KINGWORLD MEDICINES GROUP LIMITED

金 活 醫 藥 集 團 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01110)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

RESULTS HIGHLIGHTS

- Turnover increased by 14.7% to approximately RMB638,046,000 (2009: RMB556,417,000).
- Gross profit increased by 16.2% to approximately RMB140,147,000 (2009: RMB120,653,000).
- Gross profit margin reached 22.0%, increased by 0.3% (2009: 21.7%).
- Profit for the year ended 31 December 2010 increased by 15.1% to approximately RMB42,863,000 (2009: RMB37,244,000).
- Earnings per share increased by 10.9% to approximately RMB9.18 cents (2009: RMB8.28 cents).
- Due to the satisfactory results of the Group, the Board recommended the distribution of a final dividend of HK3.71 cents (equivalent to approximately RMB3.12 cents) per share for the year ended 31 December 2010, subject to the approval of the shareholders of the Company in the forthcoming annual general meeting to be held on Tuesday, 24 May 2011.

The Board of Directors (the “Board”) of Kingworld Medicines Group Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2010, together with the comparative figures and selected explanatory notes of the corresponding year in 2009 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December

	Note	**2010**	2009
		RMB’000	*RMB’000*
Turnover	4	**638,046**	556,417
Cost of sales		**(497,899)**	(435,764)
Gross profit		**140,147**	120,653
Valuation gain on investment property		**9,000**	600
Other revenue	5(a)	**8,683**	6,786
Other net income	5(b)	**3,664**	7,143
Selling and distribution costs		**(64,861)**	(58,378)
Administrative expenses		**(25,473)**	(20,441)
Listing expenses		**(4,786)**	—
Profit from operations		**66,374**	56,363
Finance costs	6(a)	**(8,032)**	(9,610)
Profit before taxation	6	**58,342**	46,753
Income tax	7	**(15,479)**	(9,509)
Profit for the year		**42,863**	37,244
Attributable to:			
Owners of the Company		**42,863**	37,244
Dividends	8	**25,054**	26,400
Earnings per share			
Basic and diluted (RMB cents)	9	**9.18**	8.28

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

	2010	2009
	RMB'000	*RMB'000*
Profit for the year	**42,863**	37,244
Other comprehensive loss for the year		
Exchange differences on translation of financial statements of foreign operations	**(2,713)**	(152)
	(2,713)	(152)
Total comprehensive income for the year (net of tax)	**40,150**	37,092

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December

	Note	**2010** *RMB'000*	2009 *RMB'000*
Non-current assets			
Property, plant and equipment		**4,431**	3,633
Investment property		**55,000**	46,000
Prepaid lease payments		**7,259**	7,502
		66,690	57,135
Current assets			
Inventories		**59,317**	75,862
Trade and other receivables	11	**222,925**	178,513
Pledged bank deposits		**131,873**	246,619
Cash and cash equivalents		**269,526**	83,562
		683,641	584,556
Current liabilities			
Trade and other payables	12	**168,493**	172,882
Bank loans		**197,846**	246,606
Current taxation		**8,661**	4,637
		375,000	424,125
Net current assets		**308,641**	160,431
Total assets less current liabilities		**375,331**	217,566
Non-current liabilities			
Bank loans		**—**	60,000
Deferred tax liabilities		**5,023**	1,538
		5,023	61,538
NET ASSETS		**370,308**	156,028
CAPITAL AND RESERVES			
Share capital		**53,468**	1
Reserves		**316,840**	156,027
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**370,308**	156,028

Notes to the Financial Statement

1. GENERAL INFORMATION

The Company was incorporated as an exempted company in the Cayman Islands with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 10 July 2008. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 25 November 2010 (the "Company's Listing").

The Company is an investment holding company. The Group is principally engaged in distribution sale of branded imported pharmaceutical and healthcare products in the People's Republic of China ("PRC").

Pursuant to a group reorganisation (the "Reorganisation"), which was completed on 3 November 2010, in preparation for listing of the shares of the Company on the Main Board of the Stock Exchange and rationalizing the Group's structure, the Company became the holding company of the subsidiaries now comprising the Group. Details of the Reorganisation are set out in the section headed the "Reorganisation" in Appendix V to the prospectus of the Company dated 12 November 2010.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The HKICPA has issued certain amendments and interpretations which are or have become effective. It has also issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

b) Basis of preparation of the financial statements

The consolidated financial statements for the period from 1 January 2009 up to the date of the Reorganisation are prepared as if the current group structure had been in existence throughout the period. The Group was under the control by Mr. Zhao Li Sheng ("Mr. Zhao") and Ms. Chan Lok San ("Ms. Chan") prior to and after the Reorganisation. Pursuant to the Reorganisation, which was completed on 3 November 2010 by interspersing the Company and its subsidiaries under the control by Mr. Zhao and Ms. Chan, the Company became the holding company of the subsidiaries comprising the Group. Accordingly, the consolidated financial statements for the period from 1 January 2009 up to the date of the Reorganisation have been prepared as if the Company had been the holding company of the Group throughout the period in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by HKICPA.

The consolidated financial statements for the year ended 31 December 2010 comprise the Company and its subsidiaries and its interest in a jointly controlled entity.

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 financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand except when otherwise indicated. The Company and other investment holding subsidiaries incorporated in the British Virgin Islands (the "BVI") and Hong Kong have adopted Hong Kong dollars ("HK$") as their functional currency. The functional currency of the PRC subsidiaries is RMB. As the Group mainly operates in the Mainland China, RMB is used as the presentation currency of the Group.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair values:

— investment property;

— financial instruments classified at fair value through profit or loss; and

— derivative financial instruments.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has where applicable adopted the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by HKICPA that are first effective for the current accounting period.

HKAS 27 (revised 2008)	Consolidated and separate financial statements
HKAS 39 (Amendments)	Financial instruments: Recognition and measurement — eligible hedged items
HK(Int) 5	Presentation of financial statements — classification by the borrower of a term loan that contains a repayment on demand clause
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008

The adoption of the above new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

4. TURNOVER

Turnover represents sales of branded imported pharmaceutical and healthcare products at net invoiced value of goods sold, less value-added and sales taxes, returns and discounts, during the year.

	2010	2009
	RMB'000	*RMB'000*
Sales of		
— pharmaceutical products	**597,593**	503,695
— healthcare products	**40,453**	52,722
	638,046	556,417

The Group is principally engaged in distribution sale of branded imported pharmaceutical and healthcare products. The revenue, results and assets of pharmaceutical products were more than 90% of the Group's revenue, results and assets during the year. No business segment analysis is presented accordingly.

The Group's turnover and results from operations mainly derived from activities in the PRC. The principal assets of the Group were located in the PRC during the year. Accordingly, no analysis by geographical segment is provided.

During the year, there was no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

5. OTHER REVENUE AND OTHER NET INCOME

a) **Other revenue**

	2010	2009
	RMB'000	*RMB'000*
Total interest income on financial assets not at fair value through profit or loss:		
Bank interest income	**4,862**	4,481
Commission income	**397**	585
Government grant (note)	**2,000**	—
Gross rental income from investment property	**1,424**	1,325
Others	**—**	395
	8,683	6,786

Note: This represents the PRC government grant to the Group for its expenses incurred in the Company's Listing.

b) **Other net income**

	2010	2009
	RMB'000	*RMB'000*
Net gain on financial assets at fair value through profit or loss	**73**	303
Net realised (loss)/gain on forward foreign exchange contracts	**(3,350)**	3,590
Net unrealised gain on forward foregin exchange contracts	**2,129**	3,068
Net foreign exchange gain	**4,812**	182
	3,664	7,143

6. PROFIT BEFORE TAXATION

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

	2010	2009
	RMB'000	*RMB'000*
a) **Finance costs**		
Total interest expense on financial liabilities not at fair value through profit or loss:		
Interest on bank loans wholly repayable within five years	**8,032**	9,610
b) **Staff costs (including directors' remuneration)**		
Salaries and other benefits	**22,702**	18,941
Contributions to defined contribution retirement plan	**2,706**	2,028
	25,408	20,969
c) **Other items**		
Amortisation on prepaid lease payments	**243**	81
Auditor's remuneration	**660**	35
Cost of inventories	**497,899**	435,764
Depreciation	**885**	881
Impairment losses on trade receivables	**268**	50
Listing expenses	**4,786**	—
Loss on disposal of property, plant and equipment	**2**	7
Operating lease charges in respect of land and buildings	**1,812**	1,882
Rental income from investment property less direct outgoings of RMB390,000 (2009: RMB260,000)	**(1,034)**	(1,065)
Reversal of impairment loss on trade receivables	**—**	(14)

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

a) **Income tax in the consolidated income statement represents:**

	2010	2009
	RMB'000	*RMB'000*
Current tax		
— PRC Income tax	**10,994**	7,668
Deferred tax		
— current year	**4,511**	1,879
— attributable to a change in tax rate	**(26)**	(38)
	4,485	1,841
	15,479	9,509

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) No provision for Hong Kong Profits Tax has been provided as the Group did not have assessable profits subject to Hong Kong Profits Tax during the years ended 31 December 2010 and 2009.

iii) The PRC income tax charge of the Group during the year represents mainly the PRC income tax charge from the Group's subsidiary, Shenzhen Kingworld Medicine Company Limited ("SZ Kingworld") and the Group's proportionate share of PRC income tax charge from a jointly controlled entity, Zhuhai City Jinming Medicine Company Limited ("Zhuhai Jinming").

Pursuant to the relevant laws and regulations in the PRC, SZ Kingworld and Zhuhai Jinming are located in an approved economic zone in the PRC and were subject to an income tax rate of 22% (2009: 20%) during the year.

The National People's Congress of the PRC approved the Corporate Income Tax Law of the PRC ("New CIT Law") on 16 March 2007. With effect from 1 January 2008, the tax rate applicable to enterprises established in the PRC will be unified at 25% with certain grandfather provisions and preferential provisions. SZ Kingworld and Zhuhai Jinming are both entitled to the transitional tax rate of 22%, 24% and 25% in 2010, 2011, 2012 onwards respectively.

iv) Under the New CIT Law and its implementation rules, dividends receivable by non-PRC resident enterprises from PRC resident enterprises are subject to withholding tax at a rate of 10% unless reduced by tax treaties or agreements. Under the Agreement between the Mainland China and Hong Kong Special Administration Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion, or Mainland China/HKSAR DTA, Hong Kong corporate tax residents which hold 25% or more of a PRC enterprise are entitled to a reduced dividend withholding tax rate of 5%. Pursuant to CaiShui [2008] No. 1 Notice on Certain Preferential Enterprise Income Tax Policies, undistributed profits generated prior to 1 January 2008 are exempted from such withholding tax. Accordingly, dividends receivable by the Group's investment holding company in Hong Kong from the PRC subsidiaries in respect of profits earned since 1 January 2008 will be subject to 5% withholding tax. Deferred tax liabilities of RMB2,531,000 (2009: RMB1,759,000) have been recognised by the Group during the year for undistributed retained profits of the Group's PRC subsidiaries.

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

	2010	2009
	RMB'000	*RMB'000*
Profit before taxation	**58,342**	46,753
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned	**13,344**	9,366
Tax effect of non-deductible expenses	**2,828**	498
Tax effect of non-taxable income	**(3,118)**	(2,177)
Unrecognised temporary difference	**(80)**	101
Withholding tax on undistributed profits of PRC subsidiaries	**2,531**	1,759
Effect on opening deferred tax balance resulting from a change in tax rate	**(26)**	(38)
Actual tax expense	**15,479**	9,509

8. DIVIDENDS

	2010	2009
	RMB'000	*RMB'000*
Interim dividend declared and paid (note (a))	**5,637**	—
Final dividend proposed after the end of the reporting period (notes (a) & (b))	**19,417**	26,400
	25,054	26,400

(a) The amounts of interim dividend during the year of RMB5,637,000 and final dividend proposed after 31 December 2009 of RMB26,400,000, which were declared and paid prior to the Reorganisation, represent dividends declared by Kingworld Medicine and Healthcare

Group Limited ("BVI Kingworld"), a direct subsidiary of the Company, to their then shareholders prior to the Reorganisation. The rates of dividend and the number of shares ranking for dividends are not presented in these consolidated financial statements as it is not indicative of the future dividend policy of the Company.

(b) The final dividend of HK3.71 cents (equivalent to approximately RMB3.12 cents) per share proposed after 31 December 2010 is subject to approval by the Company's shareholders in the annual general meeting. It has not been recognised as a liability at 31 December 2010.

9. BASIC AND DILUTED EARNINGS PER SHARE

During the year, the calculation of basic earnings per share is based on the profit attributable to owners of the Company of RMB42,863,000 and the weighted average number of 467,116,000 ordinary shares, after taking into account 450,000,000 ordinary shares of the Company, the issuance of ordinary shares in connection with the placing and public offering and the exercise of over-allotment option during the year.

During the year ended 31 December 2009, the calculation of basic earnings per share is based on the net profit attributable to owners of the Company of RMB37,244,000 and on the assumption that 450,000,000 ordinary shares of the Company in issue pursuant to the capitalisation issue and the Reorganisation occurred as at 1 January 2009.

Weighted average number of ordinary shares

	Number of shares	
	2010	2009
	'000	*'000*
Issued ordinary shares at 1 January	**450,000**	450,000
Effect of share issued in the placing and public offering	**15,205**	—
Effect of the exercise of the over-allotment option	**1,911**	—
Weighted average number of ordinary shares at 31 December	**467,116**	450,000

There were no potential dilutive ordinary shares in issue, the diluted earnings per share is same as the basic earnings per share for the years ended 31 December 2010 and 2009 accordingly.

10. JOINTLY CONTROLLED ENTITY

At 31 December 2010, the Group had interests in the following jointly controlled entity:

Name of entity	Form of business structure	Place of incorporation and operation	Registered and paid-up capital	Proportion of ownership interest held by the Group at effective interest	Principal activities
珠海市金明醫藥有限公司 Zhuhai City Jinming Medicine Company Limited	Limited liability company	The PRC	RMB5,000,000	50%	Distribution sale of branded imported pharmaceutical and healthcare products in the PRC

The summarised financial statements in respect of the Group's interests in the jointly controlled entity, which are accounted for using proportionate consolidation with the line-by-line reporting format, is set out below:

	2010	2009
	RMB'000	*RMB'000*
Non-current assets	**4,811**	4,456
Current assets	**22,921**	39,542
Current liabilities	**(17,302)**	(31,425)
Net assets	**10,430**	12,573
Income	**76,916**	57,080
Expenses	**(69,533)**	(54,086)
Profit before taxation	**7,383**	2,994
Income tax	**(1,526)**	(629)
Profit for the year	**5,857**	2,365
Other comprehensive income	**—**	—

	2010	2009
	RMB'000	*RMB'000*

Share of the jointly controlled entity's commitments as at 31 December 2010:

a) Commitments under operating leases

The jointly controlled entity had total future minimum lease payment under non-cancellable operating leases in respect of land and buildings falling due as follow:		
Within one year	**136**	—
In the second to fifth year inclusive	**28**	—
	164	—

The jointly controlled entity leases certain premises for use as its office and warehouse under operating leases arrangements. Leases for properties are negotiated for terms ranging from one to two years. None of the leases include contingent rentals.

b) Capital commitments

Contracted but not provided for:		
Capital expenditure for construction of office premise and warehouse	**11,571**	—

11. TRADE AND OTHER RECEIVABLES

	2010	2009
	RMB'000	RMB'000
Trade and bills receivable (notes (b) to (e))	**208,194**	111,745
Less: Allowance for doubtful debts	**(2,840)**	(2,779)
	205,354	108,966
Other receivables	**6,627**	4,822
Amounts due from related parties (note 14(b))	**—**	47,519
Loans and receivables	**211,981**	161,307
Derivative financial instruments	**2,129**	3,068
Prepayments	**5,657**	13,968
Trade and other deposits	**3,158**	170
	222,925	178,513

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

b) **Ageing analysis**

Included in trade and other receivables are trade and bills receivables (net of allowance for doubtful debts) with the following ageing analysis as of the end of the reporting period:

	2010	2009
	RMB'000	*RMB'000*
0-90 days	**156,996**	72,732
91-180 days	**48,358**	19,092
181-365 days	**—**	16,047
More than 1 year but less than 2 years	**—**	1,068
Over 2 years	**—**	27
	205,354	108,966

The Group generally granted credit terms ranging from 30 days to 90 days to its customers during the year, except for the customers for purchase of the Group's product, Flying Eagle Wood Lok Medicated Oil (飛鷹活絡油), to which credit terms within 12 months (2009: 12 months) were granted during the year. As at 31 December 2010, the Group had trade and bills receivables of RMB25,371,000 (2009: RMB16,480,000) of this product.

c) **Impairment of trade and bills receivable**

Impairment losses in respect of trade and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivable directly.

Movements in the allowance for doubtful debts:

	2010	2009
	RMB'000	*RMB'000*
At 1 January	**2,779**	2,784
Impairment losses recognised	**268**	50
Uncollectible amounts written off	**(207)**	(41)
Impairment losses reversed	**—**	(14)
At 31 December	**2,840**	2,779

As at 31 December 2010, the Group's trade receivables of RMB2,840,000 (2009: RMB2,779,000) were individually determined to be impaired and full provision had been made. These individually impaired receivables were outstanding over a long period and management assessed that receivables are expected to be irrecoverable. Accordingly, specific allowances for doubtful debts of RMB2,840,000 (2009: RMB2,779,000) were recognised as at 31 December 2010. The Group does not hold any collateral over these balances.

d) **Trade and bills receivables that are not impaired**

The ageing analysis of trade and bills receivables (net of allowance for doubtful debts) that are neither individually nor collectively considered to be impaired are as follows:

	2010	2009
	RMB'000	*RMB'000*
Neither past due nor impaired	**184,326**	79,219
Past due but not impaired		
91 - 180 days	**21,028**	16,974
181 - 365 days	**—**	11,678
More than 1 year but less than 2 years	**—**	1,068
Over 2 years	**—**	27
	21,028	29,747

Receivables that were neither past due nor impaired relate to a wide range of customers for which there was no recent history of default.

Receivables that were past due but not impaired relate to a number of individual customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

e) Bills receivables of RMB15,800,000 (2009: RMB1,139,000) as at 31 December 2010 were pledged to banks for bank loans and banking facilities granted to the Group.

12. TRADE AND OTHER PAYABLES

	2010	2009
	RMB'000	RMB'000
Trade and bills payables (notes (b) and (c))	**134,137**	115,972
Accruals	**2,559**	1,735
Other payables	**16,105**	4,364
Amounts due to related parties (note 14(b))	**—**	1,393
Financial liabilities measured at amortised cost	**152,801**	123,464
Trade deposits received	**12,716**	46,748
Receipts in advance	**2,976**	2,670
	168,493	172,882

a) All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

b) **Ageing analysis**

Included in trade and other payables are trade and bills payables with the following ageing analysis as of the end of the reporting period. The credit terms granted by the suppliers were generally ranging from 45 days to 90 days during the year.

	2010	2009
	RMB'000	*RMB'000*
0 - 90 days	**130,108**	108,741
91 - 180 days	**1,690**	7,231
181 - 365 days	**2,339**	—
	134,137	115,972

c) Bills payables of RMB7,093,000 (2009: RMB nil) as at 31 December 2010 were pledged by the Group's bank deposits.

13. COMMITMENTS

a) Commitments under operating lease

At 31 December 2010, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	2010	2009
	RMB'000	*RMB'000*
Within one year	**2,563**	1,330
In the second to fifth year inclusive	**3,269**	1,956
	5,832	3,286

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

b) Capital commitments

Other than the Group's share of capital commitments of the jointly controlled entity disclosed in note 10, the Group did not have any other significant capital commitments as at 31 December 2010 and 2009.

14. RELATED PARTY TRANSACTIONS

a) During the year, the directors are of the opinion that the following companies and parties are related parties of the Group:

Name of related parties	**Relationship**
Mr. Zhao	The Company's director and the sole shareholder of the ultimate holding company of the Company
Ms. Chan	The Company's director and the wife of Mr. Zhao
Huang Lanjiao ("Ms. Huang")	Mother of Mr. Zhao
Morning Gold Medicine Company Limited ("Morning Gold")	Wholly owned by both Mr. Zhao and Ms. Chan
Pearl Shining Co. ("Pearl Shining")	Note (i)
Yuen Tai Pharmaceuticals Limited ("Yuen Tai")	Subsidiary of Morning Gold

深圳市金活利生藥業有限公司 Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited ("SZ Kingworld Lifeshine")	Subsidiary of Morning Gold
深圳市金活實業有限公司 Shenzhen Kingworld Industry Company Limited ("SZ Industry")	Directly wholly owned by Mr. Zhao prior to 9 September 2009 and indirectly wholly owned by both Mr. Zhao and Ms. Chan since the above date
上海金活實業有限公司 Shanghai Kingworld Industry Company Limited ("SH Industry")	Subsidiary of SZ Industry
深圳市新華鵬消毒劑有限公司 Shenzhen Xin Hua Peng Sterilization Company Limited ("Xin Hua Peng")	Subsidiary of SZ Industry
廣東金保利醫藥有限公司 Guangdong Jinbaoli Medicine Company Limited ("Jinbaoli")	Note (ii)
深圳市金世界百貨物業管理有限公司 Shenzhen Kingworld Department Store Property Management Company Limited ("Kingworld Department Store Property Management")	Note (iii)
深圳市金活吉遜高爾夫用品有限公司 Shenzhen King Gibson Golf Company Limited ("King Gibson PRC")	Note (iv)

Notes:

i) The related party is owned and controlled by a close family member of Ms. Chan.

ii) The related party was owned and controlled by Mr. Huang Ruozhong ("Mr. Huang"), the legal representative and director of certain PRC subsidiaries of the Group, and a close family member of Ms. Chan during the year ended 31 December 2009. During the year, the related party ceased to be owned and controlled by Mr. Huang and the close family member of Ms. Chan.

iii) The related party is owned and controlled by Ms. Huang, Ms. Chan and a close family member of Ms. Chan.

iv) The related party is owned and controlled by Ms. Chan and a close family member of Ms. Chan.

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

b) **Related party transactions and balances**

Recurring transactions

In the opinion of the Company's directors, the following related party transactions continue after the Company's Listing:

	Note	**2010**	2009
		RMB'000	*RMB'000*
Purchases of goods			
SZ Kingworld Lifeshine	(i)	**7,769**	3,842
Pearl Shining	(i)	**—**	1,443
		7,769	5,285
Rental expenses			
SZ Industry	(i)	**549**	549
Packing service fee			
SZ Kingworld Lifeshine	(i)	**—**	135

Save as disclosed above, the Group had the following related party transactions during the year:

— SZ Industry granted certain rights to the Group to use its trademarks and distribution right for sale of goods in the PRC and its domain names "Kingworld.cn" and "Kingworld.com.cn" with a nil consideration during the year.

— The Group acquired an investment property from SZ Industry in 2008 and leased out the property to two independent tenants under two lease agreements, pursuant to which the management service fee is borne by the tenants. SZ Industry and Kingworld Department Store Property Management entered into a property management contract on 1 January 2008, pursuant to which Kingworld Department Store Property Management was appointed to provide building management service to SZ Industry's property, which was subsequently sold to the Group in 2009 (details refer to note (iii)), for a period from 1 January 2008 to 31 December 2011 at a management service fee of RMB401,000 per year. The Group in the capacity of the owner of the property is jointly liable with SZ Industry for the management service fee if the tenants of the Group fail to pay the management service fee.

Non-recurring transactions

In the opinion of the Company's directors, the following related party transactions discontinued after the Company's Listing:

	Note	**2010**	2009
		RMB'000	*RMB'000*
Purchases of goods			
Jinbaoli	(i)	**—**	16,033
Staff costs			
SH Industry	(ii)	**117**	352
Acquisition of a property			
SH Industry	(iii)	**—**	3,820

Amounts due from/(to) related parties

		Outstanding balance		**Maximum outstanding balance**	
		2010	2009	**2010**	2009
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Mr. Zhao					
Other receivable	(iv)	**—**	—	**14,400**	—
Other payable		**—**	(15)		
Net payable		**—**	(15)		
Ms. Chan					
Other receivable	(iv)	**—**	—	**3,600**	—
Other payable		**—**	(4)		
Net payable		**—**	(4)		
Morning Gold					
Other receivable		**—**	—	**—**	1,344
Trade payable		**—**	(578)		
Other payable		**—**	(44)		
Net payable		**—**	(622)		
Pearl Shining					
Trade payable		**—**	(722)		

	Note	Outstanding balance 2010 RMB'000	Outstanding balance 2009 RMB'000	Maximum outstanding balance 2010 RMB'000	Maximum outstanding balance 2009 RMB'000
Yuen Tai					
Other receivable		—	9,418	**9,418**	9,456
SZ Kingworld Lifeshine					
Other receivable		—	4,218	**4,218**	27,982
Trade payable		—	(3,611)		
Net receivable		—	607		
SZ Industry					
Other receivable	(iv)	—	—	**18,800**	41,358
Other payable		—	(30)		
Net payable		—	(30)		
SH Industry					
Trade receivable		—	2,260		
Jinbaoli					
Other receivable		—	35,234	**35,234**	50,093
King Gibson PRC					
Other receivable		—	—	—	1,871
Xin Hua Peng					
Other receivable		—	—	—	521
Total net receivables included in amounts due from related parties (note 11)	(v)	—	47,519		
Total net payables included in amounts due to related parties (note 12)	(v)	—	(1,393)		

Notes:

i) The transactions were based on the terms mutually agreed between the Group and the respective related parties. In the opinion of the Company's directors, these related parties' transactions were conducted in the ordinary course of business.

ii) The transactions were based on the terms mutually agreed between the Group and the related party.

iii) On 15 September 2009, the Group and SH Industry entered into a sale and purchase agreement, pursuant to which the Group agreed to purchase and SH Industry agreed to sell a property located in Shanghai, the PRC for a consideration of RMB3,820,000 that was satisfied by settlement of amount due from SH Industry. The consideration was based on recent market transactions in comparable properties. The property was valued as at 15 July 2009, the date of the Group and SH Industry agreed the terms of the transaction, and 15 September 2009, the date of sale and purchase agreement duly signed and submitted to the PRC authority, of RMB3,820,000 and RMB4,300,000 respectively by an independent firm of valuers, DTZ Debenham Tie Leung Limited, who have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued, on an open market value basis calculated by reference to recent market transactions in comparable properties and net rental income allowing for reversionary income potential. In the opinion of the Company's directors, the related party transaction was conducted on normal commercial terms. The above property is held by the Group for its own use and recognised in prepaid lease payments and building of the Group during the year ended 31 December 2009.

iv) On 4 November 2010, the Group formalised the existing loan arrangement by entering into the loan agreements with each of three related parties, Mr. Zhao, Ms. Chan and SZ Industry, pursuant to which the Group made a loan to each of Mr. Zhao and Ms. Chan of HK$16,800,000 (equivalent to RMB14,400,000) and HK$4,200,000 (equivalent to RMB3,600,000) respectively on 18 October 2010 and certain loans to SZ Industry in an aggregate amount of RMB18,800,000 in the period between September 2010 and October 2010. All of these loans were unsecured, interest-free and repaid by two installments of 50% each on or before 8 November 2010 and 21 November 2010 respectively.

v) All of amounts due from/to related parties were unsecured, interest-free and had no fixed terms of repayment. All amounts due from/to related parties were settled prior to the Company's Listing.

c) Save as disclosed above, the related parties provided the following guarantees and securities for banking facilities granted to the Group:

Year ended 31 December 2010

(i) Mr. Zhao made a personal guarantee of RMB100,000,000 until the guarantee was released in September 2010.

Year ended 31 December 2009

(i) SZ Industry and Mr. Zhao made a joint guarantee of RMB85,710,000 until it was released in April 2009.

(ii) Mr. Zhao made two personal guarantees of RMB100,000,000 and RMB5,000,000 respectively. The guarantee of RMB5,000,000 was released in December 2009.

(iii) SZ Industry pledged its properties as securities until the securities were released in April 2009.

15. EVENT AFTER REPORTING PERIOD

The Group and the Company had the following event after the reporting period:

On 20 January 2011, a supplier filed a claim in an arbitration committee in Nanjing in the PRC (南京仲裁委員會) against a subsidiary of the Group for a payable of purchases of RMB1,284,000. No judgement has been made by the arbitration committee as at the date of this announcement. The Group has obtained legal opinion that the maximum potential liability of the Group will be RMB1,284,000. A provision of RMB1,284,000 was included in trade payables in the Group's consolidated statement of financial position as at 31 December 2010. Based on the available information to date, the Company's directors are of the opinion that no further provision for the claim is considered necessary.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review

1. **The Company continues to benefit from the support of government policies**

   During the year under review, the supportive policies announced by the Chinese government including the "New Medical Reform" and the "Twelve Five-Year Plan", are major drives causing the rapid growth of the Company. The government has planned to invest an aggregate amount of RMB850 billion between 2009 and 2011 in the medical industry, including gradually raising the standard of medical insurance and strengthening the construction of medical facilities etc.. These will bring about positive impact to the upper and lower stream of the pharmaceutical chain of industries. Following the continued implementation of the "Twelve Five-Year Plan" in the pharmaceutical industry in 2011, the restructuring and integration of the pharmaceutical field will speed up, where the trend of industry conglomeration will be more prominent. The momentum of a major restructuring in the pharmaceutical field is inevitable. All these will foster a faster pace of development for the pharmaceutical industry.

2. **Pharmaceutical consumption is increasing on a yearly basis**

   Following the improvement in social development and income level, people's attitude towards health is more proactive and their concept on health has been changing. Medical insurance expense per capita among urban residents in China has increased, with an annual compound growth rate over 11%. As pharmaceutical consumption is increasing gradually, it will serve as a solid foundation for a long-term support to the pharmaceutical industry in China.

   Furthermore, more pronounced problem of an aging population in China also serves as a strong drive for growth in pharmaceutical consumption. According to the statistics released by the National Bureau of Statistics of China, those aged 65 or above in China will reach 242 million by 2020's, showing that their population representation would rise from 6.96% in 2000 to almost 12%. Aging population will bring a continuous demand in the pharmaceutical industry.

3. **Sales revenue in the industry is increasing rapidly**

   Statistics from the National Bureau of Statistics of China showed that during the first three quarters in 2010, total turnover of Chinese and Western medicines was RMB215.1 billion, representing an increase of 22.4% over the same period in 2009. In September 2010, total turnover of Chinese and Western medicines was

RMB27.9 billion, representing an increase of 20.6% over the same period last year. Based on the consumption prices among residents, the price of healthcare and personal products in the first three quarters of 2010 showed an average increase of 2.9%, while the increase in September was 3.4%. The above has illustrated the substantial potential and development prospect in the Chinese pharmaceutical market.

4. **Pharmacy demand in cough and phlegm treatment shows a steady growth**

At present, coughing is the most common illness among people in China. The development of this sector in the Chinese pharmaceutical market has been very mature. The average annual compound growth rate in this sector between 2005 and 2009 was 9.63%, where the scale of the pharmaceutical market for cough and phlegm treatment in 2009 in Mainland China has exceeded RMB8 billion, reaching the amount of RMB8.17 billion. With worsening pollution from industrialization and urbanization, higher coverage of the New Rural Co-operative Medical Care System (NRCMCS) for Mainland Chinese residents and basic medical insurance system for urban residents, thus increasing the number of patients seeking medical service, it is expected that in the next three to five years, pharmacy demand in cough and phlegm treatment in the Chinese pharmaceutical market will maintain at a steady growth rate of approximately 10%. All the above factors are advantageous to the sale of Nin Jiom Pei Pa Koa (京都念慈菴蜜煉川貝枇杷膏), the cough treatment product accounting for the largest proportion of sales of the Group.

Business Review

1. **A Strong distribution network has been setup**

The Group has established an organized and cohesive distribution network and a stable customer base in the distribution of medicines and healthcare products in China. As at 31 December 2010, the distribution network of the Group has covered all Chinese regions except Xinjiang Uygur Autonomous Region and Tibet Autonomous Region. Currently, our comprehensive distribution network includes 190 distribution customers with strong distribution capabilities, 400 sub-distributors and over 17,000 retail shops with key management. Most customers have an extensive distribution network throughout China. Most of the retail shops promote branded products of the Group by means of setting up product display booths under the name of "Kingworld Healthy Family" (金活健康之家).

To further reinforce the competitiveness of the distribution network, the Group will divide the China market into three regions based on geography within the year. Each region will be further subdivided into 34 zones, which will be managed by one or more representative offices of the twelve subsidiaries and the representative office from another region. These managing offices will be responsible for formulating local distribution and promotional activities and to work closely with customers of the Group. Having a strong selling and distribution team not only reinforces the distribution network of the Group, but also improves the market share and reputation of the Group and the products it distributes.

2. **Corporate governance has been strengthened**

Through reinforcing detailed management of the distribution team, the Group materialized routine visit, customer relations, marketing activities and turnover of its distribution clients and terminal retail pharmacies according to its sales targets and schedule. It ensured all its sales members can carry out their duties in a consistent and standardized manner. Furthermore, by utilizing various performance and management measures, management of the sales process carried out by sales staff has also been reinforced. Based on the needs in business development, the Group, by optimizing the workflow of all positions continuously and making good use of digitalized technology, forms a standardized management system and workflow which has helped the control of risks. Meanwhile, the deployment of senior sales personnel with extensive industry experience has also helped raising the general standard of the overall performance of the Group's sales team.

3. **Terminal sales network led by sales counter has expanded**

Over the years, the Group has been distributing medicines and healthcare products under its brand through distribution customers in various distribution network nodes in China. As at 31 December 2010, the Group has over 1,500 retail medicine shops and sales counters in China. The extension of sales counters is not only beneficial to the Group in timely understanding product demands amongst terminal consumers, but it also helps increasing market share of the distributed products and quickly building up the image of the products and brand of the Company. Currently the Group is on schedule in its plan to speed up the set-up of new sales counters. It is expected that the number of sales counters will increase substantially in the near future. Moreover, sales counters can also serve as a direct bridge of communication between the Group and consumers, which helps the Group to collect first-hand market information for the Group to formulate suitable market strategies to foster better sales of the distribution products.

4. **Development of new markets has sped up**

The existing distribution network of the Group mainly covers retail pharmacies and commercial supermarkets in China. In order to expand the consumer segment and develop consumers from other channels, the Group's distribution consumers and sub-distributors have been working hard to expand and develop new markets, such as local clinics, supermarkets and beauty parlors of residential areas, including urban residential communities and remote villages, so as to reach more potential customers not yet covered by the current distribution network. The Group has successfully obtained the wholesaler licence in proprietary Chinese medicines in Hong Kong, meaning that the time for the Group to sell proprietary Chinese medicines in Hong Kong has come. In future, the Group will introduce new products from time to time and increase the market share of the Group. Meanwhile, one of the Company's subsidiaries, Kingworld Medicine Healthcare Limited, is the first to wholesale products such as the Japanese Bifina Probiotic Capsule (日本美菲娜益生菌無縫膠囊) in Hong Kong. This product is a food product that helps to improve gastrointestinal functions.

5. **Competitiveness of distributed product mix has increased**

During the year under review, the Company distributed 49 products in 7 categories, including 12 medicines, 7 healthcare product lines, 28 general food products and 2 medical products. The 7 functional categories mentioned above are coughing and phlegm treatment, gastrointestinal treatment, vitamins, chiropractic health, cardiovascular issues, common flu and others. Among the various products distributed by the Group, the famous Chinese brand Nin Jiom (京都念慈菴) is one of the most well-known and most popular products. It is also the product accounting for the largest market share in the sale of cough treatment products in the market in China. During the year under review, sales of Nin Jiom reached RMB458,618,000, representing a growth of 22.7% compared to last year. Moreover, Taiko Seirogan (喇叭牌正露丸), Kawai Product Range (可愛的肝油丸系列), Flying Eagle Wood Lok Medicated Oil (飛鷹活絡油), Imada Red Flower Oil (依馬打正紅花油), Kyushin Pill (救心丸) and Mentholatum (曼秀雷敦) are very reputable in the industry; all of which have recorded satisfactory growth during the year.

Furthermore, the Group successfully renewed a contract with Walt Disney (Shanghai) Company Limited during the year under review. Under the new contract, apart from keeping the authorization of original vitamin gum drops (under the category of vitamins) and cooling patch (category of body care/cleaning for children), five new scopes of authorization were added. By integrating products in those categories into the existing Kingworld Healthy Family product display booths, the competitiveness of the Group has improved significantly.

6. **The Company received a series of new awards**

As the Group continues to pursue better quality in products and services, and it is persistent in focusing on distributing famous products, the reputation and fame of the Company's brand name have been greatly enhanced. During the year under review, the Group has received many honors and awards:

— On 20 May 2010, Shenzhen Kingworld Medicine Co., Ltd. was recognized by Shenzhen Food and Drug Administration as A Leading Import Enterprise with Integrity in Shenzhen;

— On 2 June 2010, Shenzhen Kingworld Medicine Co., Ltd. has become an institute member of China Health Care Association;

— On 10 June 2010, "National Logistics and Distribution Center Project" of Shenzhen Kingworld Medicine Co., Ltd. received the Shenzhen contemporary logistics project certificate;

— On 20 September 2010, the Chairman Mr. Zhao Li Sheng received the title of "Entrepreneur who Actively Supports Communist Party Building Work";

— On 20 September 2010, the Chairman Mr. Zhao Li Sheng was employed as an overseas consultant for Thai Young Chinese Chamber of Commerce;

— On 18 November 2010, Shenzhen Kingworld Medicine Co., Ltd. was elected by Shenzhen Health Care Association and "Shenzhen Economic Daily" as "The Most Influential Healthy Brand in Consumption";

— On 17 December 2010, Shenzhen Kingworld Medicine Co., Ltd. received the award of "Top Ten Customer's Favorite Goods" from Nepstar Drugstore 1010.

Financial Review

1. **Turnover**

Turnover of the Group for the year ended 31 December 2010 was amounted to approximately RMB638,046,000, representing an increase of approximately RMB81,629,000, or 14.7% compared to approximately RMB556,417,000 in the year ended 31 December 2009. The increase was mainly because of an increase in sales of Nin Jiom (京都念慈菴) product line and Flying Eagle Wood Lok Medicated Oil (飛鷹活絡油) product line. The year-on-year growth for these two products were 22.7% and 17.0% respectively. This is due to reinforced promotion for those products, including the strategies to increase the sale of Nin Jiom Pei Pa Koa (京都念慈菴蜜煉川貝枇杷膏) and to increase the sales counters of the product Flying Eagle Wood Lok Medicated Oil.

2. **Cost of sales**

For the year ended 31 December 2010, cost of sales for the Group amounted to approximately RMB497,899,000, increased by approximately RMB62,135,000 or 14.3% when compared to approximately RMB435,764,000 for the year ended 31 December 2009. The increase in cost of sales is consistent with the increase in turnover. Gross profit ratio increased from 21.7% for the year ended 31 December 2009 to 22.0% for the year ended 31 December 2010, which was mainly caused by the increase in sale of products with a higher gross profit ratio (especially Flying Eagle Wood Lok Medicated Oil with a gross profit ratio of approximately 57.5%).

3. **Other revenue**

Other revenue mainly included rental income, commission income, interest income and PRC government grant. For the year ended 31 December 2010, other revenues amounted to approximately RMB8,683,000, increased by approximately RMB1,897,000 or 28.0% when compared to approximately RMB6,786,000 for the year ended 31 December 2009. This increase was mainly due to the receipt of a PRC government grant to the Company for its expenses incurred in successful listing of its shares on the Stock Exchange in November 2010.

4. **Other net income**

Other net income is mainly comprised of net foreign exchange gain and forward settlement income. For the year ended 31 December 2010, other net income amounted to approximately RMB3,664,000, decreased by approximately RMB3,479,000 or 48.7% when compared to approximately RMB7,143,000 for the year ended 31 December 2009. This decrease was mainly caused by a decrease in net foreign exchange gain and by a decrease in the number of forward contracts.

5. **Selling and distribution costs**

For the year ended 31 December 2010, selling and distribution costs amounted to approximately RMB64,861,000, increased by approximately RMB6,483,000 or 11.1% when compared to approximately RMB58,378,000 for the year ended 31 December 2009. This increase was mainly due to an increase in advertising costs and licencing fees by RMB3,067,000 and RMB2,011,000 respectively. To maximize the impact from the recovery of Chinese economy from the global financial crisis, the sales and marketing team of the Group launched more advertising, marketing and promotional activities for the year ended 31 December 2010. Increase in licencing fee was mainly due to the need to renew certain licences of the Group's products that expired during the year ended 31 December 2010.

6. **Administrative expenses**

For the year ended 31 December 2010, administrative expenses amounted to approximately RMB25,473,000, increased by approximately RMB5,032,000 or 24.6% when compared to approximately RMB20,441,000 for the year ended 31 December 2009. This increase was mainly due to an increase in staff cost (including directors' remuneration and staff salaries and benefits) by approximately RMB2,976,000 and an increase in miscellaneous office expenses by approximately RMB2,021,000.

7. **Profit from operations**

For the year ended 31 December 2010, profit from operations for the Group amounted to approximately RMB66,374,000, increased by approximately RMB10,011,000 or 17.8% when compared to approximately RMB56,363,000 for the year ended 31 December 2009. Increase in profit from operations was mainly due to an increase in turnover and gross profit for the year ended 31 December 2010.

8. **Finance costs**

For the year ended 31 December 2010, finance costs amounted to approximately RMB8,032,000, decreased by approximately RMB1,578,000 or 16.4% when compared to approximately RMB9,610,000 for the year ended 31 December 2009. The decrease was mainly due to the decrease in bank loan interest as the total bank loans decreased from approximately RMB306,606,000 as at 31 December 2009 to approximately RMB197,846,000 as at 31 December 2010.

9. **Profit before taxation**

For the year ended 31 December 2010, profit before taxation for the Group amounted to approximately RMB58,342,000, increased by approximately RMB11,589,000 or 24.8% when compared to approximately RMB46,753,000 for the year ended 31 December 2009. Increase in profit before taxation was mainly due to an increase in turnover and gross profit for the entire year of 2010.

10. **Income tax expenses**

For the year ended 31 December 2010, income tax expenses for the Group amounted to approximately RMB15,479,000, increased by approximately RMB5,970,000 or 62.8% when compared to approximately RMB9,509,000 for the year ended 31 December 2009. This increase was mainly due to (i) an increase in profit before taxation, (ii) a rise in the actual tax rate and (iii) an increase in deferred tax. For the year ended 31 December 2010, deferred tax for the Group was approximately RMB4,485,000, increased by RMB2,644,000 when compared to approximately RMB1,841,000 for the year ended 31 December 2009.

11. **Profit for the year**

For the year ended 31 December 2010, profit attributable to equity holders of the Company amounted to approximately RMB42,863,000, increased by approximately RMB5,619,000 or 15.1% when compared to approximately RMB37,244,000 for the year ended 31 December 2009.

DIVIDENDS

To extend the Company's gratitude for the support of our shareholders, the Board has recommended the distribution of a final dividend for the year ended 31 December 2010 of HK3.71 cents per share to shareholders whose names appear on the register of members of the Company on Tuesday, 24 May 2011, subject to the approval from the Company's forthcoming annual general meeting to be held on Tuesday, 24 May

2011. Total dividend payout ratio is 50% of the distributable profit of the Company, after deducting non-distributable statutory reserves for the year ended 31 December 2010 of RMB4,029,000. The above-mentioned final dividend is expected to be paid on or before 18 June 2011.

CONTINGENT LIABILITIES

For the year ended 31 December 2010, the Group had no material contingent liabilities.

TRADE AND OTHER RECEIVABLES

Trade receivables of the Group include credit sales that the Group's distributors should pay for the Group's products. Other receivables of the Group include bills receivables, prepayments, deposits and other receivables. Trade and other receivables of the Group as at 31 December 2010 amounted to RMB222,925,000, increased by RMB44,412,000 when compared to trade and other receivables as at 31 December 2009 amounted to RMB178,513,000. Increase in trade and other receivables was mainly due to an increase in credit sales with certain distributors that have a good cooperation relationship with the Group. As at 31 December 2010, trade receivables (not including bills receivables) of the Group amounted to approximately RMB118,917,000, representing a significant increase of RMB70,125,000 when compared to trade receivables of the Group as at 31 December 2009 amounted to approximately RMB48,792,000.

INVENTORIES

As at 31 December 2010, inventories owned by the Group amounted to approximately RMB59,317,000, representing a deduction of 21.8% when compared to inventories amounted to RMB75,862,000 as at 31 December 2009. The main reason of deduction in inventories was that since the Group aimed at improving its cash flow management, it systematically reduced inventories turnover cycle from 64 days in 2009 to 43 days in 2010.

PROPERTIES, PLANTS AND EQUIPMENT

Properties, plants and equipment owned by the Group include properties, leasehold improvements, furniture and equipment, motor vehicles and contruction in progress. As at 31 December 2010, the book value of properties, plants and equipment owned by the Group amounted to approximately RMB4,431,000, showing an increase of RMB798,000 or 22.0% when compared to that of RMB3,633,000 last year . Increase in properties, plants and equipment was mainly due to purchase of vehicles and construction in progress projects.

TRADE AND OTHER PAYABLES

Trade and other payables of the Group mainly include trade and bill payables, prepayments from customers, other payables and accrued expenses. As at 31 December 2010, trade and other payables owned by the Group amounted to approximately RMB168,493,000, representing a reduction of RMB4,389,000 when compared to that of RMB172,882,000 as at 31 December 2009. Reduction of trade and other payables was mainly due to a reduction of prepayment from customers which reduced from approximately RMB46,748,000 as at 31 December 2009 to approximately RMB12,716,000 as at 31 December 2010.

CAPITAL EXPENDITURE

Capital expenditure of the Group mainly included the purchase of properties, plants and equipment. During the year under review, capital expenditure of the Group amounted to approximately RMB1,685,000 (2009: approximately RMB1,074,000).

FUTURE OUTLOOK

Although the competition in the pharmaceutical industry will still be very keen in the future, the New Medical Reform policies, especially the development plans under the "Twelve Five-Year Plan", will present new opportunities for the development of the Group. In future, the Group will continue to work towards its goal, which is to increase the turnover and market share of famous medicines, healthcare products and general food products that it distributes in China. As such, the Group has formulated the following strategies on future development:

1. **Continue to maintain and extend market share of products with a competitive edge**

   The Group will adopt the strategy to introduce Nin Jiom Pei Pa Koa (京都念慈菴蜜煉川貝枇杷膏) into the tier-2 and tier-3 markets, as well as rural markets in China, and to develop new customers. It will also vigorously explore new terminal markets in hospitals, continue to maintain the leadership of Nin Jiom Pei Pa Koa (京都念慈菴蜜煉川貝枇杷膏) in terms of sales in the market of cough treatment products. At the same time, the Group plans to achieve a substantial growth in turnover within the next two to three years for its products Taiko Seirogan (喇叭牌正露丸) and Flying Eagle Wood Lok Medicated Oil (飛鷹活絡油) in the Chinese market, so that they will be the new lead products for the Company.

2. **Speed up the introduction of more superior new products**

To reinforce the existing market status and further expand the Group's market share, the Group will continue to develop its product mix, which is the consistent policy of the Group. To enlarge the impact of new production introduction, the Group has deployed high-quality talents with PhD qualifications. It will continue to introduce more new products by closely following market focus and development trend. Furthermore, the Group will increase the quantity of distribution products through acquiring medicinal distribution companies.

3. **Develop the Group's distribution network vertically**

The distribution network of the Group is crucial to the distribution business of its medicines and healthcare products. As such, the Group will continue to develop its distribution both horizontally and vertically. Vertical development mainly involves extending the Group's distribution network to terminal markets such as pharmacies, commercial supermarkets and hospitals etc.. Through working directly with retail shops in the network of distribution customers and sub-distributors, the Group strives to increase the turnover of its distribution products. The Group plans to set up 1,500 new product display booths in this year. They will mainly sell respiratory products and medicinal products for external use, where the Nin Jiom (京都念慈菴) product line, Flying Eagle Wood Lok Medicated Oil (飛鷹活絡油), Mentholatum (曼秀雷敦), and Kingworld Imada (金活依馬打) will be the main products of such product display booths. Also, with promotions in hospitals, the Group plans to expand the terminal markets in hospitals. On horizontal development of the Group's distribution network, the Group plans to expand its market share outside the territory of China. The focus of this year is to develop new product distribution business in Hong Kong, in order to increase the turnover of distribution products.

4. **Integrate distribution customers and sub-distributors**

The scope of medicine distribution in this year will involve prompt integration, including merger and acquisition. The Company has formulated strategies in merger and acquisition, as well as solid implementation plans. Apart from extending the business development of its distribution network, the Group is also proposing the acquisition of one or more large-scale distributors in China that have a steady cash flow, stable business, better growth and a mature network. The Group expects that through merger and acquisition, it will have a more vertical, supplementing and synergized distribution network, so that the sales and distribution strategies of the Group can be implemented more effectively. This will ensure the expansion of the business and increase product sales.

5. **Build a national distribution center for Kingworld**

The Group will actively look for a piece of land that is suitable to build a national distribution center, while complying with relevant policies and regulations of the Shenzhen government. It will also try its best to complete the feasibility studies by 2011 and officially initiate this project. Upon completion of the project, the Group will upgrade its goods delivery service, reduce the cost in distribution storage, and meet the distribution and delivery demands in medicines in different regions in China. At the right time, the Group will launch sales network through Internet.

For the above plans for future development, the Group will utilize the internal resources of the Group and/or the proceeds that the Company obtained from listing on the Stock Exchange on 25 November 2010.

The Group believes that by combining the Group's edge in its brand, its products, its distribution network and team members, aided by the sales and marketing strategies involving merger and acquisition that will be implemented soon, there will be a strong new drive for the Group's future development, revealing a bright and prosperous future.

HUMAN RESOURCES AND TRAINING

As at 31 December 2010, the Group has a total of 378 employees, in which 70 worked at the Group's headquarter office in Shenzhen, and 308 stationed in 34 zones, mainly responsible for sales and marketing. Total cost amounted to approximately RMB25,408,000 (2009: RMB20,969,000). The Group releases an annual sales guideline on a yearly basis, setting out the annual sales target and formulating quarterly sales strategies, so as to provide sales and marketing guidelines for all representative offices and their staff to observe. The Group has a management team with extensive industry experience (including the Sales Director and Product Manager). They are responsible for coordinating front-line sales and marketing teams to meet the annual sales target.

During the year under review, the Group adopted a human-oriented management concept to involve the staff 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 reviews for its employees, and adjusts their salaries and bonuses accordingly. In addition, the Group has implemented training programs for employees in various positions.

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

For the year ended 31 December 2010, the Group has not made any material acquisition and disposal.

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 (the “Listing Date”), after deduction of related expenses, was approximately HK$241,862,000 (equivalent to approximately RMB206,167,000). From the date of listing on the Stock Exchange to 31 December 2010, there were only 37 calendar days, as a result, on the date of year-end 31 December 2010, the proceeds from the listing of the Company had not been utilized yet. Details of the estimated use of proceeds from the listing of the Company have been set out in the prospectus dated 12 November 2010.

LIQUIDITY AND FINANCIAL RESOURCES

The Group mainly relies on internal resources to meet financial needs of the business. Due to different needs of the business, the Group would apply loans from the bank from time to time in due course. As at 31 December 2010, the Group had bank loans amounted to approximately RMB197,846,000 which was due within one year (2009: RMB306,606,000). During the year under review, the effective interest rates for (i) fixed rate loans was 2.0%-7.7%, (ii) variable rate loans was 2.3%-5.4%. It also had a cash reserve (including cash and bank balances and pledged bank deposits) amounted to approximately RMB401,399,000 (2009: RMB330,181,000). Its net debt-to-adjusted capital ratio (total bank loans less cash and bank balances and pledged bank deposits amount divided by total equity) was 0% (2009: 0%).

The major business of the Group has used RMB and HK$ as the transaction and bookkeeping currencies. The Group expects that RMB will maintain a stable development. The Group has no major risks in changes in other currency exchange.

PLEDGE OF ASSETS

As at 31 December 2010, the Group has pledged assets of investment property, bills receivables and bank deposits to the bank in the amount of approximately RMB202,673,000 (2009: RMB293,758,000).

CAPITAL COMMITMENT

As at 31 December 2010, apart from sharing the capital commitment of the jointly controlled entity, Zhuhai Jinming Medicine Co., Ltd., amounted to approximately RMB11,571,000, the Group has no other capital commitment (2009: Nil).

PUBLIC FLOAT

According to information disclosed publicly and as far as the directors of the Company (the "Directors") are aware, as at the date of this announcement, at least 25% issued shares of the Company is held by public shareholders.

CLOSURE OF THE REGISTER OF MEMBERS

In order to determine entitlement to the final dividend and qualify for entitlement to attend the forthcoming annual general meeting of the Company, the register of members will be closed by the Company from Wednesday, 18 May 2011 to Tuesday, 24 May 2011, both days inclusive. During such period, no transfer of shares of the Company will be registered. All completed transfer documents accomplished by the relevant shares certificates must be lodged with the Company's branch share transfer and registrar in Hong Kong, Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 17 May 2011.

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

During the period from the Listing Date to 31 December 2010, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE PRACTICES

During the period from the Listing Date to 31 December 2010, the Company complied with the code provisions as set out in the Code on Corporate Governance Practices (the "Code") in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, save for the deviations from Code Provision A.2.1.

According to Code Provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, Mr. Zhao is the Chairman of the Board and the chief executive officer. The Board is in the opinion that letting 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 TRANSCATIONS

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 compliance with the Model Code during the period from the Listing Date to 31 December 2010. The Company has also adopted written guidelines on no less exacting terms than the Model Code for the relevant employees. The senior management, who, because of their office in the Company, is likely to be in possession of unpublished price sensitive information, has been requested to comply with the provisions of the Model Code and the Company's code of conduct regarding securities transactions by Directors. No incidence of non-compliance of the employees' written guidelines by the relevant employees was noted by the Company during the year under review.

AUDIT COMMITTEE

The Company formed its audit committee on 5 November 2010. It has complied with the Code on Corporate Governance Practices to specify the scope of responsibilities in writing. The major purpose of the audit committee is to review and provide supervision over the Group's financial reporting process and internal controls. The audit committee is comprised of 3 members, namely Mr. Duan Jidong, Mr. Zhang Jianqi and Mr. Wong Cheuk Lam. Mr. Wong has been appointed as the chairman of the audit committee.

The audit committee has, together with the management of the Company and external independent auditors, reviewed the consolidated financial statements, accounting principles and practices adopted for the Group for the year of 2010, and has discussed audit, internal control and financial reporting matters.

PUBLICATION OF RESULTS ANNOUNCEMENT

The results announcement is published on the website of the Stock Exchange (http://www.hkexnews.hk) under "Listed Company Information" and the website of the Company (http://www.kingworld.com.cn) under "Investor Relations". The annual report for the year ended 31 December 2010 containing all necessary information as required by the Listing Rules will be sent to shareholders of the Company in due course, and will be published on the website of the Stock Exchange (http://www.hkexnews.hk) under "Listed Company Information" and the website of the Company (http://www.kingworld.com.cn) under "Investor Relations".

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

Hong Kong, 28 March 2011

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