant strategies. In addition, in order to meet the requirements of big data construction and self-establishment of e-commerce platform in the future, the Group recruited relevant professionals and doubled the size of the relevant team.

### 5. *Put efforts in skill training of staff to meet the requirements of business development*

The Group attaches importance to staff training, encourages the staff to upgrade themselves and promotes lifelong learning. In this regard, the Group established a comprehensive system of staff development and training. Based on the training requirements of the departments and staff as well as the business development and work arrangement, the business school of the Group organizes staff at different levels to receive on-the-job training every year in order to improve their working skills. For example, the active expansion of the Group's online sales channels required relevant staff to possess the knowledge and skills in the online marketing field. As such, under the model of online and offline integration, the business school organizes trainings on a regular basis as well as advanced studies from time to time to enable the staff to get a better understanding on product knowledge and government policies and improve their sales skills. In addition, the Group also organizes various marketing conferences, seminars, special studies, industry experience sharing lectures, internship, special competitions, outdoor development activities and recreational activities covering various profession skills and qualities and positions in every year, and the staff shall participate in such activities based on their requirements.

2017 Mid-Year Marketing Meeting

Moreover, the Group also strengthens the external exchange and study, sends employees from time to time to study and participate in courses offered by various higher education institutions or industry organizations, covering areas such as financial and auditing expertise, as well as professional skills of relevance to our business units. Employees receiving the training will be tested and appraised monthly, quarterly and annually, and improvement plan will be drawn up together with the employee concerned. The continuous skill improvement of staff is important to ensure the business development of the Group.

In order to create a better working environment, thereby attracting and retaining talents, during the Reporting Period, the Group's headquarter was relocated to the premise in Majialong Chuangxin Building with gross floor area of over 5,000 square meters. The design of such building was granted the Silver Award of the first Singapore Interior Design Awards (SIDA) by the Society of Interior Designers (Singapore) (SIDS). The spacious office area, discussion area with modern design and various meeting rooms provide the staff with a comfortable and convenient working environment, and inspire the creativity and team spirit of staff.

Working environment of Kingworld Medicines Group

### *6. Continued to enhance the brand recognition and contributed to public welfare with the Kingworld Care for Health Foundation*

The Group operates its business with integrity, heart and diligence, and actively gives back to the society by embracing its social responsibility. During the Reporting Period, the Group, together with the Kingworld Care for Health Foundation, encouraged the embrace of the charitable spirit of "Building a Healthy China", and continued to put great efforts in organizing and participating in different public welfare activities to benefit all parties in the society.


During the Reporting Period, the Hong Kong University of Science and Technology named a tiered terrace classroom of the Lee Shau Kee Business Building as the "Kingworld Medicines Group Classroom" to express its appreciation for the Group's donation of HK$3.5 million to support student exchange and the research and development of Chinese medicine. The classroom was officially opened for use in January 2017. In addition, the Group, the Kingworld Care for Health Foundation, Jiankang Buluo and the Anlan Volunteer Team jointly organized the elderly caring activity to provide healthcare services to the elderly. The Group also provided support to the Dachong Primary School in Ziqiang Village, Zhijin County of Guizhou Province and donated health medicine packs. It also provided healthcare services to the Tibetans in Garze through the Chinese Peasants' and Workers' Democratic Party in Wuxi, and provided health gift packs to singleton elderly in Hong Kong and organized elderly healthcare activity through the Cherish Angel Charity.


Naming Ceremony of the Kingworld Medicines Group Classroom

# Management Discussion and Analysis

Cherish Angel Charity providing health gift packs

According to the 2016 Shenzhen Charity Donation List published by the Shenzhen Municipal Civil Affairs Bureau in June, together with Tencent Holdings Limited and China Vanke Company Limited, Shenzhen Kingworld Medicine Company Limited, a subsidiary of the Company, was included in this list, ranking the 17th place, and Shenzhen Kingworld Care for Health Foundation was also included in the Rank List of Donation from Social Organizations, ranking the 104th place. During the Reporting Period, the Group was also awarded as Shenzhen Top Brand, Shenzhen Leading Enterprise in Healthcare Industry, Shenzhen Enterprise with Social Responsibility in Healthcare Industry and Enterprise of Observing Contract and Valuing Credit for 2014-2016.



### 7. *Supported the marathons to promote health awareness*

Today, marathons are popular both in China and all around the world. In 2016, nearly 300 marathons were held in China, and the number of marathons held in China grew at a rate of over 100% for two consecutive years, but it is still difficult to sign up for marathons held in first tier and major cities. The National Fitness Programme (2016-2020) published by the State Council of the PRC in 2016 stated that, national fitness will become a powerful support to the construction of healthy China and the representation of comprehensive development of a moderately prosperous society. The Group sponsored the International Marathon Shenzhen from 2013 to 2016, and also the Guangzhou International Marathon in 2016 to provide medicated oil for external use, support for medical station and other supporting services as the authorised sponsor of medicated oil for external use, which enhanced the recognition and reputation of the Group and its medicated oil for external use such as Kingworld Imada Red Flower Oil and Flying Eagle Wood Lok Medicated Oil among the running enthusiasts. In the future, the Group will continue to increase its efforts in sponsoring and promoting the marathons. In addition to sponsoring the Guangzhou Marathon and Shenzhen Marathon, the Group will also assess the Changsha Marathon, Nanchang Marathon, Asian Marathon Championships in Dongguan and other competitions, and continue to increase and expand the Group's recognition in medicated oil for this sport.

## FINANCIAL REVIEW

### 1. *Revenue*

Revenue of the Group for the six months ended 30 June 2017 amounted to approximately RMB509,111,000, representing an increase of approximately RMB91,644,000 or 22.0% compared to approximately RMB417,467,000 for the six months ended 30 June 2016. The increase was mainly as a result of the increase in revenue from the sales of Culturelle and Taiko Seirogan products.

### 2. *Cost of sales*

For the six months ended 30 June 2017, cost of sales for the Group amounted to approximately RMB360,510,000, increased by approximately RMB79,595,000 or 28.3% when compared to approximately RMB280,915,000 for the six months ended 30 June 2016. The increase in cost of sales was consistent with the increase in revenue. Gross profit margin decreased from 32.7% for the six months ended 30 June 2016 to 29.2% for the six months ended 30 June 2017 as a result of the decrease in proportion of revenue for the higher margin products such as Culturelle during the Reporting Period.

### 3. *Other income*

Other income mainly included rental income, interest income, promotion service income, commission income, investment gain and exchange loss. For the six months ended 30 June 2017, other revenues and other net income amounted to approximately RMB12,923,000, decreased by approximately RMB1,475,000 or 10.2% when compared to approximately RMB14,398,000 for the six months ended 30 June 2016. This decrease was mainly due to the decrease in commission income, promotion service income and investment gain during the Reporting Period.

### 4. *Selling and distribution costs*

For the six months ended 30 June 2017, selling and distribution costs amounted to approximately RMB71,727,000, increased by approximately RMB7,260,000 or 11.3% when compared to approximately RMB64,467,000 for the six months ended 30 June 2016. This increase was mainly due to an increase in advertising and promotion expenses. This expenses increased from approximately RMB28,799,000 for the six months ended 30 June 2016 to approximately RMB29,928,000, increased by approximately RMB1,129,000 or 3.9%. Secondly, there was an increase in transportation expenses by approximately RMB2,761,000 or 57.9% from RMB4,769,000 for the six months ended 30 June 2016 to RMB7,530,000 for the Reporting Period.

### 5. *Administrative expenses*

For the six months ended 30 June 2017, administrative expenses amounted to approximately RMB33,655,000, decreased by approximately RMB3,402,000 or 9.2% when compared to approximately RMB37,057,000 for the six months ended 30 June 2016. This decrease was mainly due to the decrease in donation of approximately RMB6,564,000 during the Reporing Period.

### 6. *Profit from operations*

For the six months ended 30 June 2017, profit from operations for the Group amounted to approximately RMB46,727,000, increased by approximately RMB6,716,000 or 16.8% when compared to approximately RMB40,011,000 for the six months ended 30 June 2016. The increase in profit from operations was mainly due to the increase in gross profit of approximately RMB12,049,000, while partially off-set by the increase in the overall operating expenses in particular the advertising and promotion expenses and transportation expenses.

### 7. *Finance costs*

For the six months ended 30 June 2017, finance costs amounted to approximately RMB12,669,000, increased by approximately RMB8,362,000 or 194.2% when compared to approximately RMB4,307,000 for the six months ended 30 June 2016. The increase was mainly due to the increase in interest imputed on the liability component convertible bonds and interest charged on bank loans.

### 8. *Profit before taxation*

For the six months ended 30 June 2017, profit before taxation for the Group amounted to approximately RMB37,754,000, decreased by approximately RMB640,000 or 1.7% when compared to approximately RMB38,394,000 for the six months ended 30 June 2016. The decrease in profit before taxation was mainly due to the increase in selling and distribution costs and finance costs, while partially off-set by the increase in gross profit.

### 9. *Income tax expenses*

For the six months ended 30 June 2017, income tax expenses for the Group amounted to approximately RMB8,724,000, increased by approximately RMB382,000 or 4.6% when compared to approximately RMB8,342,000 for the six months ended 30 June 2016. The effective tax rate during the Reporting Period was 23.1% and for the six months ended 30 June 2016 was 21.7%. Details of income tax expenses are set forth in note (8) to the unaudited interim financial report.

### 10. *Profit for the period attributable to owners of the Company*

For the six months ended 30 June 2017, profit for the period attributable to owners of the Company amounted to approximately RMB22,137,000, increased by approximately RMB2,022,000 or 10.1% when compared to approximately RMB20,115,000 for the six months ended 30 June 2016.

### 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 1.8% to 4.5%. 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 2017, the Group had cash and cash equivalents of RMB152,623,000 mainly generated from operations of the Group.

### 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 RMB74,082,000, representing an increase of net cash generated from operating activities of approximately RMB47,986,000 from approximately RMB26,096,000 for the six months ended 30 June 2016.

*Net cash generated from/(used in) investing activities*

The Group's net cash inflow generated from investing activities amounted to approximately RMB28,453,000 during the Reporting Period, representing an increase of approximately RMB34,181,000 as compared with the cash used in investing activities of approximately RMB5,728,000 for the six months ended 30 June 2016. The increase is mainly due to the decrease in net outflow for purchase of available-for-sales financial assets.

*Net cash used in financing activities*

The Group's net cash outflow used in financing activities amounted to approximately RMB177,769,000 during the Reporting Period, representing an increase of approximately RMB175,737,000 as compared with net cash used in financing activities of approximately RMB2,032,000 for the six months ended 30 June 2016. The increase is mainly due to the increase in repayment of bank loans.

## 13. Capital structure

*Indebtedness*

Total amount of the borrowings of the Group as at 30 June 2017 was approximately RMB177,130,000, which will be due within one to three 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 2017, the Group's asset-liability ratio was 14.4% (31 December 2016: 22.3%), 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 2017, the Group did not have any assets pledged to the banks (31 December 2016: RMB96,000,000 of investment properties).

*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 RMB8,303,000 and RMB4,748,000 for the Reporting Period and the six months ended 30 June 2016 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 2017, except for a claim filed by the former Chief Executive Officer of Dong Di Xin (the "Plaintiff") against the substantial shareholder of Dong Di Xin (the "Substantial Shareholder") and Dong Di Xin and the appeal lodged by Dong Di Xin (the "Appeal") to Shenzhen Intermediate People's Court of Guangdong Province (廣東省深圳市中級人民法院) (the "Court") against the judgment handed down by Shenzhen Nanshan District People's Court of Guangdong Province (廣東省深圳市南山區人民法院) (the "Judgment") ordering: (1) the Substantial Shareholder to transfer his 15% equity interest in Dong Di Xin to the Plaintiff (the "Equity Transfer"); (2) the Substantial Shareholder and Dong Di Xin to assist in all relevant procedures for completing the Equity Transfer; and (3) the litigation fee of RMB2,900 shall be borne by the Substantial Shareholder and Dong Di Xin, as disclosed in the section headed "Litigation" of the 2016 Annual Report, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings. As disclosed in the 2016 Annual Report, the Judgement will not have any material adverse impact on the Group's ordinary operations and financial positions as the Company will not bear any liability or any significant litigation fee being ordered to pay and there will be no dilutive effect on the Group's holding in the equity interest in Dong Di Xin. As at the date of this report, the Appeal had been heard but has not yet to be decided by the Court, and the Company will make further announcement(s) to keep the shareholders of the Company and the public informed of any material progress on the Appeal as and when appropriate according to the Listing Rules.

### 15. *Major acquisitions and disposals*

For the six months ended 30 June 2017, 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. *Implementing the "fourth five-year strategy" and facilitating the further implementation and review of the master strategy and detail strategies*

In the future, under the guidance of the new "fourth five-year strategy", the Group will further enhance its industrial layout, build three product sources through the introduction of new products, investments by mergers and acquisitions, and industrial production through positioning as a health industry, build four platforms of traditional business, new business, investment management, and e-commerce platform business to foster intensive growth and launch integrated strategies, in order to speed up the pace of internationalization and accelerate the establishment of management system, and enhance the core competitiveness. The Group conduct regular review on the implementation of the master strategy and detailed strategies, and rectify the problems occurred during the implementation in a timely manner.

### 2. *Strengthening the construction of internal digitalization, implementing the digitalized platform management model and establishing a self-operated e-commerce platform*

The Group has established the SAP ERP data system and BI analysis system based on internal information of purchase, sales and inventory, and continues to facilitate the connection of purchase, sales and inventory data with the customers, in order to assess the customers' ability in sales of the Group's products and the flow rate of the Group's products in the channels. In order to ensure data accuracy and gradually establish a big data system based on internal data and data from external parties, the Group will facilitate the construction of real-time data connection system with the customers to automatically collect the sales data and inventory data of the Group's products and the coverage of and turnover at terminals by utilizing information technology, identify potential markets and assess the effectiveness of the use of marketing expense. In the future, the Group will also establish a membership management system based on the operation of e-commerce platform and commence the construction of internal big data system in order to facilitate the precise and orderly operation of the Group's business.

With the change in consumption habit and the development of information technology, e-commerce business has experienced rapid growth in recent years. As such, the Group actively embraced the internet and fully utilized the policy advantage of cross-border e-commerce by establishing the e-commerce business department and achieved satisfactory results. In order to further expand such business, the Group once again cooperated with SAP, a company with strong software ability, to launch the hybris e-commerce project. Such project will enable comprehensive channel management of the Group's e-commerce business (including third party platforms), further strengthen the customer stickiness and establish a digitalized management platform. The first phase of cross-border B2C platform is expected to be launched within the year.

### 3. *Optimizing channel management to boost sales*

Due to vast territory, a variety of ethnic groups and big differences in local customs across China, the level of economic development and business practices vary from place to place. As such, channel is still important to the flow of commodities, especially for the pharmaceutical industry which is highly regulated by strict policies in the PRC. Business is mutually beneficial in nature. However, some business may violate the manufacturers' pricing system and regional management orders in order to attract the flow of product in great demand, resulting in decrease in operation initiative and profitability of distributors, driving them to focus on products with higher margin. As such, the Group will cooperate with the manufacturers to reassess the existing distributors, and cooperate with selected well-performing distributors to achieve maximum coverage with minimum customers, maintain reasonable profit margin of distributors at different levels and promote the sales in joint efforts.

### 4. *Continuing to strengthen the cooperation of KA systems in the pharmaceutical sector and the maternity and childcare sector to increase single store sales*

In the future, the Group will continue to expand the scope of cooperation with the KA system in maternity and childcare sector, cooperate with regional chains with regional reputation, improve the brand attractiveness among consumers through various promotion methods, enhance the market coverage of stores, improve the terminal sales and maintenance of personal care chain stores such as Watsons and Mannings by facilitating the opening of stores, optimizing promotion schemes, promoting the point of sales, and building model stores, accelerate the expansion of the large maternity and childcare chain network throughout China, and strengthen the terminal network and sales regulation.

### 5. *Speeding up the omni-channel layout and sales of new products of the Culturelle probiotic series*

In the future, the Group will continue to actively facilitate the distribution of Culturelle probiotic series products through cross-border e-business and the expansion of self-operated platforms and offline KA stores in the pharmaceutical sector and the maternity and childcare sector. In addition, based on the launch of Culturelle probiotic powder for adults, the Group will facilitate the development of all Culturelle product series in the KA system and offline channels and expand the offline coverage of Culturelle products to tens of thousands of terminals, thereby further utilizing the market competitiveness of such brand and providing health services to more families.


Culturelle – CRCare

### 6. *Facilitating the rapid development of "Global Slimming" product series*

In the future, the Group will continue to develop the "Global Slimming" platform and identify popular slimming products. Based on the T-mall flagship store of Tilman slimming herbal tea bags series from Belgium, the Group will utilize various combined marketing models to attract the target group to make purchases, establish its brand image, enhance the brand recognition, and continue to raise attention through celebrities, key opinion leaders and advertorials, thereby boosting the sales.


Tilman T-mall Flagship Store

The Zuccari slimming series from Italy, another product of Global Slimming, has become available for sales. The Group will deepen the existing cooperation with major e-commerce platforms and distribution channels and establish cooperation with new major channels such as Kaola.com and VIP.com to become a strategic client of their fitness product mix, thereby ensuring the rapid launch and promotion of the Zuccari slimming series. Meanwhile, the Group will also support the sales through promotion in new media.


Zuccari slimming fruit juice

# Management Discussion and Analysis

Meanwhile, the Group will also continue to enrich the product mix of the family of the "Global Sliming" and select best-selling and quality fitness products without toxic side effects from around the world. While maintaining the good sales operation of the FATBLASTER slimming coconut water from Australia, the Group will reinforce the marketing and brand promotion planning of new products, such as the BMI smart from Germany (德國慧纖), Tilman herbal tea bags (fat-burning) from Belgium (比利時Tilman植物燃脂茶包), ZUCCARI slimming series (義大利ZUCCARI瘦身系列) from Italy and VL slimming gel from Japan (日本VL瘦身霜系列).


### *7. Continuing to optimize the management mechanism to select outstanding talents*

In the future, the Company will continue to implement a combination of various incentive and award policies, assess the positive impact of implementation of incentive policies on the business in a timely manner and eliminate negative factors. Meanwhile, the Group will continue to implement the shift duties for the vice president of sales to improve and follow up the arrangements, assessment, incentives, duty report, and evaluation of staff on shifts to ensure that the objectives of increasing performance and selecting outstanding management personnel are reached. In addition, the Group will also carry out planning for all staff to cultivate and reserve talents for the future development of the Company and provide opportunities and platform for the future development of outstanding talents.

### *8. Building a base in the Greater China to consolidate the leading position as a brand-named health agency*

As a leading brand-named health agency in the nation, the Group has the exclusive rights to sell various quality overseas health products in the Greater China and enjoys significant advantages of its operation experience and resources in the industry. In the future, the Group will speed up the pace of internationalization, consolidate the Hong Kong and Macau markets, explore other Asia markets, and launch investigation and research in the Taiwan region and key markets in the Southeast Asia to explore the feasibility of introducing its products into wider markets.

The Group will build a comprehensive product introduction system to put forward the establishment of systems, such as the category management of product introduction, market observation, dynamic analysis, target progress, and nurturing internal talents, and leveraging original momentum. Meanwhile, the Group will take advantage of multichannel resources to speed up the introduction of a diversity of products, such as drugs, health products, health food, slimming products, beauty care, and medical devices, and aim at portraying its products as leader brands in their respective segmentation systems to consolidate its leading position in the industry as a brand-named agency in the health segment.

### 9. *Optimizing the capital operation system to establish financial mechanism for risk control*

In the future, the Group will continue to upgrade the layout of the health segment, reasonably utilize diverse capital tools, and adopt investment strategies of market differentiation to actively and orderly promote the capital operation of the Group. The Group will continuously explore the core competitiveness of channel resources while fully utilizing its capital strengths to speed up the integration of industrial chains, reasonably layout the health market, input original momentum for main operations, and to enhance the capital expandability of the Group.

In addition, with the product mix of introduced overseas products increasing and the RMB exchange rate continuing to fluctuate, the Group will establish an internal financial system that is set to adapt to fluctuating exchange rate, establish a streamlined and standardized budget system and accounting system to promote independent accounting of different sectors, regions and departments. The Group will evaluate the risk in exchange rate from time to time, adopt measures, such as forward transaction of foreign exchange, for hedging against exchange rates fluctuation, and establish a sound financial mechanism for risk control.

### 10. *Cooperating with the Kingworld Care for Health Foundation to support national health*

Since its establishment in 2015, the Kingworld Care for Health Foundation has been adhering to the Group's responsibility and mission of "offer help to people, benefit the world" to support the concept of pursuing both physical and mental health, advocate the charitable spirit of "Building a Healthy China" and facilitate the development of public welfare in China by leveraging on the Group's strong influence in the pharmaceutical industry and the health sector in China.

In the future, the Group and the Kingworld Care for Health Foundation will cooperate with Shenzhen Evening News, ZAKER and other media as well as NGOs such as Jiankang Buluo to continue to organize the "Kingworld Health Messenger in Community" caring activities, especially paying attention to people suffering from pain of muscle, joints, neck, shoulders and lumbcrural. Under such activities, the Group will recruit Kingworld Health Messengers in over one hundred cities to bring love and care to all communities across the major cities in China, and provide the caring target with trial use services of topical medication such as Flying Eagle Wood Lok Medicated Oil, Imada Red Flower Oil, Hoe Hin White Flower Embrocation and Mentholatum Ointment so as to support the community development, promote healthy lifestyle, optimize health services, deliver healthy philosophy and create a healthy environment through the provision of health services, thereby supporting the construction of healthy China and national health through practical actions.

Kingworld volunteers participated in elderly care activity in Tianxin Community in Shenzhen

"Kingworld Health Messengers" community caring activities

## HUMAN RESOURCES AND TRAINING

As at 30 June 2017, the Group had a total of 986 employees, of which 127 worked at the Group's headquarter in Shenzhen, and 386 stationed in other 34 regions mainly responsible for sales and marketing, and the other 473 worked at Dong Di Xin. Total staff cost for the Reporting Period amounted to approximately RMB27,922,000 (2016: RMB27,613,000). 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.

## DISCLOSURE OF INTERESTS

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

As at 30 June 2017, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

*(I) Interests in the shares in the Company*

| Name of Directors | Capacity/Nature of Interest | Number of shares in the Company held | Approximate percentage of the Company's total issued share capital |
|---|---|---|---|
| Zhao Li Sheng (Note 1) | Beneficial owner | 9,392,000 | 1.51% |
| | 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 | 307,204,250 | 49.35% |
| | 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 9,392,000 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 397,204,250 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) 9,392,000 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 9,392,000 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, Ms. 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) Long positions in the underlying shares – share options under share option scheme*

| | | | | Number of Share Options | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Name of Directors | Date of grant | Option Period (Note 4) | Exercise Price per Share (HK$) (Note 5) | Outstanding as at 1 January 2017 | Granted during the Period | Cancelled during the Period | Lapsed during the Period | Outstanding as at 30 June 2017 | Approximate percentage of the Company's total issued share capital |
| Zhao Li Sheng (Note 1) | 1 June 2015 | 1 June 2015 to 31 May 2019 | 2.54 | 520,000 | – | – | – | 520,000 | 0.08% |
| Chan Lok San (Note 2) | 1 June 2015 | 1 June 2015 to 31 May 2019 | 2.54 | 468,000 | – | – | – | 468,000 | 0.08% |
| Lin Yusheng (Note 3) | 1 June 2015 | 1 June 2015 to 31 May 2019 | 2.54 | 468,000 | – | – | – | 468,000 | 0.08% |
| Zhou Xuhua | 1 June 2015 | 1 June 2015 to 31 May 2019 | 2.54 | 468,000 | – | – | – | 468,000 | 0.08% |
| DuanJidong | 1 June 2015 | 1 June 2015 to 31 May 2019 | 2.54 | 412,000 | – | – | – | 412,000 | 0.07% |
| Zhang Jianbin | 1 June 2015 | 1 June 2015 to 31 May 2019 | 2.54 | 412,000 | – | – | – | 412,000 | 0.07% |
| Wong Cheuk Lam | 1 June 2015 | 1 June 2015 to 31 May 2019 | 2.54 | 412,000 | – | – | – | 412,000 | 0.07% |
| Zhang Yi | 1 June 2015 | 1 June 2015 to 31 May 2019 | 2.54 | 412,000 | – | – | – | 412,000 | 0.07% |
| **Total** | | | | **3,572,000** | | | | **3,572,000** | 0.57% |

Note 1: Mr. Zhao Li Sheng is also a substantial shareholder of the Company through his beneficial interest, interests of spouse and controlled corporation.

Note 2: Ms. Chan Lok San (being the spouse of Mr. Zhao Li Sheng) is also a substantial shareholder of the Company through interests of spouse and controlled corporation.

Note 3: Mr. Lin Yusheng resigned as executive director of the Company on 6 July 2015.

Note 4: The vesting and exercise of certain Share Options are subject to the terms of the Share Option Scheme and the performance target(s) and terms set out in the respective letters of grant.

Note 5: The closing price of the Share on the date of grant of Share Options on 1 June 2015 was HK$2.45.

*(III) 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 30 June 2017, save as disclosed above, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

Save as disclosed above, as at 30 June 2017, none of the Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

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

As at 30 June 2017, 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 | 9,392,000 | 1.51% |
| | 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 | 307,204,250 | 49.35% |
| | 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 interest | 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% |

| Name of Shareholders | Capacity/Nature of Interest | Number of shares in the Company held | Approximate percentage of the Company's total issued share capital |
|---|---|---|---|
| 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 interest | 62,250,000 | 10.00% |
| 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 9,392,000 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 397,204,250 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) 9,392,000 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 9,392,000 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$133,703,662.50.

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 30 June 2017, 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.

## SHARE OPTION SCHEME

The Company operates a share option scheme ("Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants, including Directors, eligible employees, consultants, suppliers, customers, any shareholder of each member of the Group or associated company or any of their respective associates, who contribute to the success of the Group. The Share Option Scheme was conditionally approved by a written resolution of the shareholders of the Company dated 5 November 2010. Details of the Share Option Scheme are set out in the prospectus of the Company dated 12 November 2010 (the "Prospectus").

As at 30 June 2017, the Company had granted to certain eligible participants (the "Grantees"), a total of 23,308,000 share options to subscribe for a total of 23,308,000 ordinary shares of HK$0.10 each in the capital of the Company under the Share Option Scheme which were accepted by such Grantees.

A summary of share options granted under the Share Option Scheme of the Company during the six months 30 June 2017 is as follows:

| | | | | | Number of Share Options | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Grantees | Position held with the Group and/or relationship with the Group | Date of grant | Option Period (Note 4) | Exercise Price per Share (HK$) (Note 5) | Outstanding as at 1 January 2017 | Granted during the Period | Cancelled during the Period | Lapsed during the Period | Outstanding as at 30 June 2017 | Approximate percentage of the Company's total issued share capital |
| Zhao Li Sheng (Note 1) | Chairman/Executive Director | 1 June 2015 | 1 June 2015 to 31 May 2019 | 2.54 | 520,000 | – | – | – | 520,000 | 0.08% |
| Chan Lok San (Note 2) | Executive Director | 1 June 2015 | 1 June 2015 to 31 May 2019 | 2.54 | 468,000 | – | – | – | 468,000 | 0.08% |
| Lin Yusheng (Note 3) | Executive Director | 1 June 2015 | 1 June 2015 to 31 May 2019 | 2.54 | 468,000 | – | – | – | 468,000 | 0.08% |
| Zhou Xuhua | Executive Director | 1 June 2015 | 1 June 2015 to 31 May 2019 | 2.54 | 468,000 | – | – | – | 468,000 | 0.08% |
| DuanJidong | Independent non-executive Director | 1 June 2015 | 1 June 2015 to 31 May 2019 | 2.54 | 412,000 | – | – | – | 412,000 | 0.07% |
| Zhang Jianbin | Independent non-executive Director | 1 June 2015 | 1 June 2015 to 31 May 2019 | 2.54 | 412,000 | – | – | – | 412,000 | 0.07% |
| Wong Cheuk Lam | Independent non-executive Director | 1 June 2015 | 1 June 2015 to 31 May 2019 | 2.54 | 412,000 | – | – | – | 412,000 | 0.07% |
| Zhang Yi | Non-executive Director | 1 June 2015 | 1 June 2015 to 31 May 2019 | 2.54 | 412,000 | – | – | – | 412,000 | 0.07% |
| **Sub-total of Share Options granted to Directors** | | | | | 3,572,000 | – | | | 3,572,000 | 0.57% |
| 57 Employees | Employees of the Group | 1 June 2015 | 1 June 2015 to 31 May 2019 | 2.54 | 13,236,000 | – | – | – | 13,236,000 | 2.13% |
| **Sub-total of Share Options granted to Directors and Employees** | | | | | 16,808,000 | – | | | 16,808,000 | 2.70% |
| 5 Consultants | Consultants of the Group | 1 June 2015 | 1 June 2015 to 31 May 2017 | 2.54 | 300,000 | – | – | – | 300,000 | 0.05% |
| Hong Kong Zhixin Financial News Agency Ltd. (香港智信財經通訊社有限公司) ("Hong Kong Zhixin") (Note 6) | Consultant of the Group | 9 October 2015 | 9 October 2015 to 8 October 2018 | 2.54 | 6,200,000 | – | – | – | 6,200,000 | 0.99% |
| **Total** | | | | | **23,308,000** | | | | **23,308,000** | **3.74%** |

Note 1: Mr. Zhao Li Sheng is also a substantial shareholder of the Company through his beneficial interest, interests of spouse and controlled corporation.

Note 2: Ms. Chan Lok San (being the spouse of Mr. Zhao Li Sheng) is also a substantial shareholderof the Company through interests of spouse and controlled corporation.

Note 3: Mr. Lin Yusheng resigned as executive director of the Company on 6 July 2015.

Note 4: The vesting and exercise of certain Share Options are subject to the terms of the Share Option Scheme and the performance target(s) and terms set out in the respective letters of grant.

Note 5: The closing price of the Share on the date of grant of Share Options on 1 June 2015 was HK$2.45.

Note 6: On 9 October 2015, the Company entered into the Service Contract with Hong Kong Zhixin pursuant to which the Company has agreed to appoint Hong Kong Zhixin as a public relations consultant of the Company in Hong Kong and Mainland China for the provision of the services for a term of three years. In consideration of the provision of the services by Hong Kong Zhixin, the Company has agreed to (i) pay HK$30,000 per month to Hong Kong Zhixin during the term of the service, and (ii) grant Share Options to Hong Kong Zhixin or its nominees to subscrible for an aggregate of 6,200,000 new Shares under the Share Option Scheme at the exercise price of HK$2.54 per share.

## 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 2017, the Group had used net proceeds of approximately RMB136,920,000, of which approximately RMB6,000,000 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 2017, the Group had capital commitment of approximately RMB20,739,000 (31 December 2016: approximately RMB24,074,000).

## 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 report, at least 25% issued shares of the Company was held by public shareholders.

## DIVIDENDS

Pursuant to a resolution passed by the shareholders of the Company on 26 May 2017, the Company declared the audited distributable profits as at 31 December 2016 amounting to approximately HK$18,364,000 (equivalent to approximately RMB16,434,000) to the shareholders of the Company. The dividend was fully paid on 27 June 2017 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 2017 (2016: 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.

# Other Information

## 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, the results announcement and this interim report of the Company for the six months ended 30 June 2017 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 report.

## DISCLOSURE OF INFORMATION

The interim report for the six months ended 30 June 2017 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, 29 August 2017

# Consolidated Statement of Profit or Loss

*FOR THE SIX MONTHS ENDED 30 JUNE 2017 - UNAUDITED*
*(Expressed in Renminbi)*

| | Note | Six months ended 30 June | |
|---|---|---|---|
| | | **2017** | 2016 |
| | | **(unaudited)** | (unaudited) |
| | | **RMB'000** | RMB'000 |
| **Revenue** | 4 | **509,111** | 417,467 |
| Cost of sales | | **(360,510)** | (280,915) |
| **Gross profit** | | **148,601** | 136,552 |
| Other income | | **12,923** | 14,398 |
| Selling and distribution costs | | **(71,727)** | (64,467) |
| Administrative expenses | | **(33,655)** | (37,057) |
| Amortisation of intangible assets | | **(9,415)** | (9,415) |
| **Profit from operations** | | **46,727** | 40,011 |
| Finance costs | 7(a) | **(12,669)** | (4,307) |
| Share of profit of a joint venture | | **3,696** | 2,690 |
| **Profit before taxation** | 7 | **37,754** | 38,394 |
| Income tax | 8 | **(8,724)** | (8,342) |
| **Profit for the period** | | **29,030** | 30,052 |
| **Attributable to:** | | | |
| Owners of the Company | | **22,137** | 20,115 |
| Non-controlling interests | | **6,893** | 9,937 |
| Profit for the period | | **29,030** | 30,052 |
| **Earnings per share** | 10 | | |
| Basic (RMB cents) | | **3.56** | 3.00 |
| Diluted (RMB cents) | | **3.56** | 3.00 |

The accompanying notes form part of these condensed consolidated financial statements.

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

*FOR THE SIX MONTHS ENDED 30 JUNE 2017 - UNAUDITED*
*(Expressed in Renminbi)*

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | **(unaudited)** | (unaudited) |
| | **RMB'000** | RMB'000 |
| **Profit for the period** | **29,030** | 30,052 |
| **Other comprehensive loss 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 | **(1,539)** | (345) |
| Release of fair value reserve upon disposal of available-for-sale financial assets | **(698)** | (2,396) |
| | **(2,237)** | (2,741) |
| **Total comprehensive income for the period (net of tax)** | **26,793** | 27,311 |
| **Attributable to:** | | |
| Owners of the Company | **20,214** | 18,453 |
| Non-controlling interests | **6,579** | 8,858 |
| Total comprehensive income for the period | **26,793** | 27,311 |

The accompanying notes form part of these condensed consolidated financial statements.

# Consolidated Statement of Financial Position

*FOR THE SIX MONTHS ENDED 30 JUNE 2017 - UNAUDITED*
*(Expressed in Renminbi)*

| | Note | At 30 June 2017 (unaudited) RMB'000 | At 31 December 2016 (audited) RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 11 | **103,282** | 22,808 |
| Investment properties | 12 | **108,130** | 108,130 |
| Interest in a joint venture | | **72,929** | 69,233 |
| Deposits paid for property, plant and equipment | | **—** | 75,000 |
| Deposit paid for acquisition of land | | **18,988** | 18,988 |
| Goodwill | | **90,693** | 90,693 |
| Intangible assets | | **87,919** | 97,334 |
| Financial assets at fair value through profit or loss | | **4,232** | 4,232 |
| Available-for-sale financial assets | | **19,401** | 19,401 |
| | | **505,574** | 505,819 |
| **Current assets** | | | |
| Inventories | | **116,708** | 127,633 |
| Trade and other receivables | 13 | **406,011** | 437,874 |
| Available-for-sale financial assets | | **28,500** | 65,199 |
| Other financial asset | | **—** | 533 |
| Financial assets at fair value through profit or loss | | **16,894** | 17,400 |
| Cash and bank balances | | **152,623** | 239,281 |
| | | **720,736** | 887,920 |
| **Current liabilities** | | | |
| Trade and other payables | 14 | **272,546** | 271,689 |
| Other financial liability | | **3,256** | 13,623 |
| Bank loans | | **177,130** | 311,196 |
| Liability component of convertible bonds | 15 | **113,939** | 114,909 |
| Current taxation | | **15,704** | 15,503 |
| Deferred tax liabilities | | **770** | — |
| | | **583,345** | 726,920 |
| **Net current assets** | | **137,391** | 161,000 |
| **Total assets less current liabilities** | | **642,965** | 666,819 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | | **25,963** | 28,169 |
| | | **25,963** | 28,169 |
| **NET ASSETS** | | **617,002** | 638,650 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 16 | **53,468** | 53,468 |
| Reserves | | **474,611** | 470,347 |
| **TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY** | | **528,079** | 523,815 |
| **NON-CONTROLLING INTERESTS** | | **88,923** | 114,835 |
| **TOTAL EQUITY** | | **617,002** | 638,650 |

The accompanying notes form part of these condensed consolidated financial statements.

# Consolidated Statement of Changes in Equity

*FOR THE SIX MONTHS ENDED 30 JUNE 2017 - UNAUDITED*
*(Expressed in Renminbi)*

| | Attributable to equity shareholders of the Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Statutory and discretionary reserves | Contributed surplus | Convertible bonds equity reserve | Fair value reserve | Other reserve (note i) | Exchange reserve | Capital reserve | Retained profits | Total | Non-Controlling interests | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **At 1 January 2016** | 53,468 | 152,700 | 34,157 | 29,068 | 94,905 | 435 | – | (16,079) | 210 | 242,522 | 591,386 | 95,880 | 687,266 |
| **Changes in equity for the six months ended 30 June 2016** | | | | | | | | | | | | | |
| Profit for the period | – | – | – | – | – | – | – | – | – | 20,115 | 20,115 | 9,937 | 30,052 |
| Other comprehensive loss for the year | – | – | – | – | – | (1,317) | – | (345) | – | – | (1,662) | (1,079) | (2,741) |
| Total comprehensive (loss)/income for the year | – | – | – | – | – | (1,317) | – | (345) | – | 20,115 | 18,453 | 8,858 | 27,311 |
| Appropriation of statutory and discretionary reserves | – | – | 3,788 | – | – | – | – | – | – | (3,788) | – | – | – |
| Dividends (note 9(b)) | – | – | – | – | – | – | – | – | – | (8,140) | (8,140) | – | (8,140) |
| Equity settled share-based transactions (note 20) | – | – | – | – | – | – | – | – | 299 | – | 299 | – | 299 |
| Extinguishment of convertible bonds | – | – | – | – | (94,905) | – | 94,905 | – | – | – | – | – | – |
| Recognition of equity components of convertible bonds | – | – | – | – | 7,506 | – | (7,506) | – | – | – | – | – | – |
| Reclassification of equity component | – | – | – | – | – | – | (107,814) | – | – | – | (107,814) | – | (107,814) |
| **At 30 June 2016 (unaudited)** | 53,468 | 152,700 | 37,945 | 29,068 | 7,506 | (882) | (20,415) | (16,424) | 509 | 250,709 | 494,184 | 104,738 | 598,922 |
| **At 1 January 2017** | **53,468** | **152,700** | **38,740** | **29,068** | **6,259** | **6,773** | **(19,654)** | **(20,678)** | **753** | **276,386** | **523,815** | **114,835** | **638,650** |
| **Changes in equity for the six months ended 30 June 2017** | | | | | | | | | | | | | |
| Profit for the period | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **22,137** | **22,137** | **6,893** | **29,030** |
| Other comprehensive loss for the period | **–** | **–** | **–** | **–** | **–** | **(384)** | **–** | **(1,539)** | **–** | **–** | **(1,923)** | **(314)** | **(2,237)** |
| Total comprehensive (loss)/income for the period | **–** | **–** | **–** | **–** | **–** | **(384)** | **–** | **(1,539)** | **–** | **22,137** | **20,214** | **6,579** | **26,793** |
| Dividends (note 9(b)) | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(15,950)** | **(15,950)** | **(32,491)** | **(48,441)** |
| **At 30 June 2017 (unaudited)** | **53,468** | **152,700** | **38,740** | **29,068** | **6,259** | **6,389** | **(19,654)** | **(22,217)** | **753** | **282,573** | **528,079** | **88,923** | **617,002** |

Note：

i) Other reserve represents difference between the carrying amount of the equity component of the convertible bonds and the fair value of the financial liability upon reclassification as a result of the amendments of terms and conditions of the convertible bonds.

The accompanying notes form part of these condensed consolidated financial statements.

# Condensed Consolidated Statement of Cash Flows

*FOR THE SIX MONTHS ENDED 30 JUNE 2017 - UNAUDITED*
*(Expressed in Renminbi)*

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | **(unaudited)** | (unaudited) |
| | **RMB'000** | RMB'000 |
| **Operating activities** | | |
| **Cash generated from operations** | **83,010** | 33,639 |
| Interest received | **1,031** | 2,832 |
| PRC income tax paid | **(9,959)** | (10,375) |
| **Net cash generated from operating activities** | **74,082** | 26,096 |
| **Investing activities** | | |
| Dividend received | **756** | 1,135 |
| Purchase of property, plant and equipment | **(8,303)** | (4,748) |
| Purchase of available-for-sales financial assets | **(28,500)** | (68,674) |
| Proceeds from sales of property, plant and equipment | **—** | 47 |
| Proceeds from disposal of available-for-sales financial assets | **64,500** | 85,500 |
| Deposit paid for leasehold land | **—** | (18,988) |
| **Net cash generated from/(used in) investing activities** | **28,453** | (5,728) |
| **Financing activities** | | |
| Net proceeds from bank loans | **—** | 18,874 |
| Dividend paid | **(15,949)** | (8,140) |
| Dividend paid to non-controlling interests of a subsidiary | **(32,491)** | — |
| Payment of other financial liability | **(10,000)** | — |
| Repayment of bank loans | **(134,066)** | — |
| Finance cost paid | **(10,263)** | (12,766) |
| Proceed loan from related parties | **25,000** | — |
| **Net cash used in financing activities** | **(177,769)** | (2,032) |
| **Net (decrease)/increase in cash and cash equivalents** | **(75,234)** | 18,336 |
| **Cash and cash equivalents at 1 January** | **229,984** | 132,478 |
| Effect of foreign exchange rate changes | **(4,239)** | 2,446 |
| **Cash and cash equivalents at 30 June** | **150,511** | 153,260 |

The accompanying notes form part of these condensed consolidated financial statements.

# Notes to the Condensed Consolidated Financial Statements

*FOR THE SIX MONTHS ENDED 30 JUNE 2017 - 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 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 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 2016 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 have 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 7 | Disclosure Initiative |
| Amendments to HKAS 12 | Recognition of deferred tax assets for unrealized losses |

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 2016, 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 | |
|---|---|---|
| | **2017** | 2016 |
| | **(unaudited)** | (unaudited) |
| | **RMB'000** | RMB'000 |
| Sales of | | |
| – pharmaceutical products | **279,304** | 256,675 |
| – healthcare products | **132,569** | 78,681 |
| – medical devices | **97,238** | 82,111 |
| | **509,111** | 417,467 |

## 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 has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

1. 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.

2. 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, the Group's activities in this regard 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 | | | |
| **For the six months ended** | **2017 (unaudited) RMB'000** | 2016 (unaudited) RMB'000 | **2017 (unaudited) RMB'000** | 2016 (unaudited) RMB'000 | **2017 (unaudited) RMB'000** | 2016 (unaudited) RMB'000 | **2017 (unaudited) RMB'000** | 2016 (unaudited) RMB'000 |
| Revenue from external customers | **110,508** | 66,941 | **385,658** | 336,565 | **97,238** | 82,111 | **593,404** | 485,617 |
| Inter-segment revenue | **16,264** | 9,415 | **—** | — | **—** | — | **16,264** | 9,415 |
| Reportable segment revenue | **126,772** | 76,356 | **385,658** | 336,565 | **97,238** | 82,111 | **609,668** | 495,032 |
| Reportable segment profit/(loss) (adjusted EBITDA) | **17,627** | 14,464 | **5,790** | (1,266) | **27,968** | 30,434 | **51,385** | 43,632 |
| As at 30 June (unaudited)/ 31 December (audited) | | | | | | | | |
| Reportable segment assets | **154,925** | 197,692 | **677,122** | 578,797 | **147,547** | 227,250 | **979,594** | 1,003,739 |
| Reportable segment liabilities | **61,590** | 29,197 | **282,865** | 132,974 | **39,455** | 54,098 | **383,910** | 216,269 |

## 5. SEGMENT INFORMATION *(Continued)*

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

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 | |
|---|---|---|
| | **2017** **(unaudited)** **RMB'000** | 2016 (unaudited) RMB'000 |
| Reportable segment profit derived from Group's external customers and joint venture | **51,385** | 43,632 |
| Other income | **12,923** | 14,398 |
| Depreciation and amortisation | **(12,073)** | (11,519) |
| Finance costs | **(12,669)** | (4,307) |
| Unallocated head office and corporate expenses | **(1,812)** | (3,810) |
| Consolidated profit before taxation | **37,754** | 38,394 |

## 6. SEASONALITY OF OPERATIONS

The group's business in distribution sale of pharmaceutical and healthcare products and manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices had no special seasonality factor.

## 7. PROFIT BEFORE TAXATION

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

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | **(unaudited)** | (unaudited) |
| | **RMB'000** | RMB'000 |
| ***a) Finance costs*** | | |
| Total interest expense on financial liabilities not at fair value through profit or loss: | | |
| Interest on bank loans | **5,449** | 3,959 |
| Interest imputed on the liability component of convertible bonds | **5,355** | 266 |
| Other finance costs | **1,865** | 82 |
| Total finance costs | **12,669** | 4,307 |
| ***b) Other items*** | | |
| Amortisation of intangible assets | **9,415** | 9,415 |
| Cost of inventories (note i) | **360,510** | 280,915 |
| Depreciation | **2,658** | 2,104 |
| Impairment loss on other receivables | **—** | 179 |
| Reversal of impairment loss on trade receivables | **(1,106)** | (41) |
| Loss on disposal of property, plant and equipment | **5** | 3 |
| Operating lease charges in respect of land and buildings | **4,287** | 5,362 |
| Rental income from investment properties less direct outgoings of RMB191,000 (six months ended 30 June 2016: RMB175,000) | **(1,373)** | (1,206) |
| Research and development cost (note ii) | **6,002** | 2,355 |

Notes:

i) Cost of inventories includes approximately RMB1,889,000 (2016: RMB1,670,000) 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 RMB591,000 (2016: RMB339,000) relating to depreciation and operating lease rentals which are included in the respective total amounts disclosed separately above.

## 8. INCOME TAX

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | **(unaudited)** | (unaudited) |
| | **RMB'000** | RMB'000 |
| Hong Kong Profits Tax | | |
| Current period | **3,865** | 2,660 |
| PRC income tax | | |
| Current period | **6,271** | 7,010 |
| Under-provision in prior year | **—** | 84 |
| | **10,136** | 9,754 |
| Deferred tax | | |
| Current period | **(1,412)** | (1,412) |
| | **8,724** | 8,342 |

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% (2016: 16.5%) to the six months ended 30 June 2017.

iii) The PRC income tax charge of the Group during the six months ended 30 June 2017 represented mainly the PRC income tax charge from the Group's PRC subsidiary, Shenzhen Kingworld Medicine Company Limited and is based on a statutory rate of 25% (six months ended 30 June 2016: 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 2016: 15%).

## 9. DIVIDENDS

a) The Company's directors do not recommend the payment of an interim dividend for the six months ended 30 June 2017 and 2016.

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 | |
|---|---|---|
| | **2017** | 2016 |
| | **(unaudited)** | (unaudited) |
| | **RMB'000** | RMB'000 |
| Final dividend in respect of the previous financial year ended, approved and paid during the Reporting Period, of HK$2.95 cents (equivalent to approximately RMB2.64 cents) (2016: HK$1.53 cents (equivalent to approximately RMB1.31 cents)) | **15,949** | 8,140 |

## 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:

i) *Profit attributable to owners of the Company*

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | **(unaudited)** | (unaudited) |
| | **RMB'000** | RMB'000 |
| Profit for the year attributable to owners of the Company | **22,137** | 20,115 |
| Interest imputed on the liability component of mandatorily convertible bonds | **—** | 266 |
| Earnings for the purpose of basic earnings per share | **22,137** | 20,381 |

ii) *Weighted average number of ordinary shares*

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | **(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 |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **622,500,000** | 679,277,473 |

* 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 15.

### b) *Diluted earnings per share*

Diluted earnings per share for the six months ended 30 June 2017 and 2016 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 from the date of grant of share options to 30 June 2017.

## 11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Group acquired items of property, plant and equipment of RMB8,303,000 (six months ended 30 June 2016: RMB4,748,000) and transferred items from deposit paid for property, plant and equipment of RMB75,000,000 (six months ended 30 June 2016: RMBNil), and disposed of property, plant and equipment with an aggregate net carrying amount of RMB128,000 (six months ended 30 June 2016: RMB50,000), resulting in a loss on disposal of RMB5,000 (six months ended 30 June 2016: RMB3,000).

## 12. INVESTMENT PROPERTIES

| | RMB'000 |
|---|---|
| **At 31 December 2016 (audited), 1 January 2017 and 30 June 2017 (unaudited)** | 108,130 |

a) The Group's investment properties were revalued as at 31 December 2016 on an open market value basis calculated by reference to (i) comparable market transactions in the relevant markets or (ii) net rental income allowing for reversionary income potential. The valuations were carried out by independent firms of valuers, DTZ Debenham Tie Leung Limited and ROMA Appraisals 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 had discussions with the surveyors on the valuation assumptions and valuation results when the valuation is performed at annual reporting date.

   The Group's investment properties were not revalued as at 30 June 2017 by independent valuers. The directors were aware of the changes in the conditions of the property market. However, they considered that the carrying amount of the Group's investment properties did not differ significantly from the fair values as at 31 December 2016 carried out by independent qualified professional valuers. Consequently, no change in fair value of investment properties has been recognized in the current period.

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

c) The Group's investment property with a carrying amount of RMB Nil (31 December 2016: RMB96,000,000) have been pledged to secure general banking facilities granted to the Group (note 17).

## 13. 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 2017 (unaudited) RMB'000** | At 31 December 2016 (unaudited) RMB'000 |
|---|---|---|
| 0-90 days | **229,912** | 255,667 |
| 91-180 days | **12,653** | 22,692 |
| 181-365 days | **2,252** | 3,788 |
| More than 1 year | **1,284** | 7,409 |
| Total trade and bills receivables, net of allowance for doubtful debts | **246,101** | 289,556 |
| Other receivables | **48,743** | 44,923 |
| Other loan | **47,111** | 48,521 |
| Amount due from related parties | **39** | 40 |
| Loans and receivables | **341,994** | 383,040 |
| Prepayments | **25,993** | 19,672 |
| Trade and other deposits | **1,947** | 1,191 |
| Trade deposits to related parties | **36,077** | 33,971 |
| | **406,011** | 437,874 |

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

## 14. 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 2017 (unaudited) RMB'000** | At 31 December 2016 (audited) RMB'000 |
|---|---|---|
| 0-90 days | **140,499** | 233,757 |
| 91-180 days | **73,103** | 3,689 |
| 181-365 days | **106** | — |
| Total trade payables | **213,708** | 237,446 |
| Accruals | **8,666** | 10,413 |
| Amount due to related companies | **25,000** | — |
| Other payables | **16,903** | 15,999 |
| Financial liabilities measured at amortised cost | **264,277** | 263,858 |
| Trade deposits received | **8,269** | 7,831 |
| | **272,546** | 271,689 |

## 15. CONVERTIBLE BONDS

| | **At June 2017 (unaudited) RMB'000** | At 31 December 2016 (audited) RMB'000 |
|---|---|---|
| Liability component | **113,939** | 114,909 |

## 15. CONVERTIBLE BONDS *(Continued)*

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") 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.

On 18 May 2016, the Company entered into a supplemental deed (the "Supplemental Deed") with the Subscriber and the 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 New 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 New Convertible Bond;

3) the Company and the Holders under Supplement Deed have to 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 directors 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).

## 15. CONVERTIBLE BONDS *(Continued)*

The amendment of terms and conditions as contemplated under the Supplement Deed 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 Bond was recognised. The Subscriber is an interested party of the Company. The loss of RMB19,654,000 was regarded as the deemed distribution to the shareholder included in other reserve. As at 30 June 2017, the carrying amount of the liability component and equity component (after deducting deferred tax liability) of the New Convertible Bond was RMB113,939,000 (31 December 2016: RMB114,909,000) and RMB6,259,000 (31 December 2016: RMB6,259,000) respectively.

* 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 31 December 2015 and 1 January 2016 (audited) | 4,155 | 94,905 | 99,060 |
| Extinguishment of convertible bonds | — | (94,905) | (94,905) |
| Recognition of new convertible bonds | 106,642 | 6,259 | 112,901 |
| Imputed interest charged to consolidated statement of profit or loss | 5,764 | — | 5,764 |
| Interest paid | (7,581) | — | (7,581) |
| Exchange adjustment | 5,929 | — | 5,929 |
| At 31 December 2016 and 1 January 2017 (audited) | 114,909 | 6,259 | 121,168 |
| Imputed interest charged to consolidated statement of profit or loss | 5,355 | — | 5,355 |
| Interest paid | (2,949) | — | (2,949) |
| Exchange adjustment | (3,376) | — | (3,376) |
| At 30 June 2017 (unaudited) | 113,939 | 6,259 | 120,198 |

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.

## 15. CONVERTIBLE BONDS *(Continued)*

At the date of amendment of terms and conditions of the convertible bonds, the fair value of the liability component of the convertible bonds was determined based on a valuation performed by DTZ Cushman & Wakefield Limited, an independent firm of professional valuers with recognized qualification and experiences using discounted cash flow model for an equivalent non-convertible loan. The effective interest rate of the liability component is 9.8% per annum. The residual amount was assigned as the equity component of the convertible bonds.

No new shares of the Company were issued upon exercise of the mandatorily convertible bonds or convertible bonds during the year ended 31 December 2016 and for the six months ended 30 June 2017.

## 16. SHARE CAPITAL

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

## 17. PLEDGE OF ASSETS

The Group's asset with the following carrying amount has been pledged to secure bank loan and banking facilities:

| | **Note** | **At 30 June 2017 (unaudited) RMB'000** | At 31 December 2016 (audited) RMB'000 |
|---|---|---|---|
| Investment property | 12 | — | 96,000 |

The Group's bank loans amounted to RMB Nil as at 30 June 2017 (31 December 2016: RMB107,804,000) were secured by Group's investment property and guaranteed by Yuen Tai Pharmaceuticals Limited, related party. The Group's bank loans amounted to RMB130,275,000 as at 30 June 2017 (31 December 2016: RMB156,537,000) were guarantee by Mr. Zhao Li Sheng, the ultimate controlling party and director of the Group, Ms. Chan Lok San, the director of the Group, and SZ Kingworld.

## 18. FINANCIAL INSTRUMENTS

### *Fair value*

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities, recorded at amortised cost, in the condensed consolidated financial statements approximate their fair values.

*Fair value hierachy*

The following table presents the fair value of the Group's financial instruments 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, that is,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, that is, 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.

| | | **Fair value measurements as at 30 June 2017 categorised into** | | | | Fair value measurements as at 31 December 2016 categorised into | | |
|---|---|---|---|---|---|---|---|---|
| | **Fair value at 30 June 2017 RMB'000 (unaudited)** | **Level 1 RMB'000 (unaudited)** | **Level 2 RMB'000 (unaudited)** | **Level 3 RMB'000 (unaudited)** | Fair value at 31 December 2016 RMB'000 (audited) | Level 1 RMB'000 (audited) | Level 2 RMB'000 (audited) | Level 3 RMB'000 (audited) |
| Recurring fair value measurements | | | | | | | | |
| Assets: | | | | | | | | |
| Available-for-sale investment, at fair value | | | | | | | | |
| – Unlisted equity investments | **19,101** | **—** | **12,761** | **6,340** | 19,101 | — | 12,761 | 6,340 |
| – Bank wealth management products | **28,500** | **—** | **—** | **28,500** | 65,199 | — | — | 65,199 |
| Financial assets at fair value through profit or loss | | | | | | | | |
| – Unlisted equity investments | **4,232** | **—** | **—** | **4,232** | 4,232 | — | — | 4,232 |
| – Listed securities | **16,894** | **16,894** | **—** | **—** | 17,400 | 17,400 | — | — |
| Other financial asset | **—** | **—** | **—** | **—** | 533 | — | 533 | — |
| Liabilities: | | | | | | | | |
| Other financial liability | **3,256** | **—** | **—** | **3,256** | 13,623 | — | 367 | 13,256 |

During the period ended 30 June 2017, 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 the fair value hierarchy as at the end of the Reporting Period in which they occur.

## 18. FINANCIAL INSTRUMENTS *(Continued)*

### ***Fair value*** *(Continued)*

*Fair value hierachy (Continued)*

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

The fair value of available-for-sale financial assets, at fair value in Level 2 is calculated based on the quoted prices of equity instruments on which the Fund invested in.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The following table presents the changes in level 3 instruments for the period ended 30 June 2017 and 30 June 2016.

| | | | Available-for-sale investments | | Financial assets at fair value through profit or loss | |
|---|---|---|---|---|---|---|
| | Other financial asset RMB'000 | Other financial liability RMB'000 | Unlisted equity investments RMB'000 | Bank wealth management products RMB'000 | Unlisted equity investments RMB'000 | Total RMB'000 |
| At 1 January 2016 | 4,604 | (16,362) | 1,138 | 86,296 | — | 75,676 |
| Proceeds from sales | — | — | — | (85,500) | — | (85,500) |
| Additions | — | — | — | 62,100 | — | 62,100 |
| Release of fair value reserve upon disposal | — | — | — | (2,396) | — | (2,396) |
| At 30 June 2016 (unaudited) | 4,604 | (16,362) | 1,138 | 60,500 | — | 49,880 |
| At 1 January 2017 | **—** | **(13,256)** | **6,340** | **65,199** | **4,232** | **62,515** |
| Proceeds from sales | **—** | **—** | **—** | **(64,500)** | **—** | **(64,500)** |
| Addition | **—** | **—** | **—** | **28,500** | **—** | **28,500** |
| Release of fair value reserve upon disposal | **—** | **—** | **—** | **(699)** | **—** | **(699)** |
| Payment | **—** | **10,000** | **—** | **—** | **—** | **—** |
| At 30 June 2017 (unaudited) | **—** | **(3,256)** | **6,340** | **28,500** | **4,232** | **25,816** |

## 18. FINANCIAL INSTRUMENTS *(Continued)*

### *Fair value* *(Continued)*

*Fair value hierachy (Continued)*

The fair value of the other financial liability was valued as at 31 December 2016 by using a discounted rate of 14.71% per annum, under discounted cashflow method by an independent valuer, ROMA Appraisals Limited.

The fair value of the unlisted equity investment was valued as at 31 December 2016 with reference to valuation performed by an independent valuer, Brilliant Appraisal Limited based on the median of the market multiples of market comparable companies after adjusting for lack of marketability and control discount.

The directors considered that the carrying amount of the aforesaid financial instruments as at 30 June 2017 did not differ significantly from the fair value as at 31 December 2016 carried out by independent qualified professional valuers. Consequently, no change in fair value has been recognised in current period.

The fair value of the bank wealth management products was valued based on their costs plus expected return.

## 19. CAPITAL COMMITMENTS

Capital commitments of the Group at the six months ended 30 June 2017 are as follows:

| | **At 30 June 2017 (unaudited) RMB'000** | At 31 December 2016 (audited) RMB'000 |
|---|---|---|
| Contracted but not provided for in respect of property, plant and equipment | **3,847** | 6,704 |
| Capital commitment for the investment in 3.89% equity interest in the Sinopharm Healthcare Fund. L.P | **16,892** | 17,370 |

## 20. EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company set up a share option scheme on 5 November 2010 whereby the directors of the Company are authorized, at their discretion, to grant options to subscribe for the Company's shares to eligible participants ("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 shall be valid and effective for a period of ten years ending on 4 November 2021, after which no further options will be granted.

Options granted on 1 June 2015 to the directors, employees and consultants vest after one to three years from the date of grant and are then exercisable within a period of one year. Of the share option granted on 9 October 2015 to a consultant vest and exercisable from the date of grant after the market conditions are met.

Each options gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

As at 30 June 2017, the outstanding share options granted and accepted was 23,308,000 (31 December 2016: 23,308,000).

No share options were lapsed or exercised during the six months ended 30 June 2017.