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KINGWORLD MEDICINES GROUP LIMITED

金活醫藥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01110)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2011

RESULTS HIGHLIGHTS

- Turnover increased by 15.6% to approximately RMB362,552,000 (2010 : RMB313,710,000).
- Gross profit increased by 26.0% to approximately RMB79,826,000 (2010 : RMB63,353,000).
- Gross profit margin reached 22.0%, representing an increase of 1.8% (2010 : 20.2%).
- Profit for the six months ended 30 June 2011 increased by 85.1% to approximately RMB19,647,000 (2010 : RMB10,612,000).
- Basic earnings per share increased to approximately RMB3.16 cents (2010 : RMB2.36 cents).

The board (the “Board”) of directors (the “Directors”) of Kingworld Medicines Group Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2011 (the “Reporting Period”) together with the comparative figures for the six months ended 30 June 2010 with the selected notes as follows:

CONDENSED CONSOLIDATED INCOME STATEMENTS

For the six months ended 30 June 2011 - unaudited

(Expressed in Renminbi)

		Six months ended 30 June	
	<i>Note</i>	2011	2010
		RMB'000	RMB'000
Turnover	3	362,552	313,710
Cost of sales		(282,726)	(250,357)
Gross profit		79,826	63,353
Other revenue	4(a)	2,377	3,738
Other net income	4(b)	3,426	33
Selling and distribution costs		(35,995)	(37,485)
Administrative expenses		(18,393)	(11,605)
Profit from operations		31,241	18,034
Finance costs	5(a)	(2,569)	(3,568)
Profit before taxation	5	28,672	14,466
Income tax	6	(9,025)	(3,854)
Profit for the period		19,647	10,612
Attributable to:			
Owners of the Company		19,647	10,612
Earnings per share			
Basic and diluted (RMB cents)	8	3.16	2.36

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011 - unaudited

(Expressed in Renminbi)

	Six months ended 30 June	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period	<u>19,647</u>	<u>10,612</u>
Other comprehensive (loss)/income for the period		
Exchange differences on translation of financial statements of foreign operations	<u>(2,374)</u>	<u>106</u>
	<u>(2,374)</u>	<u>106</u>
Total comprehensive income for the period (net of tax)	<u><u>17,273</u></u>	<u><u>10,718</u></u>
Attributable to:		
Owners of the Company	<u><u>17,273</u></u>	<u><u>10,718</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2011 - unaudited

(Expressed in Renminbi)

	<i>Note</i>	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Non-current assets			
Fixed assets		8,001	4,431
Investment property		55,000	55,000
Prepaid lease payments		7,137	7,259
		70,138	66,690
Current assets			
Inventories		17,065	59,317
Trade and other receivables	9	241,787	222,925
Pledged bank deposits		34,552	131,873
Cash and cash equivalents		221,016	269,526
		514,420	683,641
Current liabilities			
Trade and other payables	10	124,444	168,493
Bank loans		78,995	197,846
Current taxation		6,384	8,661
		209,823	375,000
Net current assets		304,597	308,641
Total assets less current liabilities		374,735	375,331
Non-current liabilities			
Deferred tax liabilities		6,360	5,023
NET ASSETS		368,375	370,308
CAPITAL AND RESERVES			
Share capital		53,468	53,468
Reserves		314,907	316,840
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		368,375	370,308

NOTES TO THE RESULTS ANNOUNCEMENT

For the six months ended 30 June 2011 - unaudited

(Expressed in Renminbi unless otherwise indicated)

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

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

The interim results announcement have been prepared in accordance with the same accounting policies adopted in the 2010 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2011 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The interim results are unaudited, but have been reviewed by the Audit Committee of the Company and by the independent auditor, CCIF CPA Limited, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the HKICPA.

Segment reporting

Operating segments, and the amounts of each segment item reported in the interim results announcement, are identified from the financial information provided regularly to the Company's directors, i.e., the chief operating decision-makers, for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

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 six months ended 30 June 2011 and 2010. 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 six months ended 30 June 2011 and 2010. Accordingly, no analysis by geographical segment is provided.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has where applicable issued new and revised HKFRSs, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKAS 24 (as revised in 2009)	Related Party Disclosures
HKAS 32 (Amendments)	Classification of Rights Issues
HKAS 34 (Amendments)	Interim Financial Reporting
HK (IFRIC*) - Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK (IFRIC*) - Int 19	Extinguishing Financial Liabilities with Equity Instruments

* IFRIC represents the International Financial Reporting Interpretations Committee.

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

3. 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 period.

	Six months ended 30 June	
	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Sales of		
– pharmaceutical products	348,881	284,533
– healthcare products	13,671	29,177
	<u>362,552</u>	<u>313,710</u>

4. OTHER REVENUE AND OTHER NET INCOME

a) Other revenue

	Six months ended 30 June	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Total interest income on financial assets not at fair value through profit or loss:		
Bank interest income	1,232	3,037
Commission income	409	—
Gross rental income from investment property	736	701
	<u>2,377</u>	<u>3,738</u>

b) Other net income

	Six months ended 30 June	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Net gain on financial assets at fair value through profit or loss	—	71
Net realised loss on forward foreign exchange contracts	(1,124)	(2,171)
Net unrealised gain on forward foreign exchange contracts	981	1,166
Net foreign exchange gain	3,569	967
	<u>3,426</u>	<u>33</u>

5. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
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	2,569	3,568

		Six months ended 30 June	
		2011	2010
		RMB'000	RMB'000
b) Staff costs (including directors' remuneration)			
Salaries and other benefits		13,393	10,622
Contributions to defined contribution retirement plan		1,509	1,038
		<u>14,902</u>	<u>11,660</u>
c) Other items			
Amortisation of prepaid lease payments		122	122
Auditors' remuneration		369	45
Cost of inventories		282,726	250,357
Depreciation		504	421
Impairment of other receivables		260	—
(Reversal of impairment loss)/impairment losses on trade receivables		(43)	222
Loss on disposal of fixed assets		10	2
Operating lease charges in respect of land and buildings		1,573	929
Write-down of inventories		1,589	—
Rental income from investment property less direct outgoings of RMB212,000 (2010: RMB185,000)		(524)	(516)
		<u>(524)</u>	<u>(516)</u>

6. INCOME TAX IN THE CONDENSED CONSOLIDATED INCOME STATEMENT

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

		Six months ended 30 June	
		2011	2010
		RMB'000	RMB'000
Current tax – PRC income tax			
Provision for the period		7,548	3,368
Under-provision in prior year		140	—
		<u>7,688</u>	<u>3,368</u>
Deferred tax			
– current period		1,183	486
– attributable to a change in tax rate		154	—
		<u>1,337</u>	<u>486</u>
		<u>9,025</u>	<u>3,854</u>

- i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the “BVI”), the Group is not subject to any income tax in the Cayman Islands and the BVI.
- ii) 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 six months ended 30 June 2011 and 2010.
- iii) The PRC income tax charge of the Group during the six months ended 30 June 2011 and 2010 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”) as referred to in note 11 to the interim results announcement.

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 24% (2010: 22%) during the six months ended 30 June 2011.

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 RMB1,183,000 (six months ended 30 June 2010: RMB486,000) have been recognised by the Group during the six months ended 30 June 2011 for undistributed retained profits of the Group’s PRC subsidiaries.

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

	Six months ended 30 June	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before taxation	28,672	14,466
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned	7,291	3,215
Tax effect of non-deductible expenses	538	771
Tax effect of non-taxable income	(643)	(541)
Tax effect of unrecognised temporary difference	(449)	(77)
Tax effect of unused tax losses not recognised	811	—
Under-provision in previous year	140	—
Withholding tax on undistributed profits of PRC subsidiaries	1,183	486
Effect on opening deferred tax balance resulting from a change in tax rate	154	—
Actual tax expense	9,025	3,854

7. DIVIDENDS

a) Dividends payable to owners of the Company attributable to the period

	Six months ended 30 June	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Interim dividend declared and paid (note (i))	—	5,637

b) Dividends payable to owners of the Company attributable to the previous financial year, approved and paid during the period

	Six months ended 30 June	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Final dividend in respect of the previous financial year ended 31 December 2010, approved and paid during the period, of HK\$3.71 cents (equivalent to approximately RMB3.08 cents) (note (i))	19,206	26,400

- i) The amounts of interim dividend of RMB5,637,000 and final dividend approved and paid during the six months ended 30 June 2010 of RMB26,400,000, which were declared and paid prior to the Reorganisation, represent dividends declared by Kingworld Medicine and Healthcare Group Limited, 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 have not presented in the interim results announcement as it was not indicative of the future dividend policy of the Company.

8. BASIC AND DILUTED EARNINGS PER SHARE

During the six months ended 30 June 2011, the calculation of basic earnings per share is based on the profit attributable to owners of the Company of RMB19,647,000 and the weighted average number of 622,500,000 ordinary shares.

During the six months ended 30 June 2010, the calculation of basic earnings per share is based on the net profit attributable to owners of the Company of RMB10,612,000 and on the assumption that 450,000,000 ordinary shares of the Company were in issue pursuant to the capitalisation issue and the Reorganisation occurred as at 1 January 2010.

There were no potential dilutive ordinary shares in issue, the diluted earnings per share is same as the basic earnings per share during the six months ended 30 June 2011 and 2010 accordingly.

9. TRADE AND OTHER RECEIVABLES

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Trade and bills receivables (notes (b) to (e))	219,256	208,194
Less: Allowance for doubtful debts (note (c))	(2,797)	(2,840)
	<u>216,459</u>	<u>205,354</u>
Other receivables	4,985	6,627
Loans and receivables	221,444	211,981
Derivative financial instruments	981	2,129
Prepayments	4,694	5,657
Trade and other deposits	14,668	3,158
	<u>241,787</u>	<u>222,925</u>

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 presented based on invoice date as of the end of the reporting period:

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
0-90 days	157,135	156,996
91-180 days	45,885	48,358
181-365 days	13,322	—
More than 1 year but less than 2 years	117	—
	<u>216,459</u>	<u>205,354</u>

The Group generally granted credit terms ranging from 30 days to 90 days to its customers, 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 were granted. As at 30 June 2011, the Group had trade and bills receivables of RMB9,950,000 (31 December 2010: RMB25,371,000) of this product.

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

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

Movements in the allowance for doubtful debts:

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
At beginning of the reporting period	2,840	2,779
(Reversal of impairment loss)/impairment losses recognised	(43)	268
Uncollectible amounts written off	—	(207)
At end of the reporting period	<u>2,797</u>	<u>2,840</u>

As at 30 June 2011, the Group's trade receivables of RMB2,797,000 (31 December 2010: RMB2,840,000) 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 RMB2,797,000 (31 December 2010: RMB2,840,000) were recognised as at 30 June 2011. 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:

	At 30 June 2011 <i>RMB'000</i>	At 31 December 2010 <i>RMB'000</i>
Neither past due nor impaired	166,727	184,326
Past due but not impaired		
– 91 -180 days	45,800	21,028
– 181 - 365 days	3,815	—
– More than 1 year but less than 2 years	117	—
	49,732	21,028

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 RMB11,122,000 as at 30 June 2011 (31 December 2010: RMB15,800,000) were pledged to banks for banking facilities granted to the Group.

10. TRADE AND OTHER PAYABLES

	At 30 June 2011 <i>RMB'000</i>	At 31 December 2010 <i>RMB'000</i>
Trade and bills payables (notes (b) and (c))	96,752	134,137
Accruals	2,798	2,559
Other payables	21,495	16,105
Amounts due to related parties (note 13(b))	1	—
Financial liabilities measured at amortised cost	121,046	152,801
Trade deposits received	2,765	12,716
Receipts in advance	633	2,976
	124,444	168,493

- 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 presented based on invoice date as of the end of the reporting period. The credit terms granted by the suppliers were generally ranging from 45 days to 90 days.

	At 30 June 2011 <i>RMB'000</i>	At 31 December 2010 <i>RMB'000</i>
0-90 days	96,752	130,108
91-180 days	—	1,690
181-365 days	—	2,339
	96,752	134,137

- c) No bills payables were pledged as at 30 June 2011. Bills payables of RMB7,093,000 as at 31 December 2010 were pledged by the Group's bank deposits.

11. JOINTLY CONTROLLED ENTITY

At 30 June 2011, 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:

	At 30 June 2011 <i>RMB'000</i>	At 31 December 2010 <i>RMB'000</i>
Non-current assets	5,076	4,811
Current assets	21,172	22,921
Current liabilities	(11,447)	(17,302)
Net assets	<u>14,801</u>	<u>10,430</u>

	Six months ended 30 June	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Income	44,762	39,952
Expenses	(39,013)	(35,907)
Profit before taxation	5,749	4,045
Income tax	(1,378)	(768)
Profit for the period	4,371	3,277
Other comprehensive income	—	—
	At 30 June	At 31 December
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Share of the jointly controlled entity's capital commitments:		
Contracted but not provided for:		
Capital expenditure for construction of		
office premise and warehouse	17,161	11,571

12. CAPITAL COMMITMENTS

Save as disclosed in note 11, the Group did not have any other significant capital commitments as at 30 June 2011 and 31 December 2010.

13. RELATED PARTY TRANSACTIONS

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

Name of related parties	Relationship
Mr. Zhao Li Sheng (“Mr. Zhao”)	The Company’s director and the sole shareholder of the ultimate holding company of the Company
Ms. Chan Lok San (“Ms. Chan”)	The Company’s director and the wife of Mr. Zhao
Ms. Huang Lanjiao (“Ms. Huang”)	Mother of Mr. Zhao
Morning Gold Medicine Company Limited (“Morning Gold”)	Wholly owned by both Mr. Zhao and Ms. Chan
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
Yuen Tai Pharmaceuticals Limited (“Yuen Tai”)	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
廣東金保利醫藥有限公司 Guangdong Jinbaoli Medicine Company Limited (“Jinbaoli”)	Note (i)
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 (ii)

Notes:

- i) 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 ended 31 December 2010, the related party ceased to be owned and controlled by Mr. Huang and the close family member of Ms. Chan.
- ii) The related party is owned and controlled by Ms. Huang, Ms. Chan and a close family member of Ms. Chan.
- iii) 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:

		Six months ended 30 June	
	Note	2011 RMB’000	2010 RMB’000
Purchases of goods			
SZ Kingworld Lifeshine	(i)	<u>7,486</u>	<u>2,333</u>
Rental expenses			
SZ Industry	(i)	<u>279</u>	<u>275</u>

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

- 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 six months ended 30 June 2011 and 2010.
- 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 during the year ended 31 December 2008, 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:

	<i>Note</i>	Six months ended 30 June	
		2011	2010
		<i>RMB’000</i>	<i>RMB’000</i>
Staff costs			
SH Industry	(ii)	<u>—</u>	<u>117</u>

Amounts due from/(to) related parties

		Outstanding balance		Maximum outstanding balance	
		At 30 June 2011 RMB'000	At 31 December 2010 RMB'000	Six months ended 30 June 2011 RMB'000	Year ended 31 December 2010 RMB'000
Note					
Mr. Zhao					
	Other receivable	(iii)	—	—	14,400
Ms. Chan					
	Other receivable	(iii)	—	—	3,600
Yuen Tai					
	Other receivable		—	—	9,418
SZ Kingworld Lifeshine					
	Other receivable		—	—	4,218
SZ Industry					
	Other receivable	(iii)	—	—	18,800
	Other payable		(1)	—	—
Jinbaoli					
	Other receivable		—	—	35,234
Total net payables included in amounts due to related parties (note 10)					
		(iv)	(1)	—	—

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 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.
- iv) All of amounts due from/to related parties were unsecured, interest-free and had no fixed terms of repayment.

- c) Save as disclosed above, a related party provided the following guarantee 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.
- d) Key management remuneration:

Remuneration for key management personnel is as follows:

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Salaries, allowances and other benefits	2,623	2,071
Discretionary bonus	399	369
Contributions to defined contribution retirement plan	116	153
	3,138	2,593

14. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATION ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDING 31 DECEMBER 2011

Up to the date of issue of the results announcement, the HKICPA has issued the following amendments, new and revised standards and interpretations which are not yet effective for the year ending 31 December 2011.

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

HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters ¹
HKFRS 7 (Amendments)	Disclosures — Transfer of Financial Assets ¹
HKFRS 9	Financial Instruments ⁴
HKFRS 10	Consolidated Financial Statements ⁴
HKFRS 11	Joint Arrangements ⁴
HKFRS 12	Disclosure of Interests in Other Entities ⁴
HKFRS 13	Fair Value Measurement ⁴
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income ³
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets ²
HKAS 19 (2011)	Employee Benefits ⁴
HKAS 27 (2011)	Separate Financial Statements ⁴
HKAS 28 (2011)	Investments in Associates and Joint Ventures ⁴

¹ Effective for annual periods beginning on or after 1 July 2011.

² Effective for annual periods beginning on or after 1 January 2012.

³ Effective for annual periods beginning on or after 1 July 2012.

⁴ Effective for annual periods beginning on or after 1 January 2013.

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

MANAGEMENT DISCUSSION AND ANALYSIS

Market and Industry Review

1. The publication of the Twelve Five-Year Plan by the State was beneficial to the development of the pharmaceutical industry

In accordance with the Outline for the Planning in the Development of Pharmaceuticals Industry with Distribution of Pharmaceuticals Covering Nationwide as published by the Ministry of Commerce of the State, which became effective from 2011, the key objectives for the development during the “Twelve Five-Year Plan” period are: to establish one to three major national pharmaceutical groups with annual sales of over RMB100 billion per annum, approximately 20 regional enterprises engaging in the distribution of pharmaceuticals regional wide with annual sales of over RMB10 billion and top 100 pharmaceutical wholesaling enterprises with annual sales accounting for approximately over 85% of wholesale pharmaceuticals, top 100 pharmaceutical retail chain stores with annual sales accounting for over approximately 60% of the total sales in the retail segment, as well as having the proportion of pharmaceutical chain store increases to over two thirds of the total retail stores. Benefitting from the policies of the State, the total sales and the retailing of pharmaceuticals in China are expected to expand substantially. As the long-term cooperation partners of the Group currently are some of the principal pharmaceutical wholesaling and retailing enterprises in China, it is anticipated that there will be room for an increase of sales of the Group’s branded products upon their growth.

In addition, the “Twelve Five-Year Plan” also supported the integration of chain store operation, logistics and e-commerce in the pharmaceutical industry. This will enhance the standards in e-commerce that are now being applied in the delivery of pharmaceuticals. Retail chain stores with standard operation procedures were also encouraged to develop online pharmaceutical stores. The Group will revise its operation strategies promptly in response to the emerging changes in the mode of retail operation, in particular, the development of an e-commerce platform with the assistance by a third party. As such, e-commerce will become a new segment of growth on the Group’s business in the future.

2. Growth in the pharmaceutical industry remained steady

According to the relevant data, the total output of the pharmaceutical industry for 2010 amounted to RMB1,236.827 billion, representing an increase of 23.1% as compared with the same period last year. The total output of the pharmaceutical industry for the first quarter of 2011 reached RMB314.311 billion, which accounted for an increase of 25.45% as compared with the same period last year.

According to the statistics of Nanfang Pharmaceuticals and Economics Research Institute, the annual sales of about 400,000 pharmaceutical stores in China reached RMB173.9 billion. The total sales for the top 100 pharmaceutical retail chain stores in 2010 exceeded RMB65.5 billion, whilst the concentration of the top 100 pharmaceutical retail chain stores was only approximately 37%. During the “Twelve Five-Year Plan” period, the State would be prepared to implement the Basic Pharmaceutical Administration System, which will be used to substitute the welfare of pharmaceuticals to cover the consultation at the basic medical institutions. In particular, for those cities with more advanced facilities for the retailing of pharmaceuticals than those in the public medical service institutions, the “dispensing separation” model which doctors will focus on out-patient diagnosis and prescribe appropriate treatments while pharmacists will check the prescription and dispense the medicines with adequate medication counselling at the pharmaceutical retail stores can be explored. This pattern will be favourable to pharmaceutical stores like the Group that has a relatively large proportion in the retail segment. It is expected that the favourable industry trend will allow the Group to develop rapidly in the future.

3. Chinese medicines being the segment leading in the market for products to relieve cough and sputum symptoms

According to the statistics from the health authorities of the State, there were more than 300 million of people in China suffering from diseases in respiratory system each year. Of which more than 50 million people were suffered from coughing. Moreover, the percentage of people suffering from coughing was higher at areas that were more economically developed. There were more than 190 million of people living in the urban and rural area suffering from asthma, bronchitis, tuberculosis and coughing caused by flu, whilst approximately 16% of those having symptoms above were suffering coughing. Therefore, medicines to relieve cough and sputum symptoms become indispensable for the spending of consumers at large.

At present, there are more than 100 brands of medicines for relieving cough and sputum symptoms. Of which, more than 60% are produced from prescriptions with Chinese medicines, and have an absolute advantage in the market. On the contrary, only less than 40% are produced from prescriptions with western medicines, and are placed in a less favourable position in the market. Amongst the Chinese medicines for relieving cough and sputum symptoms, “cough syrup” is the most popular medicine. The “Mi Lian Chuan Bei Pei Pa Koa” (蜜煉川貝枇杷膏) produced by Nim Jiom (京都念慈庵) remains the most popular brand, which received approximately more than 30% of referrals by shop sales. This was sufficient to demonstrate that such product has a comprehensive sales channels and a considerable share in the market.

Business Review

1. To maintain and further enhance the market share of products with competitive edge

During the Reporting Period, the Group realigned its strategy for the wholesale customers, and expanded its coverage in the second and third tier cities, thereby increasing the penetration rate of Nim Jiom Pei Pa Koa in the second and third tier cities. At the same time, the Group also tapped into the hospital market in Shanghai, Hangzhou, Ningbo, Xian, Nanchong and Nanjing. The branding and recognition of Nim Jiom Pei Pa Koa were thus enhanced through the promotional efforts devoted there. For the six months ended 30 June 2011, the sales of Nim Jiom Pei Pa Koa were increased by 19.8% as compared with the same period last year.

Taiko Seirogan (喇叭牌正露丸) is another main stream product distributed by the Group. During the Reporting Period, the Group obtained remarkable results in sales through the integration of channels at Guangdong and Fujian as well as the implementation of a series of promotional activities to enhance its brand name. For the six months ended 30 June 2011, a relatively rapid growth was recorded for the sales of Taiko Seirogan, which amounted to RMB29,686,000, representing an increase of 169.1% as compared with the same period last year.

During the Reporting Period, the penetration rate of Mentholatum (曼秀雷敦) series, another main stream product distributed by the Group, was also accelerated. A relatively rapid growth was also recorded for its sale. For the six months ended 30 June 2011, the growth in the sales of Mentholatum series was relatively fast with recorded sales of RMB25,432,000, representing an increase of 67.3% as compared with the same period last year.

Imada Red Flower Oil (依馬打紅花油) of Kingworld is another emerging star product distributed by the Group. With the adoption of effective sales strategies, a relatively fast growth was also recorded for the product. For the six months ended 30 June 2011, the growth in the sales of such product was relatively fast and recorded sales of RMB12,478,000, representing an increase of 186% as compared with the same period last year.

The Group is applying for the renewal for the import registration licence of Flying Eagle Wood Lok Medicated Oil (飛鷹活絡油), which was expired in December 2010. Hence, the sales of Flying Eagle Wood Lok Medicated Oil for the first half of the year were affected to a certain extent. With the approval obtained for the import registration licence during the second half of the year, it is believed that the sales will soon recover and will gain further growth. In addition, the import for Kawai Liver Oil Drop (可愛的肝油丸), another product of the Group, was temporarily suspended due to the disastrous earthquake in Japan and China banning the import of foodstuff from Japan. As the sales of liver oil drop only accounted for about 3.3% of the Group's sales, the effect on the sales of the Group as a whole was minimal.

2. Breakthrough in the introduction of new products that are available for sales during the second half of the year

During the recent years, a number of incidents on the safety of food and drugs occurred in China. Consumers in the Mainland became more concerned about safety issues on food and medicines, and placed more attention on the products imported from overseas. This had brought forth valuable opportunities for the development of the Group. After conducting research and selection in the market during the first half of the year, the Group will act as an agent for organic food directly produced and packaged in the United States, which will include organic dried milk. Save from selling these products in the Mainland, the Group is also planning to sell the same in Hong Kong.

At the same time, upon the safety concern over the threats by radiation caused by the earthquake in Japan in March this year, as well as the threat of radiation to health of people in the daily course of life, the Group considered products that can mitigate the radioactive effect represent good opportunities for the development of the Group. The Group will launch products relieving radiation in the coming months.

The scope of franchising granted by Disney to the Group was expanded last year. Since then, the Group has been using its best endeavours to develop new products. With the efforts devoted to this aspect of business during the first half of the year, the Group had completed the preliminary preparation work for the launch of Band-Aid products with authorised Disney brands. It is expected that the products will be officially launched into the market by August this year.

The preliminary preparation work for the launch of these new products was already completed. These new products are now in a pipeline for launch into the market during the second half of the year. The gross profit margin of the new products will be higher than the gross profit margin of the Group's existing products. It is expected that these new products will increase the gross profit margin of the Group as a result.

3. To expand the distribution network of the Group with depth

During the Reporting Period, the Group conducted effective adjustment and further enhancement to its distribution network on the basis of "seeking to minimise number of wholesale customers with the maximum network coverage" and in terms of the nature of different segment market. At the same time, the Group consolidated its distribution network through increasing the number of display booths, enriching the product mix and creating a favourable spending environment. The close cooperation relationship with the distributors and the pharmaceutical retailers was improved accordingly.

During the Reporting Period, the Group also explored a new channel, and tapped into particular State-owned enterprises in China, such as banking, taxation and public transportation sectors as well as business and military units.

In addition, the Group's display booths under the name of "Kingworld Health Family" (金活健康之家) increased from 1,500 at the end of 2010 to 2,000 as at 30 June 2011. It is anticipated that the number will be increased further to approximately 3,000 by or before the end of 2011. At the same time, the Group had also established a number of flagship display booths under the name of "Kingworld Health Family" in the important cities in China. The promotion and marketing for the branded products under the Group were strengthened, in order to further enhance the corporate and brand image of the Group.

4. To consolidate the customer base from distributors and sub-distributors

As of 30 June 2011, the Group had 190 distribution customers with strong competence in distribution activities, 400 sub-distributors and over 40,000 retail outlets under specific management. Most of the customers have a large distribution network in China. In order to enhance the end-user network, the Group is in the process of identifying regional distributors as acquisitions targets. Such distributors are mainly domestic enterprises located in the coastal regions in the eastern and southern parts of China that have higher spending power.

5. Approval of establishing a nationwide dispatch centre by Kingworld

During the Reporting Period, the Group successfully finalised the feasibility study report for establishing a nationwide dispatch centre by Kingworld. The project will enhance the capability of Kingworld in service delivery to a significant extent. The nationwide dispatch centre of Kingworld is different from the traditional logistics and dispatch service, and is a consolidated platform integrating flow of goods, funds and information. Such centre will target at the pharmaceutical enterprises in Shenzhen, and will offer better service for the delivery of goods and the satisfaction of dispatch needs throughout China in a centralised manner. At present, the project has already been approved by the relevant departments. The land required for the building of the nationwide dispatch centre of Kingworld is expected to finalise during this year.

For the above projects, the Group utilised the internal resources of the Group and/or the proceeds that the Company obtained from listing on the Stock Exchange on 25 November 2010.

Financial Review

1. Turnover

Turnover of the Group for the six months ended 30 June 2011 amounted to approximately RMB362,552,000, representing an increase of approximately RMB48,842,000, or 15.6% compared to approximately RMB313,710,000 for the six months ended 30 June 2010. The increase was mainly because of an increase in sales of Nin Jiom (京都念慈菴) product line and Imada Red Flower Oil (依馬打正紅花油) product line. The year-on-year growth for these two lines of products were 19.8% and 185.9% respectively. This was mainly due to the reinforced promotion for those products, including the strategies to increase the sale of Nin Jiom Mi Lian Chuan Bei Pei Pa Koa (京都念慈菴蜜煉川貝枇杷膏) and the number of sales counters for Imada Red Flower Oil.

2. Cost of sales

For the six months ended 30 June 2011, cost of sales for the Group amounted to approximately RMB282,726,000, increased by approximately RMB32,369,000 or 12.9% when compared to approximately RMB250,357,000 for the six months ended 30 June 2010. The increase in cost of sales was consistent with the increase in turnover. Gross profit ratio increased from 20.2% for the six months ended 30 June 2010 to 22.0% for the six months ended 30 June 2011, which was mainly caused by the increase in sales of products with a higher gross profit ratio (especially Imada Red Flower Oil with a gross profit margin of approximately 52.7%).

3. Other revenue

Other revenue mainly included rental income, commission income and interest income. For the six months ended 30 June 2011, other revenues amounted to approximately RMB2,377,000, decreased by approximately RMB1,361,000 or 36.4% when compared to approximately RMB3,738,000 for the six months ended 30 June 2010. This decrease was mainly due to the decrease in interest income.

4. Other net income

Other net income mainly comprised net foreign exchange gain and forward settlement income. For the six months ended 30 June 2011, other net income amounted to approximately RMB3,426,000, increased by approximately RMB3,393,000 or 10,281.8% when compared to approximately RMB33,000 for the six months ended 30 June 2010. This increase was mainly caused by an increase in net foreign exchange gain.

5. Selling and distribution costs

For the six months ended 30 June 2011, selling and distribution costs amounted to approximately RMB35,995,000, decreased by approximately RMB1,490,000 or 4.0% when compared to approximately RMB37,485,000 for the six months ended 30 June 2010. This decrease was mainly due to a decrease in commission to customer and license fee by RMB4,991,000 and RMB2,251,000 respectively which was partially set off by the increase in advertising expenses and salaries of RMB2,470,000 and RMB2,291,000 respectively. To capture the opportunities from the recovery of Chinese economy from the global financial crisis, the sales and marketing team of the Group had conducted more advertising, marketing and promotional activities during the Reporting Period.

6. Administrative expenses

For the six months ended 30 June 2011, administrative expenses amounted to approximately RMB18,393,000, increased by approximately RMB6,788,000 or 58.5% when compared to approximately RMB11,605,000 for the six months ended 30 June 2010. This increase was mainly due to an increase in staff cost (including directors' remuneration and staff salaries and benefits) by approximately RMB1,072,000 and an increase in legal and professional fees by approximately RMB1,679,000 as a result of our Company being a listed company.

7. Profit from operations

For the six months ended 30 June 2011, profit from operations for the Group amounted to approximately RMB31,241,000, increased by approximately RMB13,207,000 or 73.2% when compared to approximately RMB18,034,000 for the six months ended 30 June 2010. Increase in profit from operations was mainly due to an increase in turnover and gross profit during the Reporting Period.

8. Finance costs

For the six months ended 30 June 2011, finance costs amounted to approximately RMB2,569,000, decreased by approximately RMB999,000 or 28.0% when compared to approximately RMB3,568,000 for the six months ended 30 June 2010. The decrease was mainly due to the decrease in interest charged on bank loans.

9. Profit before taxation

For the six months ended 30 June 2011, profit before taxation for the Group amounted to approximately RMB28,672,000, increased by approximately RMB14,206,000 or 98.2% when compared to approximately RMB14,466,000 for the six months ended 30 June 2010. Increase in profit before taxation was mainly due to an increase in turnover and gross profit during the Reporting Period.

10. Income tax expenses

For the six months ended 30 June 2011, income tax expenses for the Group amounted to approximately RMB9,025,000, increased by approximately RMB5,171,000 or 134.2% when compared to approximately RMB3,854,000 for the six months ended 30 June 2010. This increase was mainly due to an increase in profit before taxation and increase in tax rate. The effective tax rate during the Reporting Period was 31.5% when compared to 26.6% for the six months ended 30 June 2010.

11. Profit for the period

For the six months ended 30 June 2011, profit attributable to equity holders of the Company amounted to approximately RMB19,647,000, increased by approximately RMB9,035,000 or 85.1% when compared to approximately RMB10,612,000 for the six months ended 30 June 2010. Increase in profit for the period was mainly due to an increase in turnover and gross profit during the Reporting Period.

12. Liquidity and capital resources

The Group has met its working capital needs mainly through cash generated from operations and various short-term bank borrowings. During the Reporting Period, the effective interest rate for (i) fixed rate loans was 7.1%, (ii) variable rate loans was 2.3% - 5.6%. Taking into account the cash flow generated from operations and the bank borrowing facilities available to the Group, the directors of the Company are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this announcement.

As at 30 June 2011, the Group had cash and cash equivalents of RMB221,016,000 mainly generated from operations of the Group and funds raised by the Company in November last year.

13. 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 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 RMB494,000, representing an increase of net cash generated from operating activities of RMB179,000 from RMB315,000 for the six months ended 30 June 2010. The increase was primarily due to the increase in profit before taxation.

Net cash used in/generated from investing activities

The Group's net cash outflow used in investing activities amounted to RMB3,325,000 during the Reporting Period, representing a decrease of RMB6,138,000 as compared with the cash inflow generated from investing activities of RMB2,813,000 for the six months ended 30 June 2010. The decrease is mainly due to the payment for the purchase of fixed assets amounted to RMB4,084,000 during the Reporting Period.

Net cash used in financing activities

The Group's net cash used in financing activities amounted to RMB43,305,000 during the Reporting Period, representing an increase of RMB5,942,000 as compared with net cash used in financing activities of RMB37,363,000 for the six months ended 30 June 2010. The increase was primarily due to repayment of bank borrowings and payment of dividends declared by the Company and its subsidiaries.

14. Capital structure

Indebtedness

All the borrowings of the Group as at 30 June 2011 was RMB78,995,000, which will be due within one year. During the Reporting Period, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

Gearing ratio

As at 30 June 2011, the Group's gearing ratio was 13.5% (31 December 2010: 26.4%), 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 2011, the Group has pledged assets of investment property, bills receivables and bank deposits to the bank in the amount of approximately RMB100,674,000 (31 December 2010: RMB202,673,000).

Capital expenditure

The capital expenditures of the Group primarily included purchases of plant and equipment, leasehold improvements and purchases of motor vehicles. The Group's capital expenditures amounted to RMB4,084,000 and RMB224,000 for the Reporting Period and the six months ended 30 June 2010 respectively.

Foreign exchange risk

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

15. Contingent liabilities, legal and potential proceedings

As at 30 June 2011, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

16. Major acquisitions and disposals

For the six months ended 30 June 2011, the Group did not make any material acquisition and disposal.

17. Ongoing 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

The Group will continue to capitalise from the opportunities arising in the industry under the guidance of strategies as formulated upon the ongoing favourable performance in the macro economy of China and the in-depth implementation of the new medical reform measures. The competitive edge in its brand and network will be realised from the continuous growth of the Group. As such, the Group has determined the following strategies for its future development:

1. To maintain and further enhance the market share of products with competitive edge

Apart from maintaining a leading position for Nin Jiom Pei Pa Koa in the market of cough relieving products in terms of sales, the Group will also continue to maintain the sound development of three other main stream products, including Taiko Seirogan, Mentholatum series of products and Imada Red Flower Oil of Kingworld. The sales of these products will be increased through the penetration to certain large State-owned enterprises and by way of expansion into the group purchase business. In addition, another main stream product distributed by the Group, namely Flying Eagle Wood Lok Medicated Oil, will seek to increase its sales through advertising promotion and marketing activities that aim to enhance the loyalty of its customers.

2. To open up a new horizon in sales through the launch of new products

During the second half of the year, the Group will target to launch three new products so as to cater for different needs of consumers for wellness pharmaceuticals. The Group has already formulated detailed marketing plans for the launch of such new products.

The Group will organise the “Press Conference for the launch of the new Disney’s Gold 100 Band-Aid” in August this year at Hainan, China. It is expected that officers in charge of major retail chains throughout China will be invited to participate in such press conference. In the near future, the Group will also adopt specific marketing strategies to increase its sales and branding effectiveness.

During the second half of the year, the organic food imported by the Group from the United States will be available for sales in Hong Kong, as well as the major cities in China, such as Beijing, Shanghai, Guangzhou and Shenzhen.

3. To tap into new channels and new markets for sales purpose

During the recent years, e-commerce has become more popular among the consumers and Internet has become a new channel for sales and marketing. During the Reporting Period, the Group successfully tapped into the group purchase business, and gradually accumulated a group of loyal customers. According to the traditional Chinese customs, there are relatively more holidays during the second half of the year. Various business units will send gifts to their staff, and imported products are well received in this aspect in particular. Therefore, it is expected that the demand for group purchase will be further enhanced. As there is a lot of potential in the development of group purchase business, the Group will capture such opportunity and continue to consolidate its existing group purchase business and further develop new major customers.

4. To accelerate the setting up of display booths under the name of “Kingworld Health Family”

Distribution network bear significant meaning to the business for the distribution of the Group’s pharmaceutical and wellness products. The display booths under the name of “Kingworld Health Family” have been the platform for the Group to show case its products, enhance its brand awareness and strengthen the communication with the consumers. Therefore, the Group has planned to conduct marketing activities at such display booths so as to improve the purchasing desire of the consumers and increases the sales at such booths. Such activities include product advertising and promotions, promotion activities at the stores and discounts for customers.

5. To finalise the establishment of a nationwide dispatch centre for Kingworld

During the Reporting Period, the feasibility study report on the nationwide dispatch centre for Kingworld was successfully prepared. This will allow the official kick-off for the development of the project. Looking ahead in the second half of the year, the Group will continue to devote efforts in enhancing the communication and coordination with relevant authorities. This will facilitate relevant departments to approve the establishment of a nationwide dispatch base for Kingworld as soon as practicable, and fulfill the requirements for the regional dispatch of pharmaceuticals throughout China on a centralised basis.

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

HUMAN RESOURCES AND TRAINING

As at 30 June 2011, the Group had a total of 392 employees, of which 78 worked at the Group's headquarters in Shenzhen, and 314 stationed in 34 zones, mainly responsible for sales and marketing. Total staff cost during the Reporting Period amounted to approximately RMB10,232,000 (2010: RMB9,379,000). 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 Reporting Period, the Group adopted a human-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.

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 2011, the Group had used net proceeds of approximately RMB21,600,000, of which RMB1,000,000 had been applied for expanding the product display booth scheme and RMB20,600,000 as working capital. The remaining net proceeds have been deposited into banks which are intended to be applied in accordance with the proposed application set forth in the Company's prospectus dated 12 November 2010.

CAPITAL COMMITMENT

As at 30 June 2011, apart from sharing the capital commitment of jointly controlled entity, Zhuhai City Jinming Medicine Company Limited, amounted to approximately RMB17,161,000 (31 December 2010: RMB 11,571,000), the Group had no other capital commitment.

PUBLIC FLOAT

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

DIVIDENDS

Pursuant to a resolution passed by the shareholders of the Company on 24 May 2011, the Company declared the audited distributable profits as at 31 December 2010 amounting to approximately HK\$23,095,000 (equivalent to approximately RMB19,206,000) to the shareholders of the Company. The dividend was fully paid on 17 June 2011 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 2011 (2010: 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

During the Reporting Period, 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 on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), save for the deviations from Code Provision A.2.1.

According to Provision A.2.1 of the 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 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 Reporting Period.

AUDIT COMMITTEE

The Company formed its audit committee on 5 November 2010. It has complied with the Code 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 currently comprises of three 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 reviewed the Company's unaudited condensed consolidated interim financial information for the six months ended 30 June 2011 and agreed with the accounting treatment adopted by the Company.

DISCLOSURE OF INFORMATION

The interim report for the six months ended 30 June 2011 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, 19 August 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.