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 2011

RESULTS HIGHLIGHTS

- Turnover increased by 7.4% to approximately RMB685,562,000 (2010: RMB638,046,000).
- Gross profit increased by 14.8% to approximately RMB160,832,000 (2010: RMB140,147,000).
- Gross profit margin reached 23.5%, increased by 1.5% (2010: 22.0%).
- Profit for the year ended 31 December 2011 increased by 19.1% to approximately RMB51,031,000 (2010: RMB42,863,000).
- Earnings per share decreased by 10.7% to approximately RMB8.20 cents (2010: RMB9.18 cents) due to the increase in weighted average number of ordinary shares.
- Due to the satisfactory results of the Group, the Board recommended the distribution of a final dividend of HK4.04 cents per share for the year ended 31 December 2011 (2010: HK3.71 cents), subject to the approval of the shareholders of the Company in the forthcoming annual general meeting to be held on Wednesday, 16 May 2012.

The board (the "Board") of directors (the "Directors") 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 2011 (the "Year Under Review"), together with the comparative figures and selected explanatory notes of the corresponding year in 2010 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	Note	**2011**	2010
		RMB'000	*RMB'000*
Turnover	4	**685,562**	638,046
Cost of sales		**(524,730)**	(497,899)
Gross profit		**160,832**	140,147
Valuation gain on investment properties		**9,000**	9,000
Other revenue	5(a)	**6,012**	8,683
Other net income	5(b)	**11,257**	3,664
Selling and distribution costs		**(70,900)**	(64,861)
Administrative expenses		**(37,695)**	(25,473)
Listing expenses		**—**	(4,786)
Profit from operations		**78,506**	66,374
Finance costs	6(a)	**(4,690)**	(8,032)
Profit before taxation	6	**73,816**	58,342
Income tax	7	**(22,785)**	(15,479)
Profit for the year		**51,031**	42,863
Attributable to:			
Owners of the Company		**51,031**	42,863
Earnings per share			
Basic and diluted (RMB cents)	9	**8.20**	9.18

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	2011	2010
	RMB'000	*RMB'000*
Profit for the year	**51,031**	42,863
Other comprehensive income/(loss) for the year		
Exchange differences on translation of financial statements of foreign operations	**(8,460)**	(2,713)
Surplus on revaluation of leasehold land and buildings held for own use	**689**	—
Tax expense	**(165)**	—
Surplus on revaluation of leasehold land and buildings held for own use, net of tax	**524**	—
	(7,936)	(2,713)
Total comprehensive income for the year (net of tax)	**43,095**	40,150
Attributable to:		
Owners of the Company	**43,095**	40,150

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Note	**2011**	2010
		RMB'000	*RMB'000*
Non-current assets			
Property, plant and equipment		**8,943**	4,431
Investment properties		**68,600**	55,000
Prepaid lease payments		**3,804**	7,259
Deposit paid for property, plant and equipment	11	**10,000**	—
		91,347	66,690
Current assets			
Inventories		**49,140**	59,317
Trade and other receivables	12	**329,032**	222,925
Pledged bank deposits		**9,890**	131,873
Cash and cash equivalents		**141,041**	269,526
		529,103	683,641
Current liabilities			
Trade and other payables	13	**157,324**	168,493
Bank loans		**47,168**	197,846
Current taxation		**12,841**	8,661
		217,333	375,000
Net current assets		**311,770**	308,641
Total assets less current liabilities		**403,117**	375,331
Non-current liabilities			
Deferred tax liabilities		**8,620**	5,023
NET ASSETS		**394,497**	370,308
CAPITAL AND RESERVES			
Share capital		**53,468**	53,468
Reserves		**341,029**	316,840
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**394,497**	370,308

Notes to the Financial Statements

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 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 new and revised HKFRSs which are first effective or available for early adoption for the current accounting year of the Group and the Company. 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 years reflected in these financial statements.

b) **Basis of preparation of the financial statements**

The consolidated financial statements for the period from 1 January 2010 and up to the date of the Reorganisation were 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 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 2010 and up to the date of the Reorganisation were 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 2011 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 as explained in the accounting policies:

— investment properties;

— financial assets at fair value through profit or loss; and

— derivative financial instruments

c) **Segment reporting**

Operating segments, and the amounts of each segment item reported in the financial statements, 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 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 information 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.

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

The HKICPA has issued new and revised HKFRSs that are first effective for the current accounting year 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
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.

Except as described below, the application of the new and revised HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior accounting years and/or on the disclosures set out in these financial statements.

HKAS 24 Related Party Disclosures (as revised in 2009)

HKAS 24 (as revised in 2009) has been revised on the following two aspects: (a) HKAS 24 (as revised in 2009) has changed the definition of a related party and (b) HKAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities.

As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosure in current and previous years.

Improvements to HKFRSs issued in 2010

Improvements to HKFRSs issued in 2010 omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7 Financial instruments: Disclosures. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous years.

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.

	2011	2010
	RMB'000	*RMB'000*
Sales of		
— pharmaceutical products	**663,327**	597,593
— healthcare products	**22,235**	40,453
	685,562	638,046

5. OTHER REVENUE AND OTHER NET INCOME

a) **Other revenue**

	2011	2010
	RMB'000	*RMB'000*
Total interest income on financial assets not at fair value through profit or loss:		
Bank interest income	**2,198**	4,862
Commission income	**409**	397
Government grant (note)	**—**	2,000
Gross rental income from investment properties	**1,653**	1,424
Others	**1,752**	—
	6,012	8,683

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

b) **Other net income**

	2011	2010
	RMB'000	*RMB'000*
Net gain on financial assets at fair value through profit or loss	**272**	73
Net realised loss on forward foreign exchange contracts	**(983)**	(3,350)
Net unrealised gain on forward foreign exchange contracts	**—**	2,129
Net foreign exchange gain	**11,968**	4,812
	11,257	3,664

6. PROFIT BEFORE TAXATION

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

	2011	2010
	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	**4,690**	8,032
b) **Staff costs (including directors' remuneration)**		
Salaries and other benefits	**21,462**	22,702
Contributions to defined contribution retirement plan	**3,926**	2,706
	25,388	25,408
c) **Other items**		
Amortisation of prepaid lease payments	**190**	243
Auditors' remuneration		
— audit service	**693**	660
— non-audit service	**315**	—
Cost of inventories	**524,730**	497,899
Depreciation	**1,431**	885
Impairment losses on trade receivables (note 12(c))	**1,150**	268
Impairment losses of other receivables	**66**	—
Listing expenses	**—**	4,786
Loss on disposal of property, plant and equipment	**17**	2
Operating lease charges in respect of land and buildings	**3,535**	1,812
Rental income from investment properties less direct outgoings of RMB408,000 (2010: RMB390,000)	**(1,245)**	(1,034)
Reversal of impairment loss on trade receivables (note 12(c))	**(65)**	—

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

Income tax in the consolidated income statement represents:

	2011	2010
	RMB'000	*RMB'000*
PRC Income tax		
— Current year	**17,663**	10,994
— Underprovision in respect of prior years	**141**	—
	17,804	10,994
Deferred tax		
— current year	**4,827**	4,511
— attributable to a change in tax rate	**154**	(26)
	4,981	4,485
	22,785	15,479

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 2011 and 2010.

iii) The PRC income tax charge of the Group during the years ended 31 December 2011 and 2010 represented 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 24% (2010: 22%) 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) Deferred tax liabilities of RMB2,667,000 (2010: RMB2,531,000) have been recognised by the Group during the year for undistributed retained profits of the Group's PRC subsidiaries.

8. DIVIDENDS

a) **Dividends payable to owners of the Company attributable to the year**

	2011	2010
	RMB'000	*RMB'000*
Interim dividend declared and paid (note (i))	**—**	5,637
Final dividend proposed after the end of the reporting period of HK4.04 cents (equivalent to RMB3.27 cents) (2010: HK3.71 cents (equivalent to RMB3.12 cents)) per ordinary share (note (ii))	**20,356**	19,417
	20,356	25,054

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

	2011	2010
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK3.71 cents (equivalent to approximately RMB3.08 cents) (note (i))	**19,206**	26,400

i) The amounts of interim dividend of RMB5,637,000 during the year ended 31 December 2010 and final dividend of RMB26,400,000 in respect of the financial year ended 31 December 2009, approved and paid during the year ended 31 December 2010, 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 were not presented in these consolidated financial statements as it was not indicative of the future dividend policy of the Company.

(ii) The final dividend of HK4.04 cents (equivalent to approximately RMB3.27 cents) (2010: HK3.71 cents (equivalent to RMB3.12 cents) per share proposed after 31 December 2011 is subject to approval by the Company's shareholders in the annual general meeting. The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

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 RMB51,031,000 and the weighted average number of 622,500,000 ordinary shares.

During the year ended 31 December 2010, the calculation of basic earnings per share is based on the net 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 ended 31 December 2010.

Weighted average number of ordinary shares

	Number of shares	
	2011	2010
	'000	*'000*
Issued ordinary shares at 1 January	**622,500**	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	**622,500**	467,116

The exercise of warrants of the Company had anti-dilutive effect during the year. There were no potential dilutive ordinary shares in issue during the year ended 31 December 2010. The diluted earnings per share is same as the basic earnings per share for both years accordingly.

10. JOINTLY CONTROLLED ENTITY

At 31 December 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 31 December	
	2011	2010
	RMB'000	*RMB'000*
Non-current assets	**7,199**	4,811
Current assets	**25,033**	22,921
Current liabilities	**(13,798)**	(17,302)
Net assets	**18,434**	10,430

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Income	**81,420**	76,916
Expenses	**(70,953)**	(69,533)
Profit before taxation	**10,467**	7,383
Income tax	**(2,463)**	(1,526)
Profit for the year	**8,004**	5,857
Other comprehensive income	**—**	—

	2011	2010
	RMB'000	*RMB'000*
Share of the jointly controlled entity's capital commitments as at 31 December 2011:		
Contracted but not provided for:		
Capital expenditure for construction of office premise and warehouse	**16,590**	11,571

11. DEPOSIT PAID FOR PROPERTY, PLANT AND EQUIPMENT

During the year, the Group and an independent third party ("the Vendor") entered into an agreement and a supplementary agreement ("the Agreements"), pursuant to which the Group agreed to acquire and the Vendor agreed to sell certain properties ("the Properties") in Shenzhen, in the PRC. The Properties are to be constructed by the Vendor and will be delivered to the Group before September 2013 and used as the Group's office. The proposed consideration is RMB75,000,000 which is subject to adjustment when the details of the Properties are fixed. The Group paid deposit of RMB10,000,000 during the year. Subsequent to the end of the reporting period, the Group paid further deposit of RMB20,000,000 (note 17).

12. TRADE AND OTHER RECEIVABLES

	2011	2010
	RMB'000	RMB'000
Trade and bills receivables (notes (b) to (e))	**303,221**	208,194
Less: Allowance for doubtful debts (note (c))	**(3,908)**	(2,840)
	299,313	205,354
Other receivables	**4,928**	6,627
Loans and receivables	**304,241**	211,981
Derivative financial instruments	**—**	2,129
Prepayments	**9,199**	5,657
Trade and other deposits	**996**	3,158
Trade deposit to a related party (note 15(b))	**14,596**	—
	329,032	222,925

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:

	2011	2010
	RMB'000	*RMB'000*
0-90 days	**274,741**	156,996
91-180 days	**21,110**	48,358
181-365 days	**1,544**	—
More than 1 year	**1,918**	—
	299,313	205,354

The Group generally granted credit terms ranging from 30 days to 90 days to its customers during the years ended 31 December 2011 and 2010, 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 term within 90 days (2010: 12 months) were granted during the year.

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

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:

	2011	2010
	RMB'000	*RMB'000*
At 1 January	**2,840**	2,779
Impairment losses recognised (note 6 (c))	**1,150**	268
Uncollectible amounts written off	**(17)**	(207)
Impairment losses reversed (note 6 (c))	**(65)**	—
At 31 December	**3,908**	2,840

As at 31 December 2011, the Group's trade and bills receivables of RMB3,908,000 (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 RMB3,908,000 (2010: RMB2,840,000) were recognised as at 31 December 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:

	2011	2010
	RMB'000	*RMB'000*
Neither past due nor impaired	**274,741**	184,326
Past due but not impaired		
— 91 -180 days	**21,110**	21,028
— 181 - 365 days	**1,544**	—
— More than 1 year	**1,918**	—
	24,572	21,028
	299,313	205,354

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 RMB68,586,000 (2010: RMB15,800,000) as at 31 December 2011 were pledged to banks for bank loans and banking facilities granted to the Group.

13. TRADE AND OTHER PAYABLES

	2011	2010
	RMB'000	RMB'000
Trade and bills payables (notes (b) and (c))	**120,901**	134,137
Accruals	**3,132**	2,559
Other payables	**21,762**	16,105
Financial liabilities measured at amortised cost	**145,795**	152,801
Trade deposits received	**11,529**	12,716
Receipts in advance	**—**	2,976
	157,324	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 during the year.

	2011	2010
	RMB'000	*RMB'000*
0-90 days	**112,409**	130,108
91-180 days	**8,492**	1,690
181-365 days	**—**	2,339
	120,901	134,137

c) Bills payables of RMB8,492,000 (2010: RMB7,093,000) as at 31 December 2011 were pledged by the Group's bank deposits.

14. CAPITAL COMMITMENTS

Save as disclosed in note 10, the Group had the following capital commitments as at 31 December 2011:

	2011	2010
	RMB'000	*RMB'000*
Contracted but not provided for		
- property, plant and equipment	**65,000**	—

15. 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
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")	Indirect wholly owned by both Mr. Zhao and Ms. Chan

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:

	Note	**2011**	2010
		RMB'000	*RMB'000*
Purchases of goods			
SZ Kingworld Lifeshine	(i)	**19,848**	7,769
Yuen Tai	(i)	**392**	—
		20,240	7,769
Rental expenses			
SZ Industry	(i)	**723**	549

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 years ended 31 December 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:

	Note	**2011**	2010
		RMB'000	*RMB'000*
Staff costs			
SH Industry	(ii)	—	117

Amounts due from/(to) related parties

	Note	Outstanding balance 2011 RMB'000	Outstanding balance 2010 RMB'000	Maximum outstanding balance 2011 RMB'000	Maximum outstanding balance 2010 RMB'000
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
Trade deposit		**14,596**	—	**—**	—
SZ Industry					
Other receivable	(iii)	**—**	—	**—**	18,800
Jinbaoli					
Other receivable		**—**	—	**—**	35,234
Trade deposit included in trade and other receivables (note 12)	(iv)	**14,596**	—		

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) The amount is unsecured and interest-free and will be set-off against the Group's purchases from the related party in next twelve months after the end of reporting period.

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 personnel remuneration:

Remuneration for key management personnel, including amounts paid to the Company's directors and certain of the highest paid employees, is as follows:

	2011	2010
	RMB'000	*RMB'000*
Salaries, allowances and other benefits	**5,599**	3,907
Discretionary bonus	**772**	2,347
Contributions to defined contribution retirement plan	**262**	300
	6,633	6,554

16. IMMEDIATE AND ULTIMATE HOLDING COMPANY

The Company's directors consider the immediate and ultimate holding company of the Company as at 31 December 2011 to be Golden Land International Limited, a company incorporated in the BVI.

17. EVENT AFTER REPORTING PERIOD

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

As detailed in note 11, the Group paid further deposit of RMB20,000,000 for the proposed acquisition of the Properties subsequent to the end of the reporting period and up to the date of approval of this announcement pursuant to the Agreements.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review

1. **Frequent price reductions of drugs dominating the development trend of the pharmaceutical industry**

   The National Development and Reform Committee has implemented a total of 28 price reductions with respect to national priced drugs since 1998. Moreover, the bid-winning prices for the tender of essential drugs and general medical insurance decreased significantly in the past two years. Judging from the impact brought by drugs price reductions, those pharmaceutical enterprises that are mainly engaged in prescription drugs faced enormous pressure and challenges on their results.

   The majority of the Group's products sold are over-the-counter drugs ("OTC drugs"), which were less affected by the drug price reductions. Compared with prescription drugs, the use of OTC drugs in medical treatment is safer and more developed, and the term for treatment with OTC drugs is generally longer. However, there is relatively little room for further reduction in the price of OTC drugs as their sales processes are relatively short with lower profit margin. Furthermore, the sales processes of OTC drugs are more transparent and in compliance with the requirements of industry policies.

2. **Rapid Expansion of OTC Market Attracts Market Attention**

   As disclosed in Chinese OTC Industry Development Blue Book (2011), the market size of OTC drugs in China increased nearly five-fold to RMB120.95 billion in 2009 from RMB25.3 billion in 2000. The size of OTC drugs sales at hospitals in 2009 amounted to RMB48.71 billion whilst the retail sales size reached RMB72.24 billion, representing approximately 60% of the total market size of OTC drugs sales.

   With the growing understanding and knowledge in healthcare and the changing attitudes towards well-being, consumers are more willing to take self-medication for self-diagnosed minor diseases and for prevention and rehabilitation of chronic diseases. It is expected in the market that the market size of OTC drugs sales will reach RMB192.3 billion (approximately US28.7 billion) in China by 2014. As such, the OTC drugs market in China has broad potentials and prospects. With the further expansion of the OTC drugs market, the Group's OTC drugs products will be directly benefitted.

3. **Frequent occurrence of drugs safety incidents in Mainland China resulting in consumers' preference for products imported from overseas**

   During the recent years, a number of incidents on the safety of food and drugs occurred in Mainland China. Consumers have lost their faith in products produced in Mainland China, and turned to consumer products imported from overseas where more stringent market regulations apply, in particular those well-known products with long history are becoming the preferences of consumers. The Group sells products that match with this consumption trend, and introduces to the public quality and well-known health and well-being products from overseas which has brought huge potential of development to the Group.

4. **Medicines to relieve cough and sputum symptoms has become indispensable consumer products due to the yearly incremental increase in the number of patients suffering from respiratory diseases**

   According to the statistics from the health authorities of China, there are more than 300 million people in China suffering from diseases in respiratory system each year. Of which more than 50 million people suffered from coughing. Moreover, the percentage of people suffering from coughing was higher in certain areas that are more economically developed. There were more than 190 million people living in the urban and rural area suffering from asthma, bronchitis, tuberculosis and coughing caused by flu, whilst approximately 16% of those having the above symptoms were suffering coughing. Particularly, the possibility of suffering from upper respiratory tract infection symptoms is increasing due to the increase in the number of cars in urban city, which directly causes severe dust haze in the air.

   At present, there are more than 100 brands of medicines for relieving cough and sputum symptoms, more than 60% of which are produced from prescriptions with Chinese medicines that have absolute advantage in the market. Amongst the Chinese medicines for relieving cough and sputum symptoms, "cough syrup" is the most popular one, while 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 maintains a leading position in the category of relieving cough and sputum symptoms.

Business Review

1. **To further enhance the market share upon relatively faster growth in sales of products with competitive edge**

   During the Year Under Review, the Group realigned its strategy for the wholesale customers, rationalized the distribution channels, minimized price reductions and expanded its coverage in the second and third tier cities. The sales of Nim Jiom Pei Pa Koa, our leading product, were increased. 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 marketing and promotional efforts devoted, which significantly improved our market penetration rate. As at 31 December 2011, the sales of Nim Jiom Pei Pa Koa (念慈庵枇杷膏) increased by 14.5% as compared with the same period in 2010.

   Taiko Seirogan (喇叭牌正露丸) is one of popular products distributed by the Group, which achieved amicable growth during the Year Under Review. The Group obtained remarkable results in the sales of Taiko Seirogan through the integration of channels at Guangdong and Fujian, product sales advertisements and coverage on third party end users as well as the implementation of a series of promotional activities to enhance its brand name. During the Year Under Review, a relatively rapid growth was recorded for the sales of Taiko Seirogan, amounting to RMB56,782,000 and representing an increase of 37.4% as compared with the same period in 2010.

   Imada Red Flower Oil (依馬打正紅花油) is another emerging star product actively launched by the Group into the market. This product was well received by consumers in certain regions as a result of its product quality, luscious raw materials, and good effectiveness in treatment. Moreover, the Group adopted effective sales strategies during the Year Under Review, and elevated the motivation of distributors at different levels. Apart from the customers' recognitions, this product has already become a well-known brand and recorded rapid growth within a short period of time after it was launched into the market. As at 31 December 2011, the increase in the sales of Imada Red Flower Oil was outstanding and amounted to RMB29,252,000, representing an increase of 163.5% as compared with the same period in 2010.

As to Flying Eagle Wood Lok Medicated Oil (飛鷹活絡油), which is another main stream product of the Group, the Group has been applying for the renewal for the import registration licence that was expired in December 2010. Furthermore, the manufacturer of such product conducted its upgrade of Good Manufacturing Practice ("GMP") since the middle of 2011. Hence, the sales of Flying Eagle Wood Lok Medicated Oil for 2011 were affected to a certain extent. With the approval obtained for the import registration licence and the GMP production facilities, it is believed that the sales of Flying Eagle Wood Lok Medicated Oil will soon recover and will gain further growth. In addition, the import of Kawai Liver Oil Drop (可愛的肝油丸), another product of the Group, was still temporarily suspended in 2011 due to the disastrous earthquake in Japan and China banning the import of foodstuff from 12 counties and cities in Japan. As the sales of liver oil drop only accounted for about 3.3% of the Group's sales, the effect of suspension on the sales of the Group was minimal.

2. **To lay a concrete foundation of the network upon expanding the distribution channels**

During the Year Under Review, the Group conducted effective realignment and further improvement to its distribution network according to the nature of different markets on the basis of the "Penetrating Into Markets with Lowest Coverage". Our performance in acting as an agent for renowned brands was recognized in the market, making us being considered as an renowned agent. The Group augmented the rationalization, development and administration of distributors at the second level through orderly architecture and deployment of channels, and expanded our coverage and market share for various products. At the same time, the Group consolidated its distribution network by increasing the number of display booths under the name of "Kingworld Health Family" (金活健康之家), enriching the product mix and creating a favourable spending environment. The close cooperation relationship with the distributors and the pharmaceutical retailers improved accordingly.

During the Year Under Review, the Group also began selling on the Internet platform through cooperation initiatives with distributors. The Group also explored a new channel, and tapped into particular state-owned enterprises in China, such as banking, taxation and public transportation groups as well as business and military units.

3. **To gear an effective driving force on sales with the continuous increase in the number of display booths**

The display booths under the name of "Kingworld Health Family" demonstrate the brand image of our products to the end-user consumers as well as a channel of interactive communication about the movements in the market. These booths have generated strong driving forces to sales. During the Year Under Review, the number of display booths at those end-user chain drug stores that have sales potential increased from 1,500 at the end of 2010 to approximately 3,000 to-date. At the same time, the Group had also established a number of flagship display booths under the name of "Kingworld Health Family" in selected 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 and establish a well-developed and stable channel for our products**

The competitive edge of the Group is an extensive and well-developed channel of distribution network, which is considerably unique in this industry. As at 31 December 2011, the Group had 243 primary distributor customers with strong competence, 420 sub-distributor customers and over 50,000 key retail stores. Most of our customers in China have their own large end-user distribution network.

In order to strengthen the end-user network, the Group is identifying acquisition targets among drug distributors that are in leading position in their respective regions. Such distributors are mainly located in the eastern and southern parts, central and western parts as well as in the coastal regions of China where consumers have higher spending power. The Group also maintains close cooperation with its distributors in formulating sales and marketing strategies and in carrying out promotional activities. This will enhance the recognition and market share of our products.

Management Review

1. **To focus on sustainable future development and formulate strategic development plan**

   During the Year Under Review, the Group launched its third phase of strategic planning, and employed renowned strategy experts in the domestic pharmaceutical industry to make a medium-and long-term strategic development plan jointly with the Board of Directors and senior management of the Group. Through the implementation of the medium- and long-term development plan, The Group believes that its businesses, personnel, management, networks and brands will reach new heights and achieve substantial growth.

2. **Segmentation and fine management of regional sales market**

   During the Year Under Review, in order to strengthen the management of the sales team, implement various corporate sales policies, strengthen customer communication, and adjust the regional architecture of sales network, the Group further divided the original coverage of its three sales regions into four. In the meantime, the number of branch offices also increased from 34 in 2010 to 41 as at 31 December 2011. These endeavours enriched the maintenance, supervision and promotion of the end-user network.

3. **Headquarter office being included in the project of provision of affordable industrial premises**

   The Nanshan District Government of Shenzhen City has launched a project to provide affordable industrial premises for outstanding and innovative enterprises. Innovation Building, being the first project of such plan, held its foundation-laying ceremony in 2011. The building will accommodate the headquarter offices of 10 enterprises, including the Group. The construction is estimated to be completed in 2013. The Group believes that relocation to the new office premise allows the Group to use its resources in a more effective manner, so as to reorganise the internal structure of the headquarter and enhance its corporate image and standard of management.

4. **The Kingworld national distribution center was accredited**

During the Year Under Review, the Group successful developed the feasibility report of Kingworld national distribution center, and greatly enhanced the enforcement of the project. At present, the project has been approved by the relevant departments and the Group has signed an admission contract with the Qianhai authority of Shenzhen city. It is the belief of the Group that upon the completion of this project, the logistics and transportation services will be upgraded. The centre will play a more important role in the unitary distribution of the Group's products throughout China.

Honor

During the Year Under Review, the Group has received the following honors:

- In January 2011, Kingworld Medicine Healthcare Limited obtained a wholesaler license of proprietary Chinese medicine in Hong Kong;
- In March 2011, Shenzhen Kingworld Medicine Co. Ltd. was reelected as Top 100 Import Enterprises of 2010 Chinese Medicines and Health Products;
- In March 2011, Shenzhen Kingworld Medicine Co. Ltd. was rated as AAA enterprise by China Health Care Association (there are 5 companies with such rating in total nationwide, and only one company in Guangdong Province);
- In July 2011, Kingworld Medicines Group received Community Honor Award at the Hong Kong Community Chest Anniversary Award Ceremony;
- In August 2011, Shenzhen Kingworld Medicine Co. Ltd. was authorized as "the only designated health products" at the Boao Forum for Asia;
- In August 2011, Shenzhen Kingworld Medicine Co. Ltd. was appointed as an executive member of the GuangDong Health Care Industry Association;
- In August 2011, Zhao Lisheng, the Chairman of the Board, was selected as a Green Torch Bearer at the 2011 World University Games;
- In November 2011, Shenzhen Kingworld Medicine Co. Ltd. was named 2011 Outstanding Partner for Succhi Pharmaceutical Group;
- In December 2011, Shenzhen Kingworld Medicine Co. Ltd. was named "2011 Outstanding Businesses in Hong Kong" by Hong Kong Economic Digest Magazine;
- In December 2011, Shenzhen Kingworld Medicine Co. Ltd. was named Key Taxpaying Enterprise by Luohu District of Shenzhen City;

Financial Review

1. **Turnover**

Turnover of the Group for the Year Under Review was approximately RMB685,562,000, representing an increase of approximately RMB47,516,000, or 7.4% compared to approximately RMB638,046,000 for the year ended 31 December 2010. The increase was mainly because of an increase in sales of Nin Jiom (京都念慈菴) product line, Taiko Seirogan (喇叭牌正露丸) product line and Imada Red Flower Oil (依馬打正紅花油) product line. The year-on-year growth for these three products were 14.5%, 37.4% and 163.5% respectively. This is due to reinforced promotion for these 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 Taiko Seirogan; and to increase the product display booth for Imada Red Flower Oil.

2. **Cost of sales**

For the Year Under Review, cost of sales for the Group amounted to approximately RMB524,730,000, increased by approximately RMB26,831,000 or 5.4% when compared to approximately RMB497,899,000 for the year ended 31 December 2010. The increase in cost of sales is consistent with the increase in turnover. Gross profit ratio increased from 22.0% for the year ended 31 December 2010 to 23.5% for the Year Under Review, which was primarily attributable to an increase in sale of products with a higher gross profit ratio, (especially Taiko Seirogan and Imada Red Flower Oil.)

3. **Other revenue**

Other revenue mainly included rental income, commission income and interest income. For the Year Under Review, other revenues amounted to approximately RMB6,012,000, decreased by approximately RMB2,671,000 or 30.8% when compared to approximately RMB8,683,000 for the year ended 31 December 2010. This decrease was mainly due to the decrease in interest income of approximately RMB2,664,000 as a result of the decrease in pledged bank deposits and there was a government grant of RMB2,000,000 in last year 2010.

4. **Other net income**

Other net income is mainly comprised of net foreign exchange gain. For the Year Under Review, other net income amounted to approximately RMB11,257,000, increased by approximately RMB7,593,000 or 207.2% when compared to approximately RMB3,664,000 for the year ended 31 December 2010. This increase was mainly caused by an increase in net foreign exchange gain as a result of the appreciation of Renminbi.

5. **Selling and distribution costs**

For the Year Under Review, selling and distribution costs amounted to approximately RMB70,900,000, increased by approximately RMB6,039,000 or 9.3% when compared to approximately RMB64,861,000 for the year ended 31 December 2010. This increase was primarily attributable to an increase in advertising costs and salaries by RMB6,335,000 and RMB4,547,000 respectively. To maximize the impact from the recovery of Chinese economy from the global financial crisis, we have upgraded our sales and marketing team and launched more advertising, marketing and promotional activities during the Year Under Review.

6. **Administrative expenses**

For the Year Under Review, administrative expenses amounted to approximately RMB37,695,000, increased by approximately RMB12,222,000 or 48.0% when compared to approximately RMB25,473,000 for the year ended 31 December 2010. This increase was mainly due to an increase in rental expenses by approximately RMB1,263,000, an increase in administrative staff costs by approximately RMB1,914,000 and an increase in legal and professional fees by approximately RMB3,953,000 resulting from increased public company reporting costs and advisory services on legal and financial reporting.

7. **Profit from operations**

For the Year Under Review, profit from operations for the Group amounted to approximately RMB78,506,000, increased by approximately RMB12,132,000 or 18.3% when compared to approximately RMB66,374,000 for the year ended 31 December 2010. Increase in profit from operations was mainly due to an increase in turnover and gross profit for the Year Under Review.

8. **Finance costs**

For the Year Under Review, finance costs amounted to approximately RMB4,690,000, decreased by approximately RMB3,342,000 or 41.6% when compared to approximately RMB8,032,000 for the year ended 31 December 2010. The decrease was mainly due to the decrease in bank loan interest as the total bank loans decreased from approximately RMB197,846,000 as at 31 December 2010 to approximately RMB47,168,000 as at 31 December 2011.

9. **Profit before taxation**

For the Year Under Review, profit before taxation for the Group amounted to approximately RMB73,816,000, increased by approximately RMB15,492,000 or 26.6% when compared to approximately RMB58,342,000 for the year ended 31 December 2010. Increase in profit before taxation was mainly due to an increase in turnover and gross profit for the Year Under Review.

10. **Income tax expenses**

For the Year Under Review, income tax expenses for the Group amounted to approximately RMB22,785,000, increased by approximately RMB7,306,000 or 47.2% when compared to approximately RMB15,479,000 for the year ended 31 December 2010. This increase was mainly due to an increase in profit before taxation and a rise in the actual tax rate. The effective tax rate for the Year Under Review was 30.9% when compared to 26.5% for the year ended 31 December 2010.

11. **Profit for the year**

For the Year Under Review, profit attributable to equity holders of the Company amounted to approximately RMB51,031,000, increased by approximately RMB8,168,000 or 19.1% when compared to approximately RMB42,863,000 for the year ended 31 December 2010.

Analysis of Major Balance Sheet Items

1. **Trade and other receivables**

   Trade and bills 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 2011 amounted to RMB329,032,000, increased by RMB106,107,000 when compared to trade and other receivables as at 31 December 2010 amounted to RMB222,925,000. 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 2011, trade receivables and bills receivables of the Group amounted to approximately RMB86,020,000 and RMB213,293,000 respectively, representing a decrease of RMB30,057,000 and an increase of RMB124,016,000 respectively when compared to trade receivables and bills receivables of the Group amounted to approximately RMB116,077,000 and RMB89,277,000 as at 31 December 2010 respectively. One of the reasons for the decrease in trade receivables was that the credit terms for Flying Eagle Wood Lok Medicated Oil was reduced from 12 months in 2010 to 3 months in 2011.

2. **Inventories**

   As at 31 December 2011, inventories owned by the Group amounted to approximately RMB49,140,000, representing a deduction of RMB10,177,000 or 17.2% when compared to inventories amounted to RMB59,317,000 as at 31 December 2010. 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 43 days in 2010 to 34 days in 2011.

3. **Properties, plants and equipment**

   Properties, plants and equipment owned by the Group include properties, leasehold improvements, furniture and equipment, motor vehicles and construction in progress. As at 31 December 2011, the book value of properties, plants and equipment owned by the Group amounted to approximately RMB8,943,000, showing an increase of RMB4,512,000 or 101.8% when compared to that of RMB4,431,000 as at 31 December 2010. Increase in properties, plants and equipment was mainly due to purchase of leasehold improvements, motor vehicles and construction in progress projects during the Year Under Review.

4. **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 2011, trade and other payables owned by the Group amounted to approximately RMB157,324,000, representing a reduction of RMB11,169,000 or 6.6% when compared to that of RMB168,493,000 as at 31 December 2010.Reduction of trade and other payables was mainly due to a reduction of trade and bills payables which reduced from approximately RMB134,137,000 as at 31 December 2010 to approximately RMB120,901,000 as at 31 December 2011.

Cash Flow

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.

1. **Net cash used in/generated from operating activities**

The Group's cash inflow from operations primarily derives from receipts for the sale of the Group's products. For the Year Under Review, the Group's net cash outflow used in operating activities amounted to RMB53,326,000, while the net cash inflow generated from operating activities for the year ended 31 December 2010 was RMB13,416,000. The decrease was primarily due to the increase in trade and other receivables balance of approximately RMB107,258,000.

2. **Net cash used in/generated from investing activities**

The Group's net cash outflow used in investing activities amounted to RMB14,421,000 for the Year Under Review, while the net cash inflow generated from investing activities was RMB3,177,000 for the year ended 31 December 2010. The decrease is mainly due to the payment for the purchase of and deposit for fixed assets amounted to RMB6,623,000 and RMB10,000,000 for the Year Under Review respectively.

3. **Net cash used in/generated from financing activities**

The Group's net cash outflow used in financing activities amounted to RMB52,291,000 for the Year Under Review, while the net cash inflow generated from financing activities was RMB172,084,000 for the year ended31 December 2010. The decrease was primarily due to proceeds from shares issued upon placing and public offering of RMB206,135,000 in last year which was not recurred in the Year Under Review.

Capital Structure

1. **Indebtedness**

   All the borrowings of the Group as at 31 December 2011 was RMB47,168,000, which will be due within one year. For the Year Under Review, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

2. **Gearing ratio**

   As at 31 December 2011, the Group's gearing ratio was 7.6% (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.

3. **Pledge of assets**

   As at 31 December 2011, the Group has pledged assets of bills receivables and bank deposits to the bank in the total amount of approximately RMB78,476,000 (31 December 2010: RMB147,673,000).

4. **Capital expenditure**

   The capital expenditures of the Group primarily included purchases and deposit of plant and equipment, leasehold improvements and purchases of motor vehicles. The Group's total capital expenditures amounted to RMB16,623,000 and RMB1,685,000 for the year ended 31 December 2011 and 2010 respectively.

5. **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.

Liquidity and Capital Resources

The Group has met its working capital needs mainly through cash generated from operations and various short-term bank borrowings. For the Year Under Review, the effective interest rate for (i) fixed rate loans was 6.7% - 12.9% and (ii) variable rate loans was 4.9%. Taking into account the cash flow generated from operations and the bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this announcement.

As at 31 December 2011, the Group had cash and cash equivalents of RMB141,041,000 mainly generated from operations of the Group and funds raised from the listing of the shares of the Company in November 2010.

FUTURE OUTLOOK

As China's macro-economy continued to perform well, new medical reform gradually took shape, and the "Twelve Five-Year Plan" was further implemented; the pharmaceuticals industry in China offered immense marketing development opportunities. The Group has formed a special project team with strategic consulting experts in the industry who, through research and analysis on internal and external factors and future consumer trends, devised the Group's mid- to long-term development strategy for the next 5-year. Following this strategy, the Group will take full benefit of its branding and network advantages; fully exploiting the opportunities brought on by the industry's development and the Group's healthy development combined. The Group will adopt the following future development strategies:

Business Strategy

1. **Active market development, continue to increase market share of key products**

   China is a vast country, with differing levels of economic development. Although the Group's Nin Jiom Chuan Bei Pei Pa Koa (京都念慈菴川貝枇杷膏) remained the most popular brand of our cough relieving product category, market penetration in some of the second and third tier cities were still relatively low, and thus still have room for further development. In the meantime, the Group will devote efforts to expand sales from the development of the hospital market in Shanghai, Hangzhou, Ningbo, Xi'an, Nanchang and Nanjing as well as the grooming of emerging markets in consumption.

Although two of the Group's mainstream products such as Taiko Seirogan and Imada Red Flower Oil achieved faster sales growth and successfully completed their sales target in 2011, market share of both products were still limited. Therefore, in addition of using established sales distribution channels to increase sales, the Group will continue to develop business with large enterprises and expand mass buying business in order to increase product sales. At the same time, the Group plans to formulate strategies to explore untapped markets and markets with low sales by adopting new product combinations. These strategies will be beneficial for the continuing increase of the Group's market share.

2. **Expand the key product combination to form multi-support situation**

The Group continued to expand the market share of the Heart Tonic Kyushin Pills by increasing the numbers of franchises of the Kyushin Shops, as well as utilizing the network of nursing homes, clinics and government agency offices to develop a new client base for the Kyushin Pills, hence establishing the Kyushin Pills as another mainstream product for the Group.

On the other hand, the Group will continue to liaise with relevant government departments, and with the support of manufacturers, the Group will strive to obtain government approval to import the Kawai Liver Oil Drop so to speed up the application for import registration license. As the same time, the Group will also accelerate to obtain GMP inspection approval of Flying Eagle Wood Look Medicated Oil. It is believed that the reinstated production and sales of these two mainstream products would provide the Group with marked growth.

3. **Implement brand management of product line in order to enrich product portfolio**

The Group has always sought to expand its product lines by introducing products in line with corresponding areas of medical treatment. With regard to the Nin Jiom family of products, in addition to Nin Jiom Chuan Bei Pei Pa Koa (京都念慈菴川貝枇杷膏) and Nin Jiom Chuan Bei Pei Pa Cadies (京都念慈菴川貝枇杷糖), the Group has introduced a new product — Nin Jiom Chuan Bei Lingzhi Ginseng Koa (京都念慈菴靈芝洋蔘膏). Whereas for the influenza treatment brands, in addition to Gan Mao Qing Capsule, a new treatment for cold and influenza - Puji Anti-flu Granules (普濟抗感顆粒), will be introduced to the market in future, enhancing the variety and extensiveness of the Group's products.

4. **With the successful launch of the new Disney Band-Aid products, further enriching the patch product lines**

The Disney-franchised "Disney's Gold 100 Band-Aid" product line was officially launched during the Year Under Review. In order to ensure the marketing strategy of the product is effective and targeted, the Group created a project team with professional strategic companies especially for this product, in order to determine the creative directions of its strategy and develop new sales channel. The Group also planned to utilize the BOAO Forum for Asia as a platform to boost the Group's corporate image as well as product reputation, thus promoting the sales of its products. Moreover, the Group will continue to use its best endeavor on the preliminary research and planning work of the "Disney's Gold 100 Fever Patch" products.

5. **Forming Promotion Strategy for product mix with various retail chains, active involvement of "third party end-user" channels**

In accordance with the Outline for the Twelveth Five-Year Plan of the Development of Pharmaceuticals Industry with Distribution of Pharmaceuticals Covering Nationwide as published by the Ministry of Commerce of China, the state will support local influential retail chain terminal to increase chain drug stores distribution concentration. Thus, future chain stores will keep increasing market share of the OTC retail market, with the trend particularly more apparent in developed areas. At the same time, state-supported public policies on the rural medical market increased the medical insurance premium level for rural residents (increased from RMB80/person to RMB360/person), which brings vast opportunities that emerged from the rural retail market.

In order to seize the golden opportunities offered by these policies, the Group is concentrating its product portfolio resources on regional niche chains, with an aim to increase the Group's collective bargaining power with the chains by such reallocation of resources, thereby maximise sales and more favourable commerical terms.

Furthermore, the Group will fully utilize the resources provided by national policies by utilizing policy-led support together with the Group's dealership development, in order to enter the era of rural medical cooperation and rural retail distribution, so to achieve a highlight in our sales growth.

6. **Increase the quality of the "Kingworld Health Family" display booths, continue to expand existing terminal network**

The distribution network plays an essential role in the distribution of pharmaceuticals and healthcare products. The "Kingworld Health Family" display booths have always been a platform for the Group to showcase its products, raise brand recognition, and maintain customer communication while at the same time identifying customer demands; "Kingworld Health Family" display booths are the embodiment of the Group's branding.

In order to promote and boost its branding reputation, the Group has planed to increase the numbers of display booths from 3,000 by 1,000 to 4,000 booths in 2012. "Kingworld Health Family" promotes brand, trust, reliability, quality and health. The Group collaborated with world renowned advertising agency on branding strategy. Through the use of its product and the "Kingworld Health Family" display booths to publicize the Group's reputation, and the assimilation of the advertising campaign with the public, the Group has built closer connection with the customers and hence enhance their buying desire.

7. **Expand new sales channel and market, develop e-commerce sales model**

The Group achieved remarkable return in its group buying business in 2011. With this experience, the Group will diverse to other areas to increase its group buying business, as well as collaborating with other large enterprises to develop new sales and marketing channels.

In recent years, e-commerce has become more popular, with the number of online-consumers reaching over 400 million; the Internet has become a new channel for sales and marketing, and online-shopping is the latest trend. Through its distributor network, the Group successful launched its online business during the Year Under Review. The Group plans to enter into more in-depth partnership with well-known e-commerce platform in the future.

8. **Full-scale launch of new product in Hong Kong**

During the Year Under Review, the Group introduced organic dried milk from the United States and plan to be the first to launch sales in Hong Kong, while simultaneously introducing the product in Guangdong. Furthermore, Flying Eagle Wood Look Medicated Oil, Puji Anti-flu Granules and Fengbao Jiangfu Capsule were also authorised for sales in Hong Kong. These three products will be launched in Hong Kong simultaneously. As various products of the Group have gradually launched into the Greater China market, this will greatly increase the Group's product market share and reinforce its leading industry position.

9. **Set acquisition target development plan, implementing large-scale acquisition strategy**

Implementing substantial acquisition strategy is the Group's primary agenda. The Group has developed basic acquisition guidelines and strategy in order to carry out extensive and detailed selection of the multitudes of second-rated pharmaceutical distributors in Mainland China, as well as establishing acquisition target database and acquisition strategy development plan. The Group has commenced negotiations for mergers and acquisitions with distribution enterprises of high quality in full force. Such enterprises are equipped with good synergy effect, extensive end-under network and profound profitability. We will speed up the progress at suitable timing and pursue for substantial development in mergers and acquisitions.

Integrated Management

1. **Modify corporate structure and resource allocation in accordance with business development needs**

The Group will guide all employees towards a common direction and goal in order to achieve its sustainable development, increase competitiveness, establish upstanding corporate culture, core values and the Group's long-term goals. The Group will modify the existing corporate structure according to mid-term development strategic principles; fully exploit resources so that strategic goals can be incorporated into the annual plans, and lay foundation for the realization of mid-term development strategies.

2. **Optimize workflow to form systematic operating system and competitiveness**

Leveraging on the advantages currently enjoyed from the brand of Kingworld, the Group will optimize its operation and management system as well as staff structure. Sales and business models will be optimized so as to improve the product portfolio. The Group will conduct in-depth reform and innovation on its system that can adapt to its strategic development. Standardization in its management practices will be achieved, which will form an integrative operational capacity in sales and management. Operation efficiency will thus be enhanced and the sustainable development of the Group can be realized.

3. **Modify personnel structure to introduce professional talent of quality**

   Human resources is the most critical and decisive factor in corporate development. It is also one of the fundamental elements of corporate competitiveness. Thus, based on its human resources situation at present, the Group will introduce more talents into the organization to establish a professional team. This will improve the Group's internal human reserves, training and promotion mechanism. On the other hand, the Group will, create a management training and retaining mechanism through establishing and perfecting the staff appreisal system, in order to discover and cultivate a responsible and ethical management.

4. **Utilize information technology to increase management efficiency**

   As at 31 December 2011, the Group currently has 41 branch offices throughout China that implement various sales and marketing strategies, provides guidance to distributors or utilizes the distributors' sales force to generate sales. In order to improve the management capabilities and effectiveness of distributors, the SAP and GPS systems will be implemented in 2012 to adapt to the competitive marketing environment of an information technological society and network economics; the use of IT technology to improve efficiency and management standard will further enhance the Group's overall competitiveness.

5. **Continue to establish a nationwide dispatch centre by the Group**

   The Group has signed a letter of intent with the Shenzhen Qianhai Authority regarding the establishment of a Kingworld nationwide distribution centre. The Group will continue to further communicate and coordinate with relevant authorities in 2012 to procure speedy approval of the construction of the nationwide distribution centre in order to satisfy future demand for centralized distribution of pharmaceuticals in China.

HUMAN RESOURCES AND TRAINING

As at 31 December 2011, the Group had a total of 396 employees, of which 81 worked at the Group's headquarters in Shenzhen, and 315 stationed in 34 zones, mainly responsible for sales and marketing. Total staff cost for the Year Under Review amounted to approximately RMB25,388,000 (2010 : RMB25,408,000). 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 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.

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 Under Review of HK4.04 cents per share to shareholders whose names appear on the register of members of the Company on Thursday, 24 May 2012, amounting to approximately HK$25,149,000 subject to the approval from the Company's forthcoming annual general meeting to be held on Wednesday, 16 May 2012. Total dividend payout ratio is 40% of the profit for the year or 44% of the distributable profit of the Company, after deducting non-distributable statutory reserves for the year ended 31 December 2011 of RMB4,863,000. The above-mentioned final dividend is expected to be paid on or before Friday, 15 June 2012.

CLOSURE OF THE REGISTER OF MEMBERS

To be eligible to attend and vote in the coming annual general meeting

The register of members of the Company will be closed from Monday, 14 May 2012 to Wednesday, 16 May 2012 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for attending and voting at the forthcoming annual general meeting, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Tricor Investors Services Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration on or before 4:30 p.m. on Friday, 11 May 2012.

To qualify for the proposed final dividends

The register of members of the Company will be closed from Tuesday, 22 May 2012 to Thursday, 24 May 2012 (both days inclusive) during which period no transfer of Shares will be registered. To be qualified for receiving the proposed final dividend, all share transfer documents must be lodged with the Company's share registrar, Tricor Investors Services Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration on or before 4:30 p.m. on Monday, 21 May 2012.

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2011, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

For the Year Under Review, 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, after deduction of related expenses, was approximately HK$241,862,000 (equivalent to approximately RMB206,167,000). As at 31 December 2011, the Group had used net proceeds of approximately RMB23,600,000, of which RMB3,000,000 had been applied for expanding the product display booth scheme and RMB20,600,000 as working capital. The remaining net proceeds 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 31 December 2011, apart from sharing the capital commitment of the jointly controlled entity, Zhuhai Jinming Medicine Co., Ltd., amounted to approximately RMB16,590,000, the Group has capital commitment of RMB65,000,000 (2010: Nil).

SHARE OPTION SCHEME

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

As at 31 December 2011, no share option was granted based on the Share Option Scheme.

GOING CONCERN

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

PUBLIC FLOAT

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

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

During the Year Under Review, 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 Year Under Review, 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 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/her compliance with the Model Code during the Year Under

Review. 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 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, 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 Under Review, and agreed with the accounting treatment adopted by the Company.

DISCLOSURE OF INFORMATION

This 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 2011 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, 27 March 2012

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.