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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 2012

RESULTS HIGHLIGHTS

- Turnover decreased by 7.0% to approximately RMB337,166,000 (2011 : RMB362,552,000).
- Gross profit decreased by 1.9% to approximately RMB78,328,000 (2011 : RMB79,826,000).
- Gross profit margin reached 23.2%, representing an increase of 1.2% (2011 : 22.0%).
- Profit for the six months ended 30 June 2012 increased by 0.1% to approximately RMB19,667,000 (2011 : RMB19,647,000).
- Basic earnings per share maintained at approximately RMB3.16 cents (2011 : RMB3.16 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 2012 (the “Reporting Period”) together with the comparative figures for the six months ended 30 June 2011 with the selected notes as follows:

CONDENSED CONSOLIDATED INCOME STATEMENTS

For the six months ended 30 June 2012 — unaudited

(Expressed in Renminbi)

		Six months ended	
		30 June	
	<i>Note</i>	2012	2011
		RMB'000	RMB'000
Turnover	3	337,166	362,552
Cost of sales		<u>(258,838)</u>	<u>(282,726)</u>
Gross profit		78,328	79,826
Valuation gain on investment properties		2,000	—
Other revenue	4 (a)	3,161	2,377
Other net (loss)/income	4 (b)	(2,192)	3,426
Selling and distribution costs		(37,477)	(35,995)
Administrative expenses		<u>(18,950)</u>	<u>(18,393)</u>
Profit from operations		24,870	31,241
Finance costs	5 (a)	<u>(2,037)</u>	<u>(2,569)</u>
Profit before taxation	5	22,833	28,672
Income tax	6	<u>(3,166)</u>	<u>(9,025)</u>
Profit for the period		<u>19,667</u>	<u>19,647</u>
Attributable to:			
Owners of the Company		<u>19,667</u>	<u>19,647</u>
Earnings per share	8		
Basic (RMB cents)		<u>3.16</u>	<u>3.16</u>
Diluted (RMB cents)		<u>3.15</u>	<u>3.16</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012 — unaudited

(Expressed in Renminbi)

	Six months ended	
	30 June	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period	<u>19,667</u>	<u>19,647</u>
Other comprehensive income/(loss) for the period		
Exchange differences on translation of financial statements of foreign operations	529	(2,374)
Change in tax rate on deferred tax liabilities relating to property revaluation reserve	<u>(7)</u>	<u>—</u>
	<u>522</u>	<u>(2,374)</u>
Total comprehensive income for the period (net of tax)	<u>20,189</u>	<u>17,273</u>
Attributable to:		
Owners of the Company	<u>20,189</u>	<u>17,273</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012 — unaudited

(Expressed in Renminbi)

	<i>Note</i>	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Non-current assets			
Property, plant and equipment		14,999	8,943
Investment properties		70,600	68,600
Prepaid lease payments		3,763	3,804
Deposit paid for property, plant and equipment	9	<u>30,000</u>	<u>10,000</u>
		<u>119,362</u>	<u>91,347</u>
Current assets			
Inventories		49,091	49,140
Financial assets at fair value through profit or loss	10	3,000	—
Trade and other receivables	11	214,388	329,032
Pledged bank deposits		46,128	9,890
Cash and cash equivalents		<u>138,782</u>	<u>141,041</u>
		<u>451,389</u>	<u>529,103</u>
Current liabilities			
Trade and other payables	12	135,721	157,324
Bank loans		30,118	47,168
Current taxation		<u>5,815</u>	<u>12,841</u>
		<u>171,654</u>	<u>217,333</u>
Net current assets		<u>279,735</u>	<u>311,770</u>
Total assets less current liabilities		<u>399,097</u>	<u>403,117</u>
Non-current liabilities			
Deferred tax liabilities		<u>4,850</u>	<u>8,620</u>
NET ASSETS		<u>394,247</u>	<u>394,497</u>
CAPITAL AND RESERVES			
Share capital		53,468	53,468
Reserves		<u>340,779</u>	<u>341,029</u>
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		<u>394,247</u>	<u>394,497</u>

NOTES TO THE INTERIM RESULTS ANNOUNCEMENT

For the six months ended 30 June 2012 — unaudited
(Expressed in Renminbi)

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

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

The interim condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2012 annual financial statements. Details of these changes in accounting policies are set out in note 2.

Segment reporting

Operating segments, and the amounts of each segment item reported in the interim condensed consolidated 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 in the People’s Republic of China (the “PRC”). 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 2012 and 2011. 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 2012 and 2011. Accordingly, no analysis by geographical information is provided.

During the reporting period, there is no revenue from transactions with a single external customer amounted to 10% or more of the Group’s total revenue.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued new and revised Hong Kong Financial Reporting Standards (“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 interim condensed consolidated financial statements:

HKFRS 1 (Amendments)	Severe hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 (Amendments)	Financial Instruments: Disclosures - Transfer of Financial Assets
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets

The application of the new and revised HKFRSs had no effect on the interim 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	
	2012	2011
	<i>RMB’000</i>	<i>RMB’000</i>
Sales of		
— pharmaceutical products	314,199	348,881
— healthcare products	<u>22,967</u>	<u>13,671</u>
	<u>337,166</u>	<u>362,552</u>

4. OTHER REVENUE AND OTHER NET (LOSS)/INCOME

a) Other revenue

	Six months ended 30 June	
	2012	2011
	<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	388	1,232
Commission income	1,232	409
Gross rental income from investment properties	939	736
Others	<u>602</u>	<u>—</u>
	<u>3,161</u>	<u>2,377</u>

b) Other net (loss)/income

	Six months ended 30 June	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Net gain on financial assets at fair value through profit or loss	309	—
Net foreign exchange (loss)/gain	(2,501)	3,569
Net realised loss on forward foreign exchange contracts	—	(1,124)
Net unrealised gain on forward foreign exchange contracts	<u>—</u>	<u>981</u>
	<u>(2,192)</u>	<u>3,426</u>

5. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2012	2011
	<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	<u>2,037</u>	<u>2,569</u>
b) Other items		
Amortisation of prepaid lease payments	41	122
Auditors' remuneration	307	369
Cost of inventories	258,838	282,726
Depreciation	786	504
Impairment of other receivables	5	260
Impairment losses/(reversal of impairment loss) on trade receivables	70	(43)
Loss on disposal of fixed assets	18	10
Operating lease charges in respect of land and buildings	2,310	1,573
Write-down of inventories	—	1,589
Rental income from investment properties less direct outgoings of RMB198,000 (2011: RMB212,000)	<u>(741)</u>	<u>(524)</u>

6. INCOME TAX IN THE CONDENSED CONSOLIDATED INCOME STATEMENT

Income tax in the condensed consolidated income statement represents:

	Six months ended 30 June	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax — PRC income tax		
Provision for the period	6,897	7,548
Under-provision in prior year	<u>46</u>	<u>140</u>
	<u>6,943</u>	<u>7,688</u>
Deferred tax		
— current period	(3,945)	1,183
— attributable to a change in tax rate	<u>168</u>	<u>154</u>
	<u>(3,777)</u>	<u>1,337</u>
	<u>3,166</u>	<u>9,025</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 2012 and 2011.
- iii) The PRC income tax charge of the Group during the six months ended 30 June 2012 and 2011 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”).

During the six months ended 30 June 2012, SZ Kingworld and Zhuhai Jinming were subject to an income tax rate of 25%. 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 entitled to a transitional income tax rate of 24% during the six months ended 30 June 2011.

7. DIVIDENDS

- (a) The Company's directors do not recommend the payment of an interim dividend for the six months ended 30 June 2012 and 2011.
- (b) Dividends payable to owners of the Company attributable to the previous financial year, approved and paid during the reporting period:

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Final dividend in respect of the previous financial year ended, approved and paid during the reporting period, of HK4.04 cents (equivalent to approximately RMB3.28 cents) (2011: HK3.71 cents (equivalent to approximately RMB3.08 cents))	<u>20,439</u>	<u>19,206</u>

8. EARNINGS PER SHARE

(a) Basic earnings per share

During the six months ended 30 June 2012, the calculation of basic earnings per share is based on the profit attributable to owners of the Company of RMB19,667,000 (six months ended 30 June 2011: RMB19,647,000) and the weighted average number of 622,500,000 (six months ended 30 June 2011: 622,500,000) ordinary shares in issue.

(b) Diluted earnings per share

During the six months ended 30 June 2012, the calculation of diluted earnings per share is based on the profit attributable to owners of the Company of RMB19,667,000 (six months ended 30 June 2011: RMB19,647,000) and on the weighted average number of 624,853,000 (six months ended 30 June 2011: 622,500,000) ordinary shares in issue.

Weighted average number of ordinary shares (diluted):

	Number of shares	
	2012	2011
	'000	'000
Weighted average number of ordinary shares at 30 June	622,500	622,500
Adjustment for warrants	<u>2,353</u>	<u>—</u>
Weighted average number of ordinary shares (diluted) at 30 June	<u>624,853</u>	<u>622,500</u>

During the six months ended 30 June 2011, there was no potential dilutive ordinary shares in issues, the diluted earnings per share is same as the basic earnings per share.

9. DEPOSIT PAID FOR PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2011, 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 total deposits of RMB30,000,000 as at 30 June 2012 (31 December 2011: RMB10,000,000). Subsequent to the end of the reporting period, the Group paid further deposit of RMB15,000,000 (note 17(a)).

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The financial assets represent the short-term investments in a fund managed by a bank in the PRC. Subsequent to end of the reporting period, the Group realised the investments with net proceeds of RMB3,010,000 (note (17(b))).

11. TRADE AND OTHER RECEIVABLES

	At 30 June 2012 RMB’000	At 31 December 2011 RMB’000
Trade and bills receivables (notes (b) to (e))	197,289	303,221
Less: Allowance for doubtful debts (note (c))	<u>(3,978)</u>	<u>(3,908)</u>
	193,311	299,313
Other receivables	<u>5,501</u>	<u>4,928</u>
Loans and receivables	198,812	304,241
Prepayments	11,218	9,199
Trade and other deposits	1,214	996
Trade deposit to a related party	<u>3,144</u>	<u>14,596</u>
	<u>214,388</u>	<u>329,032</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. The Group generally granted credit terms ranging from 30 days to 90 days to its customers.

	At 30 June 2012 <i>RMB'000</i>	At 31 December 2011 <i>RMB'000</i>
0-90 days	157,273	274,741
91-180 days	30,711	21,110
181-365 days	4,585	1,544
More than 1 year	<u>742</u>	<u>1,918</u>
	<u>193,311</u>	<u>299,313</u>

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 2012 <i>RMB'000</i>	At 31 December 2011 <i>RMB'000</i>
At beginning of the reporting period	3,908	2,840
Impairment losses recognised	70	1,150
Uncollectible amounts written off	—	(17)
Impairment losses reversed	<u>—</u>	<u>(65)</u>
At end of the reporting period	<u>3,978</u>	<u>3,908</u>

As at 30 June 2012, the Group's trade receivables of RMB3,978,000 (31 December 2011: RMB3,908,000) 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 RMB3,978,000 (31 December 2011: RMB3,908,000) were recognised as at 30 June 2012. 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 2012 <i>RMB'000</i>	At 31 December 2011 <i>RMB'000</i>
Neither past due nor impaired	<u>157,273</u>	<u>274,741</u>
Past due but not impaired		
— 91 -180 days	30,711	21,110
— 181 - 365 days	4,585	1,544
— More than 1 year	<u>742</u>	<u>1,918</u>
	<u>36,038</u>	<u>24,572</u>
	<u>193,311</u>	<u>299,313</u>

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) As at 31 December 2011, bills receivables of RMB68,586,000 were pledged to banks for banking facilities granted to the Group (note 13).

12. TRADE AND OTHER PAYABLES

	At 30 June 2012 <i>RMB'000</i>	At 31 December 2011 <i>RMB'000</i>
Trade and bills payables (notes (b) and (c))	118,346	120,901
Accruals	2,486	3,132
Other payables	11,848	21,762
Amounts due to related parties	<u>451</u>	<u>—</u>
Financial liabilities measured at amortised cost	133,131	145,795
Trade deposits received	<u>2,590</u>	<u>11,529</u>
	<u>135,721</u>	<u>157,324</u>

- 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 2012 <i>RMB'000</i>	At 31 December 2011 <i>RMB'000</i>
0-90 days	118,346	112,409
91-180 days	<u>—</u>	<u>8,492</u>
	<u>118,346</u>	<u>120,901</u>

- c) As at 31 December 2011, bills payables of RMB8,492,000 were pledged by the Group's bank deposits (note 13).

13. PLEDGE OF ASSETS

The Group's assets with the following carrying amounts have been pledged to secure bills payables (note 12(c)), bank loans and banking facilities:

	At 30 June 2012 <i>RMB'000</i>	At 31 December 2011 <i>RMB'000</i>
Investment property	66,000	—
Land held under medium term lease	3,763	—
Bills receivables (note 11(e))	—	68,586
Pledged bank deposits	<u>46,128</u>	<u>9,890</u>
	<u>115,891</u>	<u>78,476</u>

14. JOINTLY CONTROLLED ENTITY

At 30 June 2012, 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 2012 <i>RMB'000</i>	At 31 December 2011 <i>RMB'000</i>
Non-current assets	13,705	7,199
Current assets	21,812	25,033
Current liabilities	<u>(13,309)</u>	<u>(13,798)</u>
Net assets	<u>22,208</u>	<u>18,434</u>
	Six months ended 30 June 2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Income	42,885	44,762
Expenses	<u>(37,820)</u>	<u>(39,013)</u>
Profit before taxation	5,065	5,749
Income tax	<u>(1,291)</u>	<u>(1,378)</u>
Profit for the period	<u>3,774</u>	<u>4,371</u>
Other comprehensive income	<u>—</u>	<u>—</u>
	At 30 June 2012 <i>RMB'000</i>	At 31 December 2011 <i>RMB'000</i>
Share of the jointly controlled entity's capital commitments at end of the reporting period:		
Contracted but not provided for:		
Capital expenditure for construction of office premise and warehouse	<u>9,974</u>	<u>16,590</u>

15. CAPITAL COMMITMENTS

Save as disclosed in note 14, the Group had the following capital commitments as at 30 June 2012:

	At 30 June 2012 <i>RMB'000</i>	At 31 December 2011 <i>RMB'000</i>
Contracted but not provided for purchase of property, plant and equipment	<u>45,000</u>	<u>65,000</u>

16. IMMEDIATE AND ULTIMATE HOLDING COMPANY

The Company's directors consider the immediate and ultimate holding company of the Company as at 30 June 2012 to be Golden Land International Limited, a company incorporated in the BVI.

17. EVENTS AFTER REPORTING PERIOD

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

- (a) As detailed in note 9, the Group paid further deposit of RMB15,000,000 for the proposed acquisition of the Properties subsequent to the end of the reporting period and up to the date of approval of the interim condensed consolidated financial statements pursuant to the Agreements.
- (b) In July 2012, the Group disposed of the short-term investments with the net proceeds of RMB3,010,000 (note 10).

MANAGEMENT DISCUSSION AND ANALYSIS

Market and Industry Review

During the first half of 2012, global economy remained sluggish and the European debts crisis was, in particular, ongoing. The economy of the international market preserved its downward moving trend. The economy in China was also subject to such downward moving risks. Since the investors and consumers in China worried about the dampening of the economy, investment and consumption fell and the growth of economy in China also began to slowdown. Furthermore, as the extent of fluctuation in the exchange rate of Renminbi continued to expand, evidences on depreciation were also noted. Enterprises engaging in import businesses in China faced an increase in costs. The stringent challenges in the slowdown of economy within and outside China in principle brought pressure to the operation of the Group, and created more adverse impacts.

During the first half of this year, the overall pharmaceutical industry in China remained steady. On the one hand, the scale of growth in the pharmaceutical manufacturing industry maintained, but the rate of growth began to fall. For the four months ended 30 April 2012, the growth in revenue from the pharmaceutical manufacturing industry was 21% more than the corresponding period last year, which was less than the rate of 23% for the first quarter of this year. During the same period, the total revenue of the pharmaceutical manufacturing industry reached RMB47 billion, representing an increase of 16% from the corresponding period last year, which was the same growth rate as recorded in the first quarter this year. The gross profit margin reached 29.5% on a cumulative basis for the first four months of 2012, which was 1 percentage point higher than 28.5% for the full year of 2011. On the other hand, a stable growth was still recorded at the retail end-user market. The total scale of the retail pharmaceutical market grew by approximately 13.85% from January to April this year. It is expected that the growth will reach 14% for the first half of this year.

Despite the challenges faced by the pharmaceutical industry, there were some better moves which brought sound development opportunities to the Group. The products distributed by the Group are over-the-counter drugs that enjoy a long history of development within and outside China. These products are mainly sold through the retail outlets. Hence, the growth of the retail market is very favourable to the growth of the Group. Recently, the State published the “Outline of Social Security Schemes during the 12th Five-Year Plan Period”, which announced the policy of claiming medical consultation expenses out of residential province. Such policy will systematically solve the issues about medical consultation expenses upon the urban migration. It is also expected that medical consumption will be triggered,

and will provide a powerful driving force to the long-term stable development of the Group's businesses. In addition, the individual poisonous capsules incident occurred during the first half of the year was affecting the pharmaceutical industry as a whole to a certain extent. Consumers become very concerned about the safety issues on pharmaceuticals manufactured in China. They are more willing to replace those pharmaceuticals by imported products. This trend is very favourable to Kingworld, which is engaged in the distribution of quality and well known pharmaceuticals imported from overseas, and creates more room for it to expand in the market.

Business Review

1. More efforts were devoted to expand the market, which consolidated the market share of products with competitive advantages

During the Reporting Period, the Group improved the coverage of the Nin Jiom family's products in the markets at the second and third tier cities, especially through the cooperation with retail chains at different regions. The coverage of Nin Jiom Mi Lian Chuan Bei Pei Pa Koa (京都念慈菴蜜煉川貝枇杷膏) in two specifications, namely 150ml and 300ml, were increased. At the same time, the Group also kicked off different forms of promotion activities, including cold drinks, to develop new consumer bases and product functions. The brand awareness and recognitions of Nin Jiom Mi Lian Chuan Bei Pei Pa Koa among the new consumer bases were enhanced. Being affected by consumer psychology, practices and tastes, as well as certain sales flowing to the community hospitals, the retail market for medicines to relieve cough and sputum recorded sales of RMB2.57 billion in the first quarter of 2012, representing a slight decrease from the corresponding period last year. For the six months ended 30 June 2012, the sales of Nin Jiom Mi Lian Chuan Bei Pei Pa Koa decreased by 8.8% as compared with the same period last year.

Kingworld Imada Red Flower Oil (金活依馬打正紅花油) is one of the Group's mainstream products. During the Reporting Period, the Group improved the cooperation with its distributors through the expansion of the coverage of this product and effective means. At the same time, a series of promotion activities targeting the consumers commenced so as to increase the brand equity. Outstanding and effective sales performances were achieved therefrom. For the six months ended 30 June 2012, the sales for Kingworld Imada Red Flower Oil recorded relatively rapid growth amounting to RMB16,515,000, representing a considerable increase of 32.3% as compared with the same period last year.

Nin Jiom Chuan Bei Pei Pa Candies (京都念慈菴川貝枇杷糖) in Nin Jiom family is another mainstream product of the Group, which shares the same brand of Nin Jiom. There was a significant increase in the demand for products to relieve cough and sputum in the market. Also, since the Group improved the display of that product at the end-user stores, with more customer-oriented marketing and promotion activities of different forms, a considerable growth in the sales of Nin Jiom Chuan Bei Pei Pa Candies was thus recorded. For the six months ended 30 June 2012, Nin Jiom Chuan Bei Pei Pa Candies achieved relatively rapid growth in sales amounting to RMB20,232,000, representing an increase of 61.9% as compared to the same period last year.

During the Reporting Period, other products being distributed by the Group, including Mentholatum (曼秀雷敦) product range and Taiko Seirogan (喇叭牌正露丸) also expanded their coverage and increased the promotion activities at the end-users retail outlets. However, being influenced by the slowdown in the growth of macro-economy, decrease in the consumption power and the medical insurance policies, their sales fell as compared with the same period last year. For the six months ended 30 June 2012, the sales of Mentholatum product range decreased by 52.4% as compared with the same period last year to RMB12,119,000, whilst the sales of Taiko Seirogan decreased by 2.6% to RMB28,925,000.

The Group is applying for the renewal of 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 that product for the first half of this year were affected to a certain extent. With the approval for the one-off importation of pharmaceutical products obtained by the Group, it is believed that the import for Flying Eagle Wood Lok Medicated Oil will resume and the product will be available for market in the second half of the year. 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 2.0% of the Group's total sales before the suspension in 2011, the effect of suspension on the sales of the Group as a whole was minimal.

2. New product, Disney Band-Aid (迪士尼創口貼), wins popularity with increasing sales

Disney Band-Aid is the Group's first attempt and breakthrough in the medical devices sector. During the Reporting Period, Disney Band-Aid was launched in various provinces and cities all over the China, and has been available for sale in a total of more than 1,000 end-user retail drug stores. Some of these drug stores further added their orders for several times, which reflected the consumers' recognition of the product, as well as a good synergy effect generated from the Disney brand. For the six months ended 30 June 2012, Disney Band-Aid recorded sales of RMB1,012,000.

3. To focus on the development of end-user retail outlets and thorough optimization to the Group's distribution network

During the Reporting Period, the Group further optimized its distribution network based on the geographical features and consumption pattern, which reinforced close relationship with the distributors and retail drug stores. The Group consolidated its nationwide network to a significant extent through implementing marketing strategies such as increasing the number of display booths, enriching the product mix and creating a favourable spending environment. This in turn supported the long-term sustainability of the Group's businesses.

In order to strengthen the promotion and marketing for the branded products under the Group, and to further enhance its corporate and brand image, the Group imposed stringent selection process in respect of the store location of the display booths of "Kingworld Health Family" (金活健康之家), and also conducted adjustment and optimization to the display booths in various provinces and cities all over the state. On the one hand, in the first half of the year, the Group mainly focused on analysing the store location, sales and display of the existing display booths. Display booths with store location, sales and display that were not meeting the expectations were closed and modified. On the other hand, the Group aimed at developing outlets with competitive edge and gradually enhancing cooperation with existing end-user stores that have substantial flow and promising single-store sales. The quality of promotion activities was therefore enhanced in order to increase product sales of the display booths in these stores. As of 30 June 2012, the Group's display booths under the name of "Kingworld Health Family" decreased by 16% as compared to the end of 2011. Currently, the total number of display booths reaches 2,515.

4. The customer base from primary distributors and secondary distributors was consolidated, and the channels of distribution network were optimized

The Group recognised the importance of optimal adjustment and dynamic management over different tiers of distributors so as to ensure substantial growth in sale. As of 30 June 2012, the Group had 238 primary distributors with strong competence in distribution activities, 568 secondary distributors and over 50,000 retail outlets under specific management. Most of the customers have an extensive distribution network of different tiers in China. In order to further enhance the end-user network, the Group is now in the process of identifying regional distributors as acquisition targets. Such distributors are mainly domestic enterprises based in regions in China that have higher spending power.

5. Approval of establishing a nationwide dispatch centre by Kingworld

During the Reporting Period, the feasibility study report for establishing a nationwide dispatch centre by Kingworld had already been approved by the relevant departments. However, since the construction project was placed under the Government's centralized management, it has not yet received necessary progress approval. It is expected by the Group that the approval to commence construction will be obtained in the second half of the year. This will further achieve efficient logistics and distribution management for the Group's branded products.

Financial Review

1. Turnover

Turnover of the Group for the six months ended 30 June 2012 amounted to approximately RMB337,166,000, representing a decrease of approximately RMB25,386,000 or 7.0% compared to approximately RMB362,552,000 for the six months ended 30 June 2011. The decrease was mainly as a result of the slowdown in China market for the medicines to relieve cough and sputum symptoms. During the Reporting Period, the sales of Nin Jiom Mi Lian Chuan Bei Pei Pa Koa decreased by 8.8% when compared to the same period last year. At the same time, the Group increased the number of sales counters for Kingworld Imada Red Flower Oil such that the sales volume of this product achieved a satisfactory growth. During the Reporting Period, the sales of Kingworld Imada Red Flower Oil reached approximately RMB16,515,000, increased substantially by 32.3% when compared to same period last year. Besides, the Group successfully launched two new product lines, Disney franchise "Disney Band-Aid" and other Nin Jiom Herbal Candy series (京都念慈菴其它糖類產品). During the Reporting Period, the sales of these two product lines was approximately RMB1,012,000 and RMB2,596,000, respectively.

2. Cost of sales

For the six months ended 30 June 2012, cost of sales for the Group amounted to approximately RMB258,838,000, decreased by approximately RMB23,888,000 or 8.4% when compared to approximately RMB282,726,000 for the six months ended 30 June 2011. The decrease in cost of sales was consistent with the decrease in turnover. Gross profit ratio increased from 22.0% for the six months ended 30 June 2011 to 23.2% for the six months ended 30 June 2012, which was mainly caused by the increase in sales of products with a higher gross profit ratio, such as Kingworld Imada Red Flower Oil.

3. Other revenue

Other revenue mainly included rental income, commission income and interest income. For the six months ended 30 June 2012, other revenues amounted to approximately RMB3,161,000, increased by approximately RMB784,000 or 32.9% when compared to approximately RMB2,377,000 for the six months ended 30 June 2011. This increase was mainly due to the increase in commission income.

4. Other net (loss)/income

Other net (loss)/income mainly comprised net foreign exchange (loss)/gain. For the six months ended 30 June 2012, other net loss amounted to approximately RMB(2,192,000), decreased by approximately RMB5,618,000 when compared to the other net income of approximately RMB3,426,000 for the six months ended 30 June 2011. This decrease was mainly caused by a substantial decrease in net foreign exchange gain.

5. Selling and distribution costs

For the six months ended 30 June 2012, selling and distribution costs amounted to approximately RMB37,477,000, increased by approximately RMB1,482,000 or 4.1% when compared to approximately RMB35,995,000 for the six months ended 30 June 2011. This increase was mainly due to an increase in salary of the sales staff by RMB1,083,000 or 16.1% from RMB6,734,000 for the six months period ended 30 June 2011 to RMB7,817,000 for the Reporting Period.

In order to further strengthen the leading position of the Group in the market, the sales and marketing team of the Group had conducted various advertising campaigns and promotion activities so as to capture the opportunities in market. During the Reporting Period, advertising and activities expenses amounted to approximately RMB9,832,000 which is close to the same period last year of approximately RMB11,529,000.

6. Administrative expenses

For the six months ended 30 June 2012, administrative expenses amounted to approximately RMB18,950,000, increased by approximately RMB557,000 or 3.0% when compared to approximately RMB18,393,000 for the six months ended 30 June 2011. This increase was mainly due to an increase in general office expenses of RMB485,000.

7. Profit from operations

For the six months ended 30 June 2012, profit from operations for the Group amounted to approximately RMB24,870,000, decreased by approximately RMB6,371,000 or 20.4% when compared to approximately RMB31,241,000 for the six months ended 30 June 2011. Decrease in profit from operations was mainly due to a decrease in turnover and other net income during the Reporting Period.

8. Finance costs

For the six months ended 30 June 2012, finance costs amounted to approximately RMB2,037,000, decreased by approximately RMB532,000 or 20.7% when compared to approximately RMB2,569,000 for the six months ended 30 June 2011. 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 2012, profit before taxation for the Group amounted to approximately RMB22,833,000, decreased by approximately RMB5,839,000 or 20.4% when compared to approximately RMB28,672,000 for the six months ended 30 June 2011. Decrease in profit before taxation was mainly due to a decrease in turnover and other net income during the Reporting Period.

10. Income tax expenses

For the six months ended 30 June 2012, income tax expenses for the Group amounted to approximately RMB3,166,000, substantially decreased by approximately RMB5,859,000 or 64.9% when compared to approximately RMB9,025,000 for the six months ended 30 June 2011. This decrease was mainly due to a decrease in profit before taxation and the reversal of provision for withholding tax in previous years of approximately RMB4,445,000. The effective tax rate, excluding the reversal of provision for withholding tax, during the Reporting Period was 33.3% when compared to 31.5% for the six months ended 30 June 2011.

11. Profit for the period

For the six months ended 30 June 2012, profit attributable to owners of the Company amounted to approximately RMB19,667,000, increased by approximately RMB20,000 or 0.1% when compared to approximately RMB19,647,000 for the six months ended 30 June 2011.

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 fixed rate loans was 4.4%. Taking into account the cash flow generated from operations and the bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least twelve months from the date of this announcement.

As at 30 June 2012, the Group had cash and cash equivalents of RMB138,782,000 mainly generated from operations of the Group and funds raised by the Company in November 2010.

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 RMB102,448,000, representing an increase of net cash generated from operating activities of RMB101,954,000 from RMB494,000 for the six months ended 30 June 2011. The increase was primarily due to the substantial decrease in the balance of trade and other receivables in the amount of approximately RMB114,644,000.

Net cash used in investing activities

The Group's net cash outflow used in investing activities amounted to RMB29,462,000 during the Reporting Period, representing an increase of RMB26,137,000 as compared with the cash outflow used in investing activities of RMB3,325,000 for the six months ended 30 June 2011. The increase is mainly due to the payment of deposit for the purchase of property, plant and equipment amounted to approximately RMB20,000,000 during the Reporting Period.

Net cash used in financing activities

The Group's net cash used in financing activities amounted to RMB75,764,000 during the Reporting Period, representing an increase of RMB32,459,000 as compared with net cash used in financing activities of RMB43,305,000 for the six months ended 30 June 2011. The increase was primarily due to repayment of bank borrowings, increase in pledged bank deposits and payment of dividends paid by the Group.

14. Capital structure

Indebtedness

All the borrowings of the Group as at 30 June 2012 was approximately RMB30,118,000, 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 2012, the Group's gearing ratio was 5.3% (31 December 2011: 7.6%), 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 2012, the Group has pledged assets of investment property, land held under medium term lease and bank deposits to the banks with the total carrying amount of approximately RMB115,891,000 (31 December 2011: RMB78,476,000).

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 RMB6,850,000 and RMB4,084,000 for the Reporting Period and the six months ended 30 June 2011 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 2012, 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 2012, 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 international economy is unpredictable. It is difficult to determine the future trend of the economy. Although the macro-economy in China remained stable, its growth began to slowdown. This had brought certain pressure to the pharmaceutical industry being supported by the state’s policies, in particular those in depth implementation of the new medical reform policies. Under the current circumstances, the Group will closely monitor the change of economic position and policies within and outside China under the direction of the stated strategies of the Company. We will capitalize on the opportunities and risks arising in the industry, and leverage on our own advantages in brands and network. As such, the Group has already formulated the following strategies for its future development:

1. To maintain and increase the market share of its products with advantages

Apart from maintaining the leading position of Nin Jiom Mi Lian Chuan Bei Pei Pa Koa at the market of medicines to relieve cough and sputum in terms of sales, the Group will continue to increase the penetration rate of distribution network and the coverage of products in different channels. Different forms of promotion activities will be commenced so as to increase the brand equity and sales, which will uphold the sound development for three of the Group’s mainstream products, namely Taiko Seirogan, Nin Jiom Chuan Bei Pei Pa Candies and Kingworld Imada Red Flower Oil. At the same time, the Group will also explore the strategy of bulk buying business through certain large state-owned

enterprises to enhance the sales of its mainstream products. Moreover, Flying Eagle Wood Lok Medicated Oil, another mainstream product of the Group, will also resume its sales in the second half of the year. It is expected that the revenue base of the Group will further enhance.

2. To continuously expand and enhance the sales of new products

During the second half of 2012, the Group will continue to devote its efforts in expanding the coverage of its new product, Disney Band-Aid. We will seek to add more displays at the cashier counters of end-user retail outlets and other places. At the same time, we will conduct customer-oriented activities to enhance the sales and brand equity, with an aim to breed Disney Band-Aid as a new mainstream product of the Group. This will in turn bring more affluent contribution to the revenue of the Group. In addition, the Group will also introduce drugs or health care products from a number of channels so as to satisfy the demands from consumers in China, and to steer the stable development of the Group's businesses in the long-term.

3. To continue exploring new channels and new markets for sales

During the recent years, e-Commerce became more popular. Internet has become an emerging channel for marketing purposes. However, as pharmaceuticals is a special product, there had been incidents occurred upon the safety issues of pharmaceuticals in China, the sales of pharmaceuticals through Internet is becoming more tightly regulated by the competent authorities. Therefore, the Group will engage in an experimental cooperation with e-Commerce companies holding licences to sell pharmaceuticals online, in order to explore the ways and models to establish e-Commerce sales.

4. To further increase the display booths of “Kingworld Health Family”

Distribution network is critical to the development of the Group's distribution businesses for pharmaceuticals and health care products. Apart from conducting sales of our new products through the display booths, the display booths of “Kingworld Health Family” have always been the platform of the Group to display its products, enhance the brand equity and reinforce communications with the consumers. In view of the above, the Group arranged regular visits by representatives to the end-users of display booths of “Kingworld Health Family” for maintenance purposes. We also plan to conduct marketing activities, including product advertisements, store promotions, products discounts, at these display booths so as to increase the consumers' desire in purchases. This will in turn increase the sales at the display booths. During the second half of the year,

the Group will strictly filter the locations of the display booths and expand their scale. It is planned that 1,485 new display booths will be added during the second half of the year, through which the total number of display booths will exceed 4,000.

Besides, in order to further enhance the brand image of the “Kingworld Health Family”, the Group has planned to launch advertising commercial during the hero programs of Phoenix TV Chanel and Shenzhen TV. At the same time, as summer is the peak season for our external-use medicated oil products, the Group will launch more than 900 various activities named “One Cool Summer” in different parks throughout the state so that more consumers can share the spirit of “Kingworld Health Family”.

5. To finalise the nationwide dispatch centre of Kingworld as soon as practicable

During the Reporting Period, the feasibility study report for establishing a nationwide dispatch centre by Kingworld had already been approved by the relevant departments. However, since the construction project was placed under the Government’s centralized management, it still needs necessary progress approval. Looking ahead in the second half of the year, the Group will continue to use its endeavours in communicating and coordinating with the relevant departments, with an aim to grant the necessary progress approval for the construction of a nationwide dispatch centre by Kingworld as soon as possible. The dispatch centre, once completed, can fulfill the Group’s demand in centralized dispatch of pharmaceuticals across different regions in China. It is expected that operation efficiency and scale of operation will be enhanced. There will also be savings achieved for logistics expenses, which will increase the Group’s profitability.

6. To accelerate in our mergers and acquisitions exercises

The Group has been seeking appropriate targets for mergers and acquisitions in the market, so as to proactively promote the long-term development of our businesses. The Group will devote more efforts to execute such mergers and acquisitions exercises, so that there will be substantial progress achieved in terms of acquisition targets.

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 of Hong Kong Limited (the “Stock Exchange”) on 25 November 2010.

HUMAN RESOURCES AND TRAINING

As at 30 June 2012, the Group had a total of 398 employees, of which 80 worked at the Group's headquarters in Shenzhen, and 318 stationed in 34 zones, mainly responsible for sales and marketing. Total staff cost (including directors' remuneration) during the Reporting Period amounted to approximately RMB13,976,000 (2011: RMB14,902,000). 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 2012, the Group had used net proceeds of approximately RMB24,200,000, of which RMB3,600,000 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 2012, apart from sharing the capital commitment of jointly controlled entity, Zhuhai City Jinming Medicine Company Limited, amounted to approximately RMB9,974,000 (31 December 2011: RMB 16,590,000), the Group had capital commitment amounted to approximately RMB45,000,000 (31 December 2011 : RMB65,000,000).

PUBLIC FLOAT

According to information disclosed publicly and as far as the Directors are aware, during the Reporting Period and up to the date of this 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 16 May 2012, the Company declared the audited distributable profits as at 31 December 2011 amounting to approximately HK\$25,149,000 (equivalent to approximately RMB20,439,000) to the shareholders of the Company. The dividend was fully paid on 15 June 2012 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 2012 (2011: Nil).

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

During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE PRACTICES

The Stock Exchange made various amendments to the Code on Corporate Governance Practices (the "Old Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and renamed it the Corporate Governance Code (the "CG Code"). The CG Code took effect on 1 April 2012.

The Company complied with the code provisions as set out in the Old Code during the period from 1 January 2012 to 31 March 2012 and the code provisions as set out in the CG Code during the period from 1 April 2012 to 30 June 2012, other than code provision A.2.1 of the Old Code and code provision A.2.1 and A.6.7 of the CG Code at the relevant period.

According to code provision A.2.1 of the Old Code and the CG Code (as the case may be), 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.

In addition, according to Code Provision A.6.7 of the CG Code, independent non-executive directors should attend general meetings of company. At the Company's Annual General Meeting held on 16 May 2012, two independent non-executive Directors were not in a position to attend the meeting due to their respective overseas commitment.

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 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 and has formulated its written terms of reference, which have from time to time been modified, in accordance with the prevailing provisions of the CG Code. The 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 2012 and agreed with the accounting treatment adopted by the Company.

DISCLOSURE OF INFORMATION

The interim report for the six months ended 30 June 2012 will be duly dispatched to shareholders of the Company and published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.kingworld.com.cn>).

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

Hong Kong, 29 August 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.