Kingworld Medicines Group Limited
金活醫藥集團有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 01110

INTERIM REPORT 2018

金活 健康之家

CONTENTS

Corporate Information

DIRECTORS

Executive Directors

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

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 (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

8th - 9th Floor, Block A
Majialong Chuangxin Building
198 Daxin Road
Nanshan District, Shenzhen
Guangdong Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 1906 – 1907
19th Floor
Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

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

PRINCIPAL BANKS

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
1st Floor, Zhuoyue Building
Fuhua 1 Road 98
Shenzhen
Guangdong Province
The PRC

Nanyang Commercial Bank
Hong Kong Western Branch
1st Floor - 2nd Floor
359-361 Queen's Road Central
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
	2018	2017	Increase/
	RMB '000	RMB '000	(Decrease)
Financial Highlights			
Revenue	**556,548**	509,111	9.3%
Cost of sales	**(382,263)**	(360,510)	6.0%
Gross profit	**174,285**	148,601	17.3%
Gross profit margin	**31.3%**	29.2%	2.1% points
Profit attributable to owners of the Company	**27,548**	22,137	24.4%
Basic earnings per share (RMB cents)	**4.43**	3.56	24.4%

			% Changes
	At 30 June	At 31 December	Increase/
	2018	2017	(Decrease)
Liquidity and Gearing			
Current ratio(1)	**1.25**	1.26	(0.8)%
Quick ratio(2)	**1.05**	1.03	1.9%
Asset-liability ratio(3)	**27.3%**	31.0%	(3.7)% 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. The PRC economy was stable at large and trending positive in the first half year

In the first half of 2018, while there was a rise in the trade protectionism, China was pursuing critical restructuring, transformation and upgrade of economy. In the first half of 2018, China's gross domestic product (GDP) amounted to approximately RMB41,896.1 billion, representing an increase of 6.8% against the same period last year. On quarterly basis, China's GDP grew by 6.8% and 6.7% quarter-on-quarter in the first and second quarter of 2018, respectively, which is within the 6.7% to 6.9% range for the previous 12 consecutive quarters. Consumption expenditure per capita for the period was approximately RMB9,609, representing an actual growth of 6.7% after excluding the price factor. In the first half of 2018, online retail sales in China amounted to approximately RMB4,081.0 billion, representing an increase of 30.1% when compared with the same period of last year. Healthcare expenditure per capita was approximately RMB860, representing an increase of 19.7% when compared with the same period of last year, and accounted for 8.9% of per capita consumption expenditure. It is expected that in the second half of 2018, China will continue to face uncertainties stemming from the trade war between China and the United States, as well as the continuous depreciation of Renminbi. Although the United States had not announced any trade policies that may directly impact the sales of pharmaceutical and healthcare products and medical devices as at the date of this report, changes in trade policies or trade wars may increase the costs of goods imported from or exported to the United States and the PRC, which in turn may have an adverse impact of the Group's business. In addition, any deterioration of trade relationship between the PRC and the United States may have a material adverse impact on global economic conditions and the stability of global financial markets, and may also significantly reduce global trade. It is expected that China will continue to implement supply-side structural reform, boost domestic demand and push forward consumption upgrade, thereby resulting in the stable growth of the economy within a reasonable range.

2. "Medical treatment + medical insurance + pharmacy" facilitates rollout of "Healthy China" strategy

On 31 May 2018, the State Medical Insurance Administration was officially set up which brings under-one-roof the China Food and Drug Administration, the National Health Commission and Ministry of Human Resources and Social Security to link and coordinate activities in the medical treatment, medical insurance and pharmaceutical areas. China has been actively implementing the "Healthy China" strategy, which target to improve maternal and child healthcare services, support development of traditional Chinese medicines, enhance the regulation on food and drugs, enhance regulatory efficiency by using the Internet and Big Data, and expedite the set up of a record filing system for tracing inferior products, curb the illegal production and distribution of drugs and assure product safety. For more than two decades, the Group has been introducing high-quality and well-known pharmaceutical and healthcare products from overseas to consumers in China. In particular, the Nin Jiom Chuan Bei Pei Pa Koa (京都念慈菴蜜煉川貝枇杷膏), a major product featuring a century-old formula, is one of the best selling products of the Group, and the Culturelle (康萃樂) probiotics product series from the United States, another major product series of the Group, is a leading brand in the probiotics product market in the United States and also the probiotics products for children brand most recommended by pediatricians in the United States.

3. New retail model integrating online and offline operations

According to the "2017 Review and Outlook of Domestic Trade Development in China" (2017年中國國內貿易發展回顧與展望) published by the Ministry of Commerce of China, the consumer goods market in China was the second largest in the world and the total retail sales of consumer goods in China amounted to approximately RMB36.6 trillion in 2017, representing 14 consecutive years of growth and an increase of 10.2% as compared with 2016. In addition, in 2017, online retail sales amounted to approximately RMB7.2 trillion, exceeding RMB7 trillion for the first time, representing an increase of 6% as compared with 2016 to 32.2%. The new mode of innovative consumption has been a main driving force sending the economy into a new phase of growth. More consumers are changing their shopping habit from offline to online, and online and offline integration has become a major characteristic of consumption in the information era. The Group has been actively pursuing Online-Merge-Offline ("OMO") resources integration in order to seize the market opportunities.

4. Expanding healthcare product market in China beneficial to development of the Group

According to the "2018 Healthcare Product Consumption Per Capita in China and Analysis of Market Competitive Landscape" (2018年中國保健品人均消費量及市場競爭格局分析) published by China Industrial Information (中國產業資訊), a market research company, the healthcare product market in China was worth approximately RMB240.0 billion in 2017 and consumption per capita of healthcare products in China was only 12.1% of that in the United States, accordingly, the healthcare product market has much room for growth. The healthcare product market in China is in developing stage, growing from approximately RMB60.0 billion market in 2005 to over approximately RMB200.0 billion now. It had grown at a compound annual growth rate (CAGR) of 10.0%, from 2012 to 2017, compared to CAGR of the 4.7% in the United States in the same period. With the increase in disposable income per capita and growing health awareness, consumers are paying more attention to their health, and that in turn led to an increase in market demand for healthcare products. The change in consumption habits, the problem of an aging population, the greater emphasis on standards in regulatory policies and other relevant factors have all contributed to the robust growth of the healthcare product industry, which is favourable to the products exclusively distributed by the Group, namely the Culturelle probiotics product series from the United States and the Lifeline Care maternal and infant fish oil nutrient product series from Norway.

5. Nin Jiom gained recognition in the United States when the flu raged worldwide

At the beginning of 2018, the United States had the most deadly flu season in a decade. According to an article titled "Herbal Supplement Has Some New Yorkers Talking, Instead of Coughing" published by the Wall Street Journal in late February 2018, an American was suffered from flu for more than 10 days and his cough stopped after taking Nin Jiom Chuan Bei Pei Pa Koa within fifteen minutes. He shared his experience with his friends on the social media, and the story immediately went viral on the Internet.

The news about Nin Jiom Chuan Bei Pei Pa Koa reached China, Hong Kong, Macau, Taiwan and Chinese communities all over the world, and was widely reported by the online, print and digital media and Nin Jiom Chuan Bei Pei Pa Koa was among the top three most popular keyword search on the Internet for many days.

In the past two decades, the Group has been an agent and distributor of many high quality Chinese patent medicines made of natural and plant-based ingredients in Mainland China, including the Nin Jiom product series and the Pu Ji Kang Gan Granules (普濟抗感顆粒) for flu prevention. According to China Pharmaceutical Enterprises Co-operation and Development Organisation Summit 2018, "Nin Jiom" ranked top in the category of cough relief products under the "Healthy China Brand Ranking" and ranked 18th in Brand Value. "Pu Ji Kang Gan Granules" was developed by a team of national experts in the anti-influenza field after going through clinical trials and was proven to be effective in treating symptoms such as fever, sore or dry throat caused by influenza. It also boasts antiviral effect on prevailing influenza.

BUSINESS REVIEW

For over two decades, the Group has been committed to establishing a comprehensive and greater health service supply chain system that integrates all upstream and downstream operations. It has a business footprint that covers more than 34 provinces and cities in China. It was among the top 100 Importer Enterprises of Pharmaceutical and Healthcare Product for six consecutive years from 2009 to 2014 and was named as one of the Top 5 Sales Enterprises of Chinese Patent Medicines in 2013. The Group is a leading and well-known omni-channel enterprise with comprehensive a complete supply chain in the greater health products and services industry. It provides high-end logistics management service, B2C trading service and data service to major leading pharmaceutical and healthcare product suppliers, manufacturers and distributors, and is a pharmaceutical and healthcare product supply chain management service enterprise integrated with logistics and product and information.

The three major businesses of the Group in the greater health services industry are:

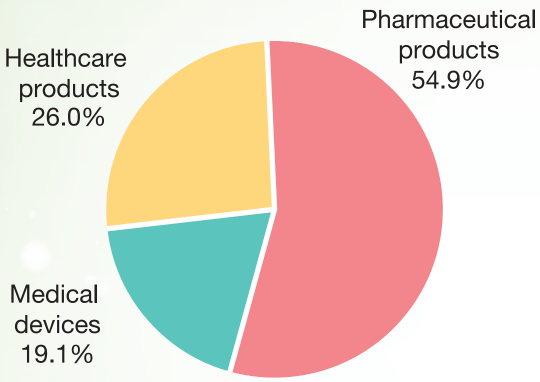
Pharmaceutical products segment: acting as an agent and distributor of high-quality and well-known pharmaceutical products from overseas, including the Nin Jiom (京都念慈菴) product series, Taiko Seirogan (喇叭牌正露丸) and medicated oil for external use;

Healthcare products segment: introducing high-quality and well-known healthcare products from overseas, including the Culturelle (康萃樂) probiotics product series, the Lifeline Care maternal and infant fish oil nutrient product series and "Global Slimming" product series; and

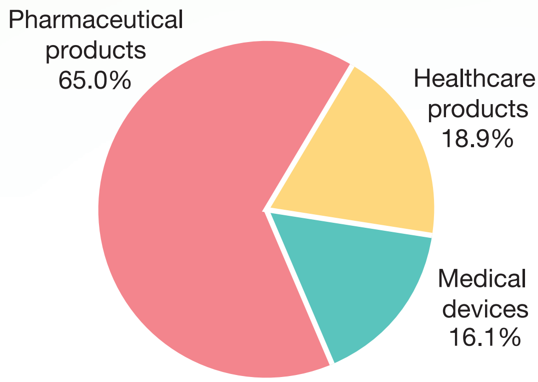
Medical devices segment: undertaking research and development, manufacturing and production of medical devices.

Management Discussion and Analysis

For the six months ended 30 June 2018, revenue from the pharmaceutical products segment amounted to approximately RMB361,679,000, representing an increase of 29.5% against the same period last year and accounting for 65.0% of the Group's total revenue. Revenue from the healthcare products segment was approximately RMB105,440,000, representing a decrease of 20.5% against the same period last year and accounting for 18.9% of the total revenue. Revenue from the medical devices segment amounted to approximately RMB89,429,000, representing a decrease of 8.0% against the same period last year, and accounting for 16.1% of the Group 's total revenue.



First half of 2017



First half of 2018

Highlights of Pharmaceutical Products Segment

Effective channel optimisation boosted Nin Jiom products sales

In the second half of 2017, the Group, together with Nin Jiom, implemented relevant measures to "optimise channels and boost efficiency". After months of hard work and reform efforts, the Group and Nin Jiom managed to standardise channel management, where marketing strategies across different downstream distributions were standardised and the distributors were encouraged to take initiative and enhance effectiveness.

During the Reporting Period, to attract younger consumers, Nin Jiom carried out various major promotional activities including sponsoring concerts and title-sponsored Hunan Television drama series such as The Phoenix Prison (鳳囚凰), Excellent Investor (金牌投資人) and Meet In Youth Love (像我們一樣年輕). In addition, together with Nin Jiom, the Fourth Nin Jiom Carnival themed "Let's work out and protect our lungs" was joinly held by Nin Jiom and the Group and Nin Jiom flagship stores at major sales terminal sites were opened. During the Reporting Period, benefiting from effective channel reform and promotional strategy, as of 30 June 2018, our revenue from Nin Jiom Chuan Bei Pei Pa Koa grew steadily to approximately RMB282,148,000, representing a significant increase of 37.5% when compared with the same period last year.

In addition, during the Reporting Period, ride on the increasing sales of Nin Jiom Pei Pa Koa as a result of the increase in terminal sales and the Group stepping up product deployment and promotion in terminal retail stores. Revenue from Nin Jiom herbal candies continued to increase, representing an increase of 23.1% when compared with the same period last year.

In the second half of 2018, the Group will continue to strengthen the cooperation with regional chain stores, expand distribution coverage of Nin Jiom Pei Pa Koa to county and town level markets, leveraging the brand recognition and influence of Nin Jiom.

Fourth Nin Jiom Carnival themed "Let's work out and protect our lungs"

Product Display at the Nin Jiom Carnival

"Channel Optimisation and Orderly Marketing" for Taiko Seirogan

The Group has been the general distributor of Taiko Seirogan products in the Mainland China market for two decades. To enhance the efficiency and orderly rollout of marketing activities, the Group worked on "channel optimisation and orderly marketing" in the first half of 2018 with the primary goals of (i) optimising channel layout thus reducing blank spots; (ii) standardising channel management to facilitate orderly sales; and (iii) maintaining channel price to ensure profitability of distributors at different levels. Although sales slowed down during the reform, such efforts will enable downstream distributors and cooperative partners to enjoy greater efficiency in the long run. During the Reporting Period, revenue from Taiko Seirogan amounted to approximately RMB41,537,000, representing a decrease of 12.6% against the same period last year.

Management Discussion and Analysis

During the Reporting Period, the Group continued the gift with purchase marketing tactic for Taiko Seirogan products in terminal stores in major markets. Social media tools such as WeChat likes, advertorial and Baidu Knows were also used for marketing promotion. It also continued to strengthen training for in-shop sales personnel and consumer education. Advertising campaigns including outdoor advertisement, advertisement on trains and in magazines were launched in certain cities. In the second half of 2018, the Group will continue with the "orderly marketing" strategy so as to improve the market position and sales of Taiko Seirogan products.

Taiko Seirogan advertisement on trains

Billboard advertisement of Taiko Seirogan

Promoted external use medicated oil in communities and strengthened cooperation with chain stores and e-merchants

The Group is an agent and distributor of various medicated oil products for external use including the Mentholatum (曼秀雷敦) series, Flying Eagle Wood Lok Medicated Oil (飛鷹活絡油), Hoe Hin White Flower Embrocation (和興白花油) and its own brand Kingworld Imada Red Flower Oil (金活依馬打正紅花油). During the Reporting Period, the Group developed marketing strategies for each of the medicated oil products with the aim of increasing terminal coverage of products. During the Reporting Period, for the Mentholatum series, cooperation with both the chain stores and online merchants selling medicine was strengthened. Promotional activities which coincided with online shopping festivals on e-commerce platforms and key opinion leader ("KOL") advertorials were placed to entice consumers to shop on those platforms. In the second half of 2018, the Group will continue to expand distribution coverage and cooperate with downstream distributors and chain stores to conduct product training in order to boost sales.

During the Reporting Period, Flying Eagle Wood Lok Medicated Oil supported various sports events, including the Shantou Nanao 50 km Trail Race and the Shenzhen Mofang 100 km Hiking. In addition, the Group also actively participated in various charitable community activities, and cooperated with the Shenzhen Platinum Foundation for Women and Children and Guangzhou Pharmaceutical Holdings to provide massage and medicated oil trial service to residents in various communities in Shenzhen and Guangzhou to highlight the caring nature of the brand. In the second half of 2018, the Group will continue to focus on developing second and third-tier markets, expand distribution coverage of the product, provide trial packs in online and offline stores, and provide massage and medicated oil trial service to residents in communities in key areas to services foster consumer acceptance of the product.

During the Reporting Period, the Group opened new distribution channels and increased market coverage of Hoe Hin White Flower Embrocation and its own brand Kingworld Imada Red Flower Oil. On the marketing front, the Group offered gift with purchase activities for consumers during major festivals to improve terminal sales and brand influence. As for online marketing, the Group partnered with JD Pharmacy (京東大藥房) and participated in the annual "JD 618 sales event" (京東618周年慶). In the second half of 2018, the Group will continue to increase market distribution of Hoe Hin White Flower Embrocation and Kingworld Imada Red Flower Oil and strengthen education of shop personnel and consumers in terminal stores to boost sales. In terms of social media advertising, KOLs on Xiaohongshu (小紅書) and in the JD Shopping Community (京東購物圈) will be engaged to help direct consumer traffic to JD Pharmacy, and live online sales training will be provided on the WeChat platform to improve sales and marketing skills of our sales personnel and in turn boost sales.

Mentholatum series display in chain store

Flying Eagle Wood Lok Medicated Oil product display in chain store

Gift with purchase activity for Kingworld Imada Red Flower Oil in chain store

Gift with purchase activity for Hoe Hin White Flower Embrocation in chain store

Highlights of Healthcare Products Segment

Sale of Culturelle probiotics product series continued to increase in Hong Kong and Macau market

During the Reporting Period, revenue from Culturelle probiotics product series from Hong Kong and Macau market increased by 63.7% as compared with the same period last year. However, affected by shortage in supply, the overall revenue from Culturelle probiotics product series decreased by 25.8% to approximately RMB78,302,000 as compared with the same period last year. Although supply shortage resulted in a slight decrease in revenue from Culturelle Probiotics, the Group continued to actively carry out brand promotion activities for Culturelle probiotics. During the Reporting Period, various large-scale promotion activities for Culturelle probiotics were conducted in the Mainland China market, including outdoor advertisement in over a hundred communities in Shenzhen and also outdoor LED advertisement in the business districts in Shenzhen and Guangzhou. In addition, we cooperated with Yuxueyuan (育學園), a child healthcare management platform established by Chinese pediatrician Dr. Cui Yutao (崔玉濤) and organised talks in Shanghai and Beijing, and Culturelle probiotics sponsored the "Healthy Long Walk for Mother and Child" event in Beijing. In the Hong Kong and Macau markets, an additional distribution channel, the large cosmetic retail chain "SaSa", was secured for the sale of Culturelle probiotics products and promotion of the products continued in various print media and the social media.

In the second half of 2018, the Group will focus on key chain stores such as Leyou Babies to Kids, Sam's Club, Mannings and Watsons, we aim to integrate product marketing with sales promotions in stores, and increase brand recognition and awareness in the Greater China Region.

Display of Culturelle probiotics products in Mannings in Hong Kong

Large billboard featuring Culturelle probiotics products in Dongmen shopping area in Shenzhen

Lifeline Care fish oil promotion proven effective

To seize opportunities in the maternal and infant market in China brought by the two-child policy, the Group introduced Lifeline Care maternal and infant fish oil nutrient product series from Norway in 2016. During the Reporting Period, the Group formulated marketing plans for online and offline channels, cooperated with online channels such as Kaola.com, Tmall Global, JD.com and VIP.com, among others to carry out promotional activities and give away product trial packs to encourage sharing of consumer experience and word-of-mouth marketing, which enhanced brand awareness and customer patronage. In addition, the Group also engaged 120 KOLs who put up over 350 advertorials on maternal and infant topics on various major social media platforms to reach their fans. Moreover, the Group cooperated with pediatrician Dr. Cui Yutao to hold live broadcast of the parenting program "My Working Mother" which attracted over 1.5 million viewers, and also organised talks that attracted thousands of participants, and advertisements were placed at eight major Hong Kong – Shenzhen immigration control points.

Dr. Cui Yutao at one of the talks attended by over a thousand participants

LED digital signboard of Lifeline Care fish oil at the Futian Port, Shenzhen

"Global Slimming" product series highly recommended by KOLs and their fans

During the Reporting Period, the Group carried out various interactive marketing activities for the "Global Slimming" product series in online and offline channels, targeting young consumers who care about their physical appearance. During the Reporting Period, there was an increase in consumers who tried the Tilman Plant Diet Tea from Belgium after watching the Hunan Television show "I am a Beauty Queen" (我是大美人), which showed KOLs who talked about their experience with such products. As for the ZUCCARI slimming series from Italy, its concentrated slimming 100% pineapple juice is now available in "SaSa", CR Care, Mannings and other retail stores in Hong Kong. Regarding marketing promotion on social media, the Group made best use of such shopping experience sharing platforms such as Xiaohongshu and engaged KOLs who recommended the products to their fans. In the future, the Group will continue to engage social media KOLs to endorse the "Global Slimming" product series on these platforms and attend offline activities such as exhibitions to raise brand reputation and sales.

KOL showing viewers of the Hunan Television show "I am a Beauty Queen" how to lose weight by drinking Tilman Plant Diet Tea while maintaining a balanced diet

Tilman Plant Diet Tea and ZUCCARI pineapple juice and other products were featured at the China Beauty Expo in May 2018

Highlights of Medical Devices Segment Review

Shenzhen Dong Di Xin Technology Company Limited ("Dong Di Xin"), a non-wholly owned subsidiary of the Group, is an innovator and driving force in the global medical devices for physical rehabilitation and treatment industry and a National High and New Tech Enterprise. For three consecutive years, Dong Di Xin was named an AAA Grade Enterprise in terms of Quality Reputation in Guangdong Province. In addition to undertaking ODM research and development, manufacturing and production of medical devices, Dong Di Xin sells products of its own brand "NU-TEK" (當代), which is a globally renowned brand of medical devices for physical rehabilitation used in various physical therapies such as low-, medium- and high-frequency electrotherapy, ultrasound therapy, short wave electrotherapy, magnet therapy, laser therapy and biofeedback therapy. During the Reporting Period, Dong Di Xin recorded a decrease in profit due to exchange rate fluctuation and increase in research and development and administrative expenses. As of 30 June 2018, revenue from Dong Di Xin amounted to approximately RMB89,429,000, representing a decrease of 8.0% against the same period last year.

MANAGEMENT REVIEW

1. Providing complete all omni-channel engulfing supply chain operation services

The Group has a strong customer base, offers high quality customer service and has multiple distribution channels with diverse product range. With customer demand and value in mind and at heart, and guided by lean management thinking, the Group provides complete and all omni-channel supply chain operation services to customers in the greater health services industry. As at 30 June 2018, the Group had a distribution network covering over 200,000 over the counter retail pharmacies nationwide and more than 4,000 "Kingworld Health Family" product counters, and had over 3,500 chain pharmacies as strategic partners. Regarding its e-commerce platform, the Group had presence on major integrated e-commerce platforms including Tmall Global, JD.com and Taobao, specialised e-commerce platforms including Amazon HK, Kaola.com and Beibei.com and also its own platforms including Kingworld Health Family Qianhai e-commerce platform (www.kw1996.com), Kingworld Health Family Hong Kong e-commerce platform (www.kw1996.hk), Kingworld Health Family APP, Kingworld Health Family WeChat Shop and Kingworld Health Family WeChat Mini Program.

2. Building a new retail ecosystem integrating online and offline operations

During the Reporting Period, the Group continued to implement internal informatisation. By upgrading its office automation (OA) system and installing a new video conference system, it was able to strengthen approval of collaborative decisions, and internal information management and communication. To adapt to the new normal of consumption upgrade, the Group has built a new retail ecosystem integrating online and offline operations on the Kingworld Health Family Qianhai e-commerce platform. During the Reporting Period, the Group's e-commerce center focused on taking the "Kingworld Health Family" brand to greater depth into all different channels to enable online ordering and offline marketing, achieving OMO resources integration, and promoting brand nationwide. In addition, the "Kingworld Health Family" Qianhai cross-border e-commerce platform was launched and efforts were made to implement the "Promoters Campaign" to nurture "Kingworld KOLs" on WeChat, for tapping their influence on their fans for encouraging group purchase. In just a few short months, the KOLs had reached tens of thousands of fans.

3. *Introduced CARMEX healing lip balm series*

In the second quarter of 2018, the Group became the exclusive distributor of the CARMEX healing lip balm series, a globally leading 80-year-old brand of lip balm from the United States, in the Greater China Region (excluding Taiwan). CARMEX healing lip balms have over 15 million users in the United States, and ranks among the top three in terms of sales volume in such markets in Europe, including the United Kingdom and Norway, and over 145 jars were sold every minute and over 1 billion jars had been sold accumulatively. It has been named the No.1 pharmacist-recommended lip balm brand for 18 consecutive years by Pharmacy Times, a professional pharmaceutical magazine in the United States. The Group will restock CARMEX healing lip balms series in the third quarter of the year and initiate a series of brand promotion activities, expand distribution coverage to various regional cities in China as well as large retail chain stores such as Watsons, and also actively set up distribution channels in cosmetic and convenience stores.

Display of CARMEX products in the booth at the China Beauty Expo held in Shanghai in May 2018

CARMEX product display in the booth at the China Beauty Expo

4. *Secured Good Manufacturing Practice (GMP) Certificate*

During the Reporting Period, Hong Kong Yuen Tai Pharmaceuticals Limited (遠大製藥廠有限公司), a connected company of the Group, obtained the Certificate for Manufacturer (Good Manufacturing Practice in respect of Proprietary Chinese Medicines), confirming that it has followed the Good Manufacturing Practices (GMP) in manufacturing and quality control of Chinese patent medicines. As at the date of this report, only 18 pharmaceutical companies in Hong Kong have been certified as licensed manufacturer of Chinese patent medicines, and the Group is an agent of pharmaceutical products manufactured by four of them. The product series are "Nin Jiom Chuan Bei Pei Pa Koa" and "Nin Jiom Pei Pa Candies" from Nin Jiom Medicine Manufactory (H.K.) Ltd., "Flying Eagle Wood Lok Medicated Oil" from Europharm Laboratoires Company Limited, "Hoe Hin White Flower Embrocation" from Hoe Hin Pak Fah Yeow Manufactory Limited and the "Fengbao Jianfu Capsules (鳳寶牌健婦膠囊)" and "Pu Ji Kang Gan Granules (普濟抗感顆粒)" from Hong Kong Yuen Tai Pharmaceuticals Limited. After years of promotional efforts on these products by the Group, these products have become household health product names appreciated for their high quality. The Group is dedicated and focused on promoting good health and wellbeing to bringing good health to families in the markets it serves.

5. Capital operation aided development of the Group in the greater health services industry

During the Reporting Period, the different investment projects of the Group delivered stable performance and showed positive prospect. They included the stake indirectly held in Miquel Alimentació (西班牙米蓋爾公司) (a leading Spanish company engaged in food distribution and wholesale and supply chain management) and in Manassen Foods Australia (a major food company) from the acquisition of 15% equity interest in Dong Hua Tong Investments Limited (東華通投資有限公司), as well as from subscription of 2,302,000 shares of Chuangmei Pharmaceutical Co., Ltd. (02289.HK) in 2015. The Group has continued to receive steady dividend from the two investments.

In addition, on 2 January 2018, Shenzhen Kingworld Medicine Company Limited, a wholly-owned subsidiary of the Group, invested in the "Shenzhen Zhiyuan Healthcare Technology Innovation Center" (深圳至元健康科技創新中心), a greater health services project in the Lok Ma Chau Loop. The aim of the project is to establish a greater health service platform in the Lok Ma Chau Loop to better serve the Mainland China market by using the pharmaceutical and healthcare resources in Hong Kong. At the same time, the project allows the Group to expand its business coverage and pursue business development in depth in greater health services industry.

The Group adheres to the "people-oriented" management concept and has insisted on developing with its staff. On 23 April 2018, the Group granted a total of 22,408,000 share options to the directors and 97 employees (including frontline sales staff granted) of the Group under its Share Option Scheme. Employees were granted 19,992,000 share options, representing near 90% of the total number of share options granted.

6. Ensuring work-life balance of employees

The Group considers its staff as an important asset and believes "good spirit makes everything possible". Thus, it encourages employees to learn new things and hopes they can achieve work-life balance, that is, to deliver "quality work performance" and enjoy "quality life". During the Reporting Period, the human resources center and business school of the Group provided regular on-the-job training to its staffer in different positions based on their different work requirements, with particular emphasis on management, planning and leadership skills to enable them to maintain "quality work performance". Other than helping them with work performance, the Group also ensures that employees can enjoy proper rest and leisure activities. During the Reporting Period, the Group sponsored different staff activities and organised various "Kingworld Family" team building leisure activities including badminton activity, charitable family day, World Cup gathering and new year reunion dinner for employees and their families, to ensure employees"quality of life".

7. Caring for the society and giving back with a charitable heart

During the Reporting Period, the Group, together with "Kingworld Care for Health Foundation", supported various charitable activities, mainly include donation of "Kingworld Caring Medicine Packages" to various communities in China, Kingworld Imada Red Flower Oil (金活依馬打正紅花油) and African "Sea-Coconut" Brand Lozenges (非洲海底椰潤喉糖) to monks in over 50 monasteries in China and "Culturelle Probiotics Capsules for Adults" to the elderly at the Methodist Centre in Hong Kong. "Kingworld Care for Health Foundation" also assisted the China Children and Teenagers' Fund in organising a large-scale charitable activity "Campaign for Sharing Knowledge on Immune System of Children in China". Furthermore, the Group, together with "Kingworld Million Dollars Club" and "Kingworld Care for Health Foundation", held the third "Zen Meditation Practice" featuring various reputable Buddhism masters who shared their thoughts and inspired entrepreneurs and high-level management executives.

Group photo of participants of the third "Zen Meditation Practice" held in Huadu District, Guangzhou

The Group, together with "Kingworld Care for Health Foundation", donated Kingworld Imada Red Flower Oil and African "Sea-Coconut" Brand Lozenges to monks in over 50 monasteries in China

8. *Honors*

During the Reporting Period, the Group received the following honors and awards:

- In January 2018, Culturelle probiotics product series from the United States and Lifeline Care maternal and infant fish oil product series from Norway were named "2017 Parents-Preferred Brand of Infant Probiotics" and "2017 Parents-Preferred Brand of Infant Fish Oil" by Baby Kingdom, respectively
- In February 2018, the Economic, Trade and Information Commission of Shenzhen Municipality approved the Company's application for 2018 Industry Transformation and Upgrade Special Fund for Brand Rewards and Brand Support Special Fund in the amount of RMB1 million was granted to the Company
- In March 2018, Culturelle probiotics product series from the United States was named "Best-Selling Product" by MIKIBOBO
- In April 2018, the Group was named the: "Leading Enterprise in Health Industry of Shenzhen" and "Social Responsibility Enterprise in Healthy Industry of Shenzhen" at the 2017 Healthcare Industry Conference themed "Building a Healthy Shenzhen Through Development of Healthcare Industry", which was hosted by the Shenzhen Health Association (深圳市保健協會) and Shenzhen Healthcare Industry Development Association (深圳市健康產業發展促進會)
- In May 2018, the Group received the Certificate of Excellence from the Hong Kong Investor Relations Association (HKIRA) at the 4th HKIRA Investor Relations Awards
- In June 2018, Hong Kong Yuen Tai Pharmaceuticals Limited, a connected company of the Group, obtained the Certificate for Manufacturer (Good Manufacturing Practice in respect of Proprietary Chinese Medicines)



FINANCIAL REVIEW

1. *Revenue*

Revenue of the Group for the six months ended 30 June 2018 amounted to approximately RMB556,548,000, representing an increase of approximately RMB47,437,000 or 9.3% compared to approximately RMB509,111,000 for the six months ended 30 June 2017. The increase was mainly as a result of the increase in revenue from the sales of Nin Jiom Chuan Bei Pei Pa Koa and Nin Jiom herbal candies.

2. *Cost of sales*

For the six months ended 30 June 2018, cost of sales for the Group amounted to approximately RMB382,263,000, increased by approximately RMB21,753,000 or 6.0% when compared to approximately RMB360,510,000 for the six months ended 30 June 2017. The increase in cost of sales was consistent with the increase in revenue. Gross profit margin increased from 29.2% for the six months ended 30 June 2017 to 31.3% for the six months ended 30 June 2018 as a result of the increase in proportion of revenue for the higher margin products during the Reporting Period.

3. *Other revenue, income and other net gains*

Other revenue, income and other net gains mainly included rental income, interest income, promotion service income, commission income, investment gain and exchange loss. For the six months ended 30 June 2018, other revenues, income and other net gains amounted to approximately RMB7,958,000, decreased by approximately RMB4,965,000 or 38.4% when compared to approximately RMB12,923,000 for the six months ended 30 June 2017. This decrease was mainly due to the decrease in promotion service income and exchange gain during the Reporting Period.

4. *Selling and distribution costs*

For the six months ended 30 June 2018, selling and distribution costs amounted to approximately RMB89,022,000, increased by approximately RMB17,295,000 or 24.1% when compared to approximately RMB71,727,000 for the six months ended 30 June 2017. This increase was mainly due to an increase in advertising and promotion expenses. This expenses increased from approximately RMB29,928,000 for the six months ended 30 June 2017 to approximately RMB42,240,000, increased by approximately RMB12,312,000 or 41.1%. Secondly, there was an increase in staff costs by approximately RMB1,545,000 or 12.3% from RMB12,567,000 for the six months ended 30 June 2017 to RMB14,112,000 for the Reporting Period.

5. *Administrative expenses*

For the six months ended 30 June 2018, administrative expenses amounted to approximately RMB41,451,000, increased by approximately RMB7,796,000 or 23.2% when compared to approximately RMB33,655,000 for the six months ended 30 June 2017. This increase was mainly due to the increase in donation of approximately RMB3,967,000 during the Reporing Period.

6. *Profit from operations*

For the six months ended 30 June 2018, profit from operations for the Group amounted to approximately RMB42,355,000, decreased by approximately RMB4,372,000 or 9.4% when compared to approximately RMB46,727,000 for the six months ended 30 June 2017. The decrease in profit from operations was mainly due to the increase in selling and distribution costs and administrative expenses, which was partially off-set by the increase in gross profit for the Reporting Period.

7. *Finance costs*

For the six months ended 30 June 2018, finance costs amounted to approximately RMB8,021,000, decreased by approximately RMB4,648,000 or 36.7% when compared to approximately RMB12,669,000 for the six months ended 30 June 2017. The decrease was mainly due to the decrease in interest on the liability component of the convertible bonds and interest charged on bank loans.

8. *Profit before taxation*

For the six months ended 30 June 2018, profit before taxation for the Group amounted to approximately RMB42,188,000, increased by approximately RMB4,434,000 or 11.7% when compared to approximately RMB37,754,000 for the six months ended 30 June 2017. The increase in profit before taxation was mainly due to the decrease in finance costs and the increase in share of profit of a joint venture.

9. *Income tax*

For the six months ended 30 June 2018, income tax for the Group amounted to approximately RMB9,995,000, increased by approximately RMB1,271,000 or 14.6% when compared to approximately RMB8,724,000 for the six months ended 30 June 2017. The effective tax rate during the Reporting Period was 23.7%, compared to 23.1% for the six months ended 30 June 2017. Details of income tax 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 2018, profit for the period attributable to owners of the Company amounted to approximately RMB27,548,000, increased by approximately RMB5,411,000 or 24.4% when compared to approximately RMB22,137,000 for the six months ended 30 June 2017.

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 3.50% to 5.66%. 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 2018, the Group had cash and cash equivalents of RMB198,614,000 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 RMB108,938,000, representing an increase of net cash generated from operating activities of approximately RMB35,887,000 from approximately RMB73,051,000 for the six months ended 30 June 2017.

Net cash (used in)/generated from investing activities

The Group's net cash outflow used in investing activities amounted to approximately RMB51,751,000 during the Reporting Period, representing a decrease of approximately RMB81,235,000 as compared with the cash generated from investing activities of approximately RMB29,484,000 for the six months ended 30 June 2017. The decrease is mainly due to the increase in net outflow for purchase of financial assets at fair value through other comprehensive income.

Net cash used in financing activities

The Group's net cash outflow used in financing activities amounted to approximately RMB92,615,000 during the Reporting Period, representing a decrease of approximately RMB85,154,000 as compared with net cash used in financing activities of approximately RMB177,769,000 for the six months ended 30 June 2017. The decrease is mainly due to the increase in net proceeds from bank loans raised.

13. *Capital structure*

Indebtedness

Total amount of the borrowings of the Group as at 30 June 2018 was approximately RMB345,982,000, 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 2018, the Group's asset-liability ratio was 27.3% (31 December 2017: 31.0%), calculated as the total bank borrowings divided by total assets multiplied by 100%. The decrease was mainly due to the decrease in bank borrowings.

Pledge of assets

As at 30 June 2018, the Group had pledged investment properties, leasehold land held for own use under operating leases and property, plant and equipment to certain banks in the amount of approximately RMB 100,000,000, RMB60,335,000 and RMB22,622,000, respectively (as at 31 December 2017 the Group had pledged investment properties, leasehold land held for own use under operating leases and property, plant and equipment to certain banks in the amount of approximately RMB100,000,000, RMB61,017,000 and BMR23,168,000, respectively).

Capital expenditure

The capital expenditures of the Group primarily included purchase of plant and equipment and leasehold improvements. The Group's capital expenditures amounted to approximately RMB6,227,000 and RMB8,303,000 for the Reporting Period and the six months ended 30 June 2017 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 2018, 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 "Intermediate Court") against the judgment (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 "Court") 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 2017 annual report of the Company (the "2017 Annual Report"), the Group did not have any material contingent liabilities, legal proceedings or potential proceedings. As disclosed in the 2017 Annual Report, the Judgment 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. On 30 July 2018, the Intermediate Court, among other things, set aside the Judgment of the Court and ruled the case to be returned to the Court for re-trial (the "Re-trial"). As at the date of this report, no hearing date of the Re-trail has been fixed, 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 Re-trial as and when appropriate according to the the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

15. Major acquisitions and disposals

For the six months ended 30 June 2018, the Group did not make any material acquisition or 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. Closely monitor market changes and strengthen financial risk management

The principal business of the Group has used Renmenbi (RMB), Hong Kong dollars (HK$), Euro and United States dollars (US$) as the functional and operational currencies. In the first half of 2018, the Group's business and revenue have not been affected by the trade war and foreign exchange fluctuations. However, any deterioration in trade relations between China and the United States may adversely affect the stability of the global economy, including the stock market and the foreign exchange market, and may significantly reduce global trade, which in turn affects corporate profits. The Group has placed emphasis on and closely monitored the changes in the global and financial markets, and adjusted our financial risk management measures in a timely manner according to any variations on actual conditions. These measures may include the use of forward foreign exchange transactions to hedge against foreign exchange risks arising from RMB, HK$ and US$. Our investment strategy will be more prudent and reserve sufficient cash flow for operations; our operating strategy will also be adjusted appropriately in response to changes in the market and business to protect the return on investment of shareholders and other stakeholders.

2. Actively strive for in-depth cooperation with upstream manufacturers

In the second half of 2018, the global economic environment is expected to continue to be complicated and ridden with changes. Nevertheless, the Group will continue to seize development opportunities presented by the "Healthy China" strategic plan, actively look for high quality plant-based medicine and healthcare products from overseas, and also actively forge strategic cooperation with time-honored brands in China to keep diversifying its product portfolio. In addition, the investment and financing team will heed the development trends upstream and downstream the supply chain, actively identify high quality products with market potential and giving preference to production enterprises and domestic or overseas upstream manufacturers embracing the greater health concept, while also considering domestic GMP enterprises. The purpose of these endeavors is to strengthen the Group's business, upstream and downstream the supply chain, in the greater health services industry.

3. Gradually establish a comprehensive upstream to downstream healthcare industry supply chain

The Group is dedicated to cooperating with partners to gradually establish a comprehensive supply chain system that covers the entire greater health industry and build an intelligent information management service system applicable across the entire supply chain that adopts leading health concepts and advanced service direction. At the same time, the Group will employ SAP management technology, information technology and integration technology and consolidate its strengths and resources to effectively plan and control flow of products and information, and logistic resources across the entire supply chain. Heeding the new normal of consumption upgrade, the Group will push for integration of the new online marketing model with offline channels to more effectively provide services to consumers and offer them the professional service of intelligent family health management, thereby build a new Kingworld online and offline retail ecosystem.

4. Strengthen integration with offline channels and sales terminals

In the second half of 2018, the Group's e-commerce center will continue to actively explore new channels and develop innovative channels such as live streaming e-commerce platform, and continue to strengthen integration with offline channels and sales terminals, including establishing and continuously optimising a multi-party logistics support system to meet different customer demands. An automatic logistics information processing system will also be set up by connecting the data interfaces of the different systems to enhance logistics processing efficiency. In addition, in the second half year, the Group will add a new Ping An Good Doctor platform and continue to optimise the "Kingworld KOLs" online management system encompassing the membership and loyalty points system, the KOL sharing and commission rebate system, etc.

5. Use brand and product portfolio clout to boost sales and enhance awareness

In the future, the Group will continue to leverage the advantages of its brand culture and diversified product portfolio, educate consumers on product knowledge, carry out detailed analysis for product categorisation and implement relevant plans and strategies, actively roll out distinctive marketing activities and initiatives to improve brand images and product reputation, and ultimately boost sales. At the same time, the Group will remain true to its original aspiration and continue to adhere to the corporate mission of "offer help to people, benefit the world" and together with the "Kingworld Care for Health Foundation" to whole-heartedly support charitable social causes to help build a "Healthy China".

HUMAN RESOURCES AND TRAINING

As at 30 June 2018, the Group had a total of 998 employees, of which 130 worked at the Group's headquarters in Shenzhen, and 392 stationed in other 34 regions mainly responsible for sales and marketing, and the other 476 worked at Dong Di Xin. 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 2018, 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	16,876,000	2.71%
	Interest of spouse	90,744,000	14.58%
	Interest of a controlled corporation	297,812,250	47.84%
Chan Lok San (Note 2)	Beneficial owner	744,000	0.12%
	Interest of spouse	314,688,250	50.55%
	Interest of a controlled corporation	90,000,000	14.46%
Zhou Xuhua (Note 3)	Beneficial owner	744,000	0.12%
	Interest of spouse	3,800,000	0.61%

Notes:

1. In addition to 16,876,000 shares which are beneficially owned by Mr. Zhao Li Sheng ("Mr. Zhao"), Mr. Zhao is deemed (by virtue of the SFO) to be interested in 388,556,250 shares in the Company. These shares are held in the following capacities:

   (a) 297,812,250 shares are held by Golden Land International Limited ("Golden Land"). Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Mr. Zhao is deemed to be interested in the 297,812,250 shares held by Golden Land. Mr. Zhao is also the sole director of Golden Land.

   (b) 744,000 shares are held by Ms. Chan Lok San ("Ms. Chan"), the spouse of Mr. Zhao, in her own name and 90,000,000 shares are held by Golden Morning International Limited ("Golden Morning"). Ms. Chan is the beneficial owner of the entire issued share capital of Golden Morning, therefore, Mr. Zhao is also deemed to be interested in the 744,000 shares held by Ms. Chan and 90,000,000 shares held by Golden Morning.

2. Ms. Chan is deemed (by virtue of the SFO) to be interested in 405,432,250 shares in the Company. These shares are held in the following capacities:

   (a) 744,000 shares are held by Ms. Chan in her own name and 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) 16,876,000 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 16,876,000 shares held by Mr. Zhao and the 297,812,250 shares held by Golden Land.

3. 744,000 shares are held by Mr. Zhou Xuhua ("Mr. Zhou") in his own name and Mr. Zhou is also deemed (by virtue of the SFO) to be interested in 3,800,000 shares in the Company held by his spouse, Ms. Huang Xiaoli.

(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 3)**	**Exercise Price per Share (HK$) (Note 4)**	**Outstanding as at 1 January 2018**	**Granted during the Period**	**Cancelled during the Period**	**Lapsed during the Period**	**Outstanding as at 30 June 2018**	**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	364,000	—	—	(156,000)	208,000	0.0334%
	23 April 2018	23 April 2018 to 22 April 2024	1.26	—	468,000	—	—	468,000	0.0751%
Chan Lok San (Note 2)	1 June 2015	1 June 2015 to 31 May 2019	2.54	328,000	—	—	(140,000)	188,000	0.0302%
	23 April 2018	23 April 2018 to 22 April 2024	1.26	—	416,000	—	—	416,000	0.0668%
Zhou Xuhua	1 June 2015	1 June 2015 to 31 May 2019	2.54	328,000	—	—	(140,000)	188,000	0.0302%
	23 April 2018	23 April 2018 to 22 April 2024	1.26	—	416,000	—	—	416,000	0.0668%

Name of Directors	Date of grant	Option Period (Note 3)	Exercise Price per Share (HK$) (Note 4)	Number of Share Options Outstanding as at 1 January 2018	Granted during the Period	Cancelled during the Period	Lapsed during the Period	Outstanding as at 30 June 2018	Approximate percentage of the Company's total issued share capital
Duan Jidong	1 June 2015	1 June 2015 to 31 May 2019	2.54	288,000	—	—	(124,000)	164,000	0.0263%
	23 April 2018	23 April 2018 to 22 April 2024	1.26	—	372,000	—	—	372,000	0.0597%
Zhang Jianbin	1 June 2015	1 June 2015 to 31 May 2019	2.54	288,000	—	—	(124,000)	164,000	0.0263%
	23 April 2018	23 April 2018 to 22 April 2024	1.26	—	372,000	—	—	372,000	0.0597%
Wong Cheuk Lam	1 June 2015	1 June 2015 to 31 May 2019	2.54	288,000	—	—	(124,000)	164,000	0.0263%
	23 April 2018	23 April 2018 to 22 April 2024	1.26	—	372,000	—	—	372,000	0.0597%
Total				**1,884,000**	**2,416,000**	**—**	**(808,000)**	**3,492,000**	0.5605%

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: 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 4: The closing price of the Share on the date of grant of Share Options on 1 June 2015 and 23 April 2018 was HK$2.45 and HK$1.26, respectively.

(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%

As at 30 June 2018, 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 2018, 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 2018, 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	16,876,000	2.71%
	Interest of spouse	90,744,000	14.58%
	Interest of a controlled corporation	297,812,250	47.84%
Chan Lok San (Note 2)	Beneficial owner	744,000	0.12%
	Interest of spouse	314,688,250	50.55%
	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%
Sun Hill Capital Investments Limited (Note 5)	Interest of a controlled corporation	62,187,750	9.99%
Wu Aimin (Note 6)	Interest of a controlled corporation	62,187,750	9.99%

Notes:

1. In addition to 16,876,000 shares which are beneficially owned by Mr. Zhao, Mr. Zhao is deemed (by virtue of the SFO) to be interested in 388,556,250 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) 744,000 shares are held by Ms. Chan, the spouse of Mr. Zhao, in her own name and 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, Mr. Zhao is also deemed to be interested in the 744,000 shares held by Ms. Chan and 90,000,000 shares held by Golden Morning.

2. Ms. Chan is deemed (by virtue of the SFO) to be interested in 405,432,250 shares in the Company. These shares are held in the following capacities:

    (a) 744,000 shares are held by Ms. Chan in her own name and 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) 16,876,000 shares are held by Mr. Zhao, 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 16,876,000 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 1.64% interest in Sinopharm Healthcare Fund L.P.

5. 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 1.64% interest in Sinopharm Healthcare Fund L.P., 100% interest in Shine Light Fund Management Limited and 0.11% interest in Shine Light Investment Fund.

6. 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, 1.64% 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 2018, 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 2018, the Company had granted to certain eligible participants (the "Grantees"), a total of 32,978,000 share options to subscribe for a total of 32,978,000 ordinary shares of HK$0.10 each in the capital of the Company under the Share Option Scheme which were accepted by such Grantees.

Other Information

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 3)	Exercise Price per Share (HK$) (Note 4)	Outstanding as at 1 January 2018	Granted during the Period	Cancelled during the Period	Lapsed during the Period	Outstanding as at 30 June 2018	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	364,000	–	–	(156,000)	208,000	0.0334%
		23 April 2018	23 April 2018 to 22 April 2024	1.26	–	468,000	–	–	468,000	0.0751%
Chan Lok San (Note 2)	Executive Director	1 June 2015	1 June 2015 to 31 May 2019	2.54	328,000	–	–	(140,000)	188,000	0.0302%
		23 April 2018	23 April 2018 to 22 April 2024	1.26	–	416,000	–	–	416,000	0.0668%
Zhou Xuhua	Executive Director	1 June 2015	1 June 2015 to 31 May 2019	2.54	328,000	–	–	(140,000)	188,000	0.0302%
		23 April 2018	23 April 2018 to 22 April 2024	1.26	–	416,000	–	–	416,000	0.0668%
DuanJidong	Independent non-executive Director	1 June 2015	1 June 2015 to 31 May 2019	2.54	288,000	–	–	(124,000)	164,000	0.0263%
		23 April 2018	23 April 2018 to 22 April 2024	1.26	–	372,000	–	–	372,000	0.0597%

					Number of Share Options					
Grantees	Position held with the Group and/or relationship with the Group	Date of grant	Option Period (Note 3)	Exercise Price per Share (HK$) (Note 4)	Outstanding as at 1 January 2018	Granted during the Period	Cancelled during the Period	Lapsed during the Period	Outstanding as at 30 June 2018	Approximate percentage of the Company's total issued share capital
Zhang Jianbin	Independent non-executive Director	1 June 2015	1 June 2015 to 31 May 2019	2.54	288,000	–	–	(124,000)	164,000	0.0263%
		23 April 2018	23 April 2018 to 22 April 2024	1.26	–	372,000	–	–	372,000	0.0597%
Wong Cheuk Lam	Independent non-executive Director	1 June 2015	1 June 2015 to 31 May 2019	2.54	288,000	–	–	(124,000)	164,000	0.0263%
		23 April 2018	23 April 2018 to 22 April 2024	1.26	–	372,000	–	–		0.0597%
Sub-total of Share Options granted to Directors					1,884,000	2,416,000	–	(808,000)	3,492,000	0.5605%
57 Employees	Employees of the Group	1 June 2015	1 June 2015 to 31 May 2019	2.54	8,265,000	–	–	(4,971,000)	3,294,000	0.5291%
97 Employees	Employees of the Group	23 April 2018	23 April 2018 to 22 April 2024	1.26	–	19,992,000	–	–	19,992,000	3.2115%
Sub-total of Share Options granted to Directors and Employees					10,149,000	22,408,000	–	(5,779,000)	26,778,000	4.3011%
Hong Kong Zhixin Financial News Agency Ltd. (香港智信財經通訊社有限公司) ("Hong Kong Zhixin") (Note 5)	Consultant of the Group	9 October 2015	9 October 2015 to 8 October 2018	2.54	6,200,000	–	–	–	6,200,000	0.9959%
Total					**16,349,000**	**22,408,000**	**–**	**(5,779,000)**	**32,978,000**	**5.2970%**

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: 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 4: The closing price of the Share on the date of grant of Share Options on 1 June 2015 and 23 April 2018 was HK$2.45 and HK$1.26, respectively.

Note 5: 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 2018, 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 2018, the Group had capital commitment of approximately RMB161,965,000 (as at 31 December 2017: approximately RMB168,793,000).

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 25 May 2018, the Company declared the audited distributable profits as at 31 December 2017 amounting to approximately HK$21,352,000 (equivalent to approximately RMB17,866,000) to the shareholders of the Company. The dividend was fully paid on 13 June 2018 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 2018 (2017: 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 Listing Rules, and adopted various measures to enhance the internal control system, the Directors' continuing professional training and other areas of practice of the Company. While the Board strives to maintain a high level of corporate governance, it also works hard to create value and achieve maximum return for its shareholders. The Board will continue to conduct review and improve the quality of corporate governance practices with reference to local and international standards.

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

AUDIT COMMITTEE

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

The Audit Committee has reviewed the unaudited condensed consolidated financial statements, the results announcement and this interim report of the Company for the six months ended 30 June 2018 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 2018 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, 28 August 2018

Consolidated Statement of Profit or Loss

FOR THE SIX MONTHS ENDED 30 JUNE 2018 - UNAUDITED
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2018	2017
		(unaudited)	(unaudited)
		RMB'000	RMB'000
Revenue	4	**556,548**	509,111
Cost of sales		**(382,263)**	(360,510)
Gross profit		**174,285**	148,601
Other revenue, income and other net gains		**7,958**	12,923
Selling and distribution costs		**(89,022)**	(71,727)
Administrative expenses		**(41,451)**	(33,655)
Amortisation of intangible assets		**(9,415)**	(9,415)
Profit from operations		**42,355**	46,727
Finance costs	7(a)	**(8,021)**	(12,669)
Share of profit of a joint venture		**7,854**	3,696
Profit before taxation	7	**42,188**	37,754
Income tax	8	**(9,995)**	(8,724)
Profit for the period		**32,193**	29,030
Attributable to:			
Owners of the Company		**27,548**	22,137
Non-controlling interests		**4,645**	6,893
Profit for the period		**32,193**	29,030
Earnings per share	10		
Basic (RMB cents)		**4.43**	3.56
Diluted (RMB cents)		**4.43**	3.56

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 2018 - UNAUDITED
(Expressed in Renminbi)

	Six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Profit for the period	**32,193**	29,030
Other comprehensive income/(loss) for the period		
Items that will not be reclassified to profit or loss:		
Fair value change on financial assets	**(81)**	—
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside the PRC	**635**	(1,539)
Release of fair value reserve upon disposal of available-for-sale financial assets	**—**	(698)
	554	(2,237)
Total comprehensive income for the period (net of tax)	**32,747**	26,793
Attributable to:		
Owners of the Company	**28,100**	20,214
Non-controlling interests	**4,647**	6,579
Total comprehensive income for the period	**32,747**	26,793

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

Consolidated Statement of Financial Position

FOR THE SIX MONTHS ENDED 30 JUNE 2018 - UNAUDITED
(Expressed in Renminbi)

	Note	At 30 June 2018 (unaudited) RMB'000	At 31 December 2017 (audited) RMB'000
Non-current assets			
Leasehold land held for own use under operating lease		**91,581**	92,198
Property, plant and equipment	11	**59,635**	57,483
Investment properties	12	**112,600**	112,600
Interest in a joint venture		**50,921**	43,067
Interest in an associate		**5,000**	—
Goodwill		**90,693**	90,693
Intangible assets		**69,088**	78,503
Financial assets at fair value through profit or loss		**4,775**	4,775
Financial assets at fair value through other comprehensive income		**24,208**	—
Available-for-sale financial assets		**—**	14,141
		508,501	493,460
Current assets			
Inventories		**122,164**	148,881
Trade and other receivables	13	**356,057**	412,874
Financial assets at fair value through other comprehensive income		**63,000**	—
Available-for-sale financial assets		**—**	25,783
Financial assets at fair value through profit or loss		**16,838**	17,895
Pledged bank deposits		**867**	750
Cash and cash equivalents		**198,614**	232,755
		757,540	838,938
Current liabilities			
Trade and other payables	14	**249,628**	242,114
Bank loans		**345,982**	412,980
Tax payable		**12,014**	10,028
		607,624	665,122
Net current assets		**149,916**	173,816
Total assets less current liabilities		**658,417**	667,276
Non-current liabilities			
Deferred tax liabilities		**24,229**	25,641
		24,229	25,641
NET ASSETS		**634,188**	641,635
CAPITAL AND RESERVES			
Share capital	15	**53,468**	53,468
Reserves		**509,925**	499,626
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**563,393**	553,094
NON-CONTROLLING INTERESTS		**70,795**	88,541
TOTAL EQUITY		**634,188**	641,635

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

Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2018 - 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	Exchange reserve	Capital reserve	Other reserve (note i)	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 2018	**53,468**	**152,700**	**44,108**	**29,068**	**–**	**2,425**	**(19,117)**	**8,109**	**–**	**282,333**	**553,094**	**88,541**	**641,635**
Changes in equity for the six months ended 30 June 2018													
Profit for the period	–	–	–	–	–	–	–	–	–	27,548	27,548	4,645	32,193
Other comprehensive (loss)/income for the period	–	–	–	–	–	(83)	635	–	–	–	552	2	554
Total comprehensive (loss)/income for the period	–	–	–	–	–	(83)	635	–	–	27,548	28,100	4,647	32,747
Dividends (note 9(b))	–	–	–	–	–	–	–	–	–	(18,014)	(18,014)	–	(18,014)
Equity settled share-based transactions (note 19)	–	–	–	–	–	–	–	213	–	–	213	–	213
Distribution to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(22,393)	(22,393)
At 30 June 2018 (unaudited)	**53,468**	**152,700**	**44,108**	**29,068**	**–**	**2,342**	**(18,482)**	**8,322**	**–**	**291,867**	**563,393**	**70,795**	**634,188**
At 1 January 2017	53,468	152,700	38,740	29,068	6,259	6,773	(20,678)	753	(19,654)	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	(22,217)	753	(19,654)	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 2018 - UNAUDITED
(Expressed in Renminbi)

	Six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Operating activities		
Cash generated from operations	**118,448**	83,010
Income tax paid	**(9,510)**	(9,959)
Net cash generated from operating activities	**108,938**	73,051
Investing activities		
Dividend received from financial assets at fair value through other comprehensive income (2017: available-for-sale financial assets)	**695**	756
Purchase of property, plant and equipment	**(6,227)**	(8,303)
Purchase of financial assets at fair value through other comprehensive income (2017: available-for-sales financial assets)	**(73,067)**	(28,500)
Proceeds from sales of property, plant and equipment	**52**	—
Proceeds from disposal of financial assets at fair value through other comprehensive income (2017: available-for-sales financial assets)	**25,700**	64,500
Interest received	**1,096**	1,031
Net cash (used in)/ generated from investing activities	**(51,751)**	29,484
Financing activities		
Net proceeds from bank loans raised	**200,228**	—
Dividend paid to owners of the Company	**(18,014)**	(15,949)
Dividend paid to non-controlling interests	**(6,963)**	(32,491)
Payment for other financial liability	**—**	(10,000)
Repayment of bank loans	**(267,845)**	(134,066)
Finance cost paid	**(8,021)**	(10,263)
Loan proceeds from related parties	**—**	25,000
Payment for investment in an associate	**(5,000)**	—
Dividend received from a joint venture	**13,000**	—
Net cash used in financing activities	**(92,615)**	(177,769)
Net decrease in cash and cash equivalents	**(35,428)**	(75,234)
Cash and cash equivalents at 1 January	**232,755**	229,984
Effect of foreign exchange rate changes	**1,287**	(4,239)
Cash and cash equivalents at 30 June	**198,614**	150,511

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

1. GENERAL INFORMATION

Kingworld Medicines Group Limited (the "Company") was incorporated as an exempted company in the Cayman Islands with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised of the Cayman Island on 10 July 2008. The Company is an investment holding company whereas its subsidiaries (together with the Company, 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 (the "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, and Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except as described below:

Associates

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

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

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

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

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

2. BASIS OF PREPARATION *(Continued)*

Associates (Continued)

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

Investments and other financial assets

Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

– those to be measured subsequently at fair value (either through other comprehensive income ("OCI"), or through profit or loss), and

– those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

– Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other net gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

2. BASIS OF PREPARATION *(Continued)*

Investments and other financial assets *(Continued)*

Debt instruments (Continued)

– FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other net gains/(losses). Interest income from these financial assets is included in other income using the effective interest rate method. Foreign exchange gains and losses and impairment expenses are presented in other net gains/(losses) in the statement of profit or loss.

– FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other net gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other net gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

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 Cayman Islands, 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.

(Expressed in Renminbi unless otherwise indicated)

2. BASIS OF PREPARATION *(Continued)*

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 2017 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 designated at fair value through other comprehensive income, 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:

(a) *New HKFRSs and amendments to HKFRSs adopted by the Group*

(i) HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers

The Group has performed an assessment on the impact of the adoption of HKFRS 9 and HKFRS 15 respectively.

As a result of adoption of HKFRS 9, the Group elected to present in other comprehensive income changes in the fair value of all its equity investments previously classified as available-for-sale, and these equity investments with an aggregate carrying value of RMB14,141,000 were reclassified from available-for-sale financial assets to financial assets at fair value through other comprehensive income on 1 January 2018. Under HKFRS 9, the accumulated amounts in fair value reserves is no longer recycled to profit or loss upon the disposal of these investments since 1 January 2018.

The Group concluded that no material financial impact existing from the adoption of HKFRS 9 and HKFRS 15, and therefore, no adjustment to the opening balance of equity at 1 January 2018 was made.

(ii) The following amendments to standards and interpretations are effective for accounting periods beginning on or after 1 January 2018. The adoption of which does not have a material impact on the Group.

HKFRS (IFRIC) 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 40	Transfer of Investment Property
Amendments to HKFRS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle

(Expressed in Renminbi unless otherwise indicated)

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) New standards, amendments to standards and interpretations issued but not yet effective for the accounting period beginning on 1 January 2018 and not early adopted by the Group

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HKFRS (IFRIC) 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKFRS 28	Long-term Investments in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019

2 Effective for annual periods beginning on or after date to be determined

3 Effective for annual periods beginning on or after 1 January 2021

(c) Impact of standards issued but not yet applied by the Group

HKFRS 16 "Leases" ("HKFRS 16")

HKFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to account for certain leases outside the statement of financial position. Instead, all long-term leases must be recognised in the statement of financial position in the form of assets (for the rights of use) and lease liabilities (for the payment obligations). Short-term leases with a lease term of twelve months or less and leases of low-value assets are exempt from such reporting obligations. The new standard will therefore result in recognition of a right-to-use asset and an increase in lease liabilities in the balance sheet. In the statement of profit or loss, rental expenses will be replaced with depreciation and interest expense. The new standard is not expected to be applied by the Group until the financial year ending 31 December 2019. HKFRS 16 will primarily affect the accounting for the Group's operating leases. At 30 June 2018, the Group had non-cancellable commitments of minimum operating lease payments of RMB23,242,000. Upon adoption of HKFRS 16, the fair value of outstanding minimum operating lease payments will be recognised in the consolidated statement of financial position as lease liabilities and right-of-use assets. The lease liabilities would subsequently be measured at amortised cost and the right-of-use assets will be depreciated on a straight-line basis during the lease term.

Management is in the process of making an assessment on the impact of other new standards, amendments to standards and interpretations and considered on a preliminary basis that their application will have no significant impact on the financial performance and the 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	
	2018	2017
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Sales of		
– pharmaceutical products	**361,679**	279,304
– healthcare products	**105,440**	132,569
– medical devices	**89,429**	97,238
	556,548	509,111

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.

5. SEGMENT INFORMATION *(Continued)*

(a) Segment results, 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 30 June	**2018 (unaudited) RMB'000**	2017 (unaudited) RMB'000	**2018 (unaudited) RMB'000**	2017 (unaudited) RMB'000	**2018 (unaudited) RMB'000**	2017 (unaudited) RMB'000	**2018 (unaudited) RMB'000**	2017 (unaudited) RMB'000
Revenue from external customers	**84,235**	110,508	**492,001**	385,658	**89,429**	97,238	**665,665**	593,404
Inter-segment revenue	**26,980**	16,264	**—**	—	**—**	—	**26,980**	16,264
Reportable segment revenue	**111,215**	126,772	**492,001**	385,658	**89,429**	97,238	**692,645**	609,668
Reportable segment profit/(loss) (adjusted EBITDA)	**15,566**	17,627	**23,810**	5,790	**20,260**	27,968	**59,636**	51,385
	30 June 2018 (unaudited) RMB'000	31 December 2017 (audited) RMB'000	**30 June 2018 (unaudited) RMB'000**	31 December 2017 (audited) RMB'000	**30 June 2018 (unaudited) RMB'000**	31 December 2017 (audited) RMB'000	**30 June 2018 (unaudited) RMB'000**	31 December 2017 (audited) RMB'000
Reportable segment assets	**311,687**	323,249	**778,673**	825,688	**159,990**	179,814	**1,250,350**	1,328,751
Reportable segment liabilities	**63,337**	25,819	**336,021**	375,893	**66,716**	42,236	**466,074**	443,948

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' emoluments and auditors' remuneration and other head office or corporate administration costs.

(b) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2018 (unaudited) RMB'000	2017 (unaudited) RMB'000
Reportable segment profit derived from Group's external customers and joint venture	**59,636**	51,385
Other income	**7,958**	12,923
Depreciation and amortisation	**(14,063)**	(12,073)
Finance costs	**(8,021)**	(12,669)
Unallocated head office and corporate expenses	**(3,322)**	(1,812)
Consolidated profit before taxation	**42,188**	37,754

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	
		2018	2017
		(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	**8,021**	5,449
	Interest imputed on the liability component of convertible bonds	**—**	5,355
	Other finance costs	**—**	1,865
	Total finance costs	**8,021**	12,669
b)	***Other items***		
	Amortisation of intangible assets	**9,415**	9,415
	Cost of inventories (note i)	**382,263**	360,510
	Depreciation of property, plant and equipment	**3,959**	2,658
	Amortisation of leasehold land held for own use under operating leases	**683**	—
	Write-down of inventory	**1,315**	—
	Reversal of impairment loss on other receivables	**(55)**	—
	Reversal of impairment loss on trade receivables	**(162)**	(1,106)
	Loss on disposal of property, plant and equipment	**50**	5
	Operating lease charges in respect of land and buildings	**3,808**	4,287
	Rental income from investment properties less direct outgoings of RMB72,000 (six months ended 30 June 2017: RMB191,000)	**(1,353)**	(1,373)
	Research and development cost (note ii)	**5,636**	6,002
	Equity-settled share-based payments	**206**	—

Notes:

i) Cost of inventories includes approximately RMB11,640,000 (2017: RMB1,889,000) 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 RMB766,000 (2017: RMB591,000) 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	
	2018	2017
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Hong Kong Profits Tax		
Current period	**2,397**	3,865
PRC income tax		
Current period	**8,324**	6,271
Under-provision in prior years	**686**	—
	11,407	10,136
Deferred tax		
Current period	**(1,412)**	(1,412)
	9,995	8,724

Notes:

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

ii) The provision for Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the six months ended 30 June 2018 and 2017.

iii) The PRC income tax charge of the Group during the six months ended 30 June 2018 and 2017 represented mainly the PRC income tax charge on the Group's PRC subsidiary, Shenzhen Kingworld Medicine Company Limited and is based on a statutory rate of 25% (six months ended 30 June 2017: 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 2017: 15%).

9. DIVIDENDS

a) The Company's directors do not recommend the payment of an interim dividend for the six months ended 30 June 2018 and 2017.

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	
	2018	2017
	(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$3.43 cents (equivalent to approximately RMB2.89 cents) (2017: HK$2.95 cents (equivalent to approximately RMB2.64 cents))	**18,014**	15,949

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	
	2018 (unaudited) RMB'000	2017 (unaudited) RMB'000
Profit for the year attributable to owners of the Company	**27,548**	22,137
Earnings for the purpose of basic earnings per share	**27,548**	22,137

ii) *Weighted average number of ordinary shares*

	Six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)
Weighted average number of ordinary shares in issue	**622,500,000**	622,500,000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**622,500,000**	622,500,000

(b) Diluted earnings per share

Diluted earnings per share for the six months ended 30 June 2018 and 2017 was the same as the basic earnings per share because that the exercise price of the share options granted was higher than the weighted average market price of the Company's shares during the six months ended 30 June 2018 and 2017.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group acquired items of property, plant and equipment of RMB6,227,000 (six months ended 30 June 2017: RMB8,303,000), transferred items from deposit paid for property, plant and equipment of Nil (six months ended 30 June 2017: RMB75,000,000), and disposed of property, plant and equipment with an aggregate net carrying amount of RMB56,000 (six months ended 30 June 2017: RMB128,000), resulting in a loss on disposal of RMB50,000 (six months ended 30 June 2017: RMB5,000).

As at 30 June 2018, certain leasehold land held for own use under operating lease and buildings held for own use with a total carrying amount of RMB82,957,000 (31 December 2017: RMB84,185,000) were pledged to a bank for bank loans of the Group.

12. INVESTMENT PROPERTIES

	RMB'000
Fair value	
At 1 January 2017	108,130
Fair value adjustment	4,470
At 31 December 2017 (audited), 1 January 2018 and 30 June 2018 (unaudited)	112,600

a) The Group's investment properties were revalued as at 31 December 2017 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 qualified valuers, Cushman & Wakefield Limited, who amongst their staff have members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The Group's property manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results when the valuations are performed at annual reporting date.

The Group's investment properties were not revalued as at 30 June 2018 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 2017 carried out by independent qualified professional valuers. Consequently, no change in fair value of investment properties has been recognised in the current period.

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

c) The Group's investment property with a carrying amount of RMB100,000,000 (31 December 2017: RMB100,000,000) have been pledged to secure general banking facilities granted to the Group (note 16).

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 2018 (unaudited) RMB'000	At 31 December 2017 (audited) RMB'000
0-90 days	**178,764**	225,323
91-180 days	**27,932**	12,002
181-365 days	**6,164**	17,209
More than 1 year	**4**	13
Total trade and bills receivables, net of allowance for doubtful debts	**212,864**	254,547
Other receivables	**41,415**	38,979
Other loans	**44,150**	43,743
Amounts due from related parties	**980**	553
Dividend receivable from a joint venture	**6,800**	19,800
Loans and receivables	**306,209**	357,622
Prepayments	**22,641**	22,006
Trade and other deposits	**1,316**	1,182
Trade deposits to related parties	**25,891**	32,064
	356,057	412,874

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 2018 (unaudited) RMB'000	At 31 December 2017 (audited) RMB'000
0-90 days	**121,934**	125,916
91-180 days	**—**	720
181-365 days	**52**	—
Over 365 days	**14**	—
Total trade payables	**122,000**	126,636
Accruals	**6,937**	8,500
Amount due to non-controlling interests	**14,914**	10,000
Other payables	**26,679**	27,174
Financial liabilities measured at amortised cost	**170,530**	172,310
Trade deposits received	**71,868**	63,743
Receipts in advance	**7,230**	6,061
	249,628	242,114

15. SHARE CAPITAL

	Number of shares '000	**Amount** HK$'000	**Amount equivalent to** RMB$'000
Authorised:			
Ordinary shares of HK$0.1 each			
At 1 January 2017, 31 December 2017 (audited), 1 January 2018 and 30 June 2018 (unaudited)	10,000,000	1,000,000	877,900
Issued and fully paid:			
Ordinary shares of HK$0.1 each			
At 1 January 2017, 31 December 2017 (audited), 1 January 2018 and 30 June 2018 (unaudited)	622,500	62,250	53,468

16. 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 2018 (unaudited) RMB'000**	At 31 December 2017 (audited) RMB'000
Investment property	12	**100,000**	100,000
Leasehold land held for own use under operating leases		**60,335**	61,017
Property, plant and equipment		**22,622**	23,168

The Group's bank loans amounted to RMB101,936,000 as at 30 June 2018 (31 December 2017: RMB128,928,000) were secured by Group's investment property. The Group's bank loans amounted to RMB194,046,000 as at 30 June 2018 (31 December 2017: RMB234,052,000) were secured by the Group's leasehold land held for own use under operating lease and property, plant and equipment and guaranteed by Mr. Zhao Li Sheng, the ultimate controlling party and a director of the Company, and Ms. Chan Lok San, a director of the Company.

17. 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.

17. FINANCIAL INSTRUMENTS *(Continued)*

Fair value (Continued)

Fair value hierachy (Continued)

	Fair value at 30 June 2018 RMB'000 (unaudited)	Fair value measurements as at 30 June 2018 categorised into Level 1 RMB'000 (unaudited)	Level 2 RMB'000 (unaudited)	Level 3 RMB'000 (unaudited)	Fair value at 31 December 2017 RMB'000 (audited)	Fair value measurements as at 31 December 2017 categorised into Level 1 RMB'000 (audited)	Level 2 RMB'000 (audited)	Level 3 RMB'000 (audited)
Recurring fair value measurements								
Assets:								
Available-for-sale investments, at fair value								
– Unlisted equity investments	—	—	—	—	13,841	—	12,460	1,381
– Bank wealth management products	—	—	—	—	25,783	—	—	25,783
Financial assets at fair value through other comprehensive income								
– Unlisted equity investments	24,208	—	22,514	1,694	—	—	—	—
– Bank wealth management products	63,000	—	—	63,000	—	—	—	—
Financial assets at fair value through profit or loss								
– Unlisted equity investments	4,775	—	—	4,775	4,775	—	—	4,775
– Listed securities	16,838	16,838	—	—	17,895	17,895	—	—

During the six months ended 30 June 2018 and the year ended 31 December 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.

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.

17. FINANCIAL INSTRUMENTS *(Continued)*

Fair value (Continued)

Fair value hierachy (Continued)

The following table presents the changes in level 3 instruments for the six months ended 30 June 2018 and 2017.

		Available-for-sale investments		Financial assets at fair value through other comprehensive income		Financial assets at fair value through profit or loss	
	Other financial liability RMB'000	Unlisted equity investments RMB'000	Bank wealth management products RMB'000	Unlisted equity investments RMB'000	Bank wealth management products RMB'000	Unlisted equity investments RMB'000	Total RMB'000
At 1 January 2017	(13,256)	6,340	65,199	—	—	4,232	62,515
Proceeds from sales	—	—	(64,500)	—	—	—	(64,500)
Additions	—	—	28,500	—	—	—	28,500
Release of fair value reserve upon disposal	—	—	(699)	—	—	—	(699)
Payment	10,000	—	—	—	—	—	10,000
At 30 June 2017 (unaudited)	(3,256)	6,340	28,500	—	—	4,232	35,816
At 1 January 2018	**—**	**—**	**—**	**1,681**	**25,783**	**4,775**	**32,239**
Proceeds from sales	**—**	**—**	**—**	**—**	**(25,700)**	**—**	**(25,700)**
Addition	**—**	**—**	**—**	**—**	**63,000**	**—**	**63,000**
Release of fair value reserve upon disposal	**—**	**—**	**—**	**—**	**(83)**	**—**	**(83)**
Exchange adjustment	**—**	**—**	**—**	**13**	**—**	**—**	**13**
At 30 June 2018 (unaudited)	**—**	**—**	**—**	**1,694**	**63,000**	**4,775**	**69,469**

The fair value of the unlisted equity investment was valued as at 31 December 2017 with reference to valuation performed by an independent valuer, Hong Kong Appraisal Advisory 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 2018 did not differ significantly from the fair value as at 31 December 2017 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.

18. CAPITAL COMMITMENTS

Capital commitments of the Group at the six months ended 30 June 2018 are as follows:

	At 30 June 2018 (unaudited) RMB'000	At 31 December 2017 (audited) RMB'000
Contracted but not provided for in respect of property, plant and equipment	**345**	2,525
Capital commitment for the investment in 3.89% equity interest in Sinopharm Healthcare Fund. L.P	**6,620**	16,268
Contracted but not provided for in respect of investment in an associate	**5,000**	—
Authorised but not contracted for	**150,000**	150,000

Apart from the above, the Group did not have other significant capital commitments as at 30 June 2018 and 31 December 2017.

19. EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company set up a share option scheme on 5 November 2010 whereby the directors of the Company are authorised, 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.

Options granted on 23 April 2018 to the directors and employees vest after one to three years from the date of grant and are then exercisable before 22 April 2024.

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

As at 30 June 2018, the outstanding share options granted and accepted was 32,978,000 (31 December 2017: 16,349,000).

No share options were lapsed or exercised during the six months ended 30 June 2018 and 2017.