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 2016

RESULTS HIGHLIGHTS

- Revenue increased by 47.7% to approximately RMB1,053,527,000 (2015: RMB713,548,000).
- Gross profit increased by 42.7% to approximately RMB323,572,000 (2015: RMB226,777,000).
- Gross profit margin decreased slightly by 1.1% points to 30.7% (2015: 31.8%).
- Profit before taxation increased by 73.5% to approximately RMB89,044,000 (2015: RMB51,322,000).
- Profit for the year ended 31 December 2016 increased by 71.1% to approximately RMB67,406,000 (2015: RMB39,387,000).
- Profit attributable to owners of the Company increased by 50.5% to approximately RMB46,966,000 (2015: RMB31,205,000).
- Basic earnings per share increased by 53.2% to approximately RMB7.26 cents (2015: RMB4.74 cents).
- The Board recommended the distribution of a final dividend of HK2.95 cents per share for the year ended 31 December 2016 (2015: HK1.53 cents), subject to the approval of the shareholders of the Company in the forthcoming annual general meeting to be held on Friday, 26 May 2017.

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 2016 (the "**Year Under Review**") and selected explanatory notes, together with the comparative figures of the corresponding year in 2015 as follows:

Consolidated Statement of Profit or Loss

For the year ended 31 December 2016

	Note	**2016**	2015
		RMB'000	RMB'000
Revenue	4	**1,053,527**	713,548
Cost of sales		**(729,955)**	(486,771)
Gross profit		**323,572**	226,777
Valuation gain on investment properties		**250**	11,900
Other income and other net loss	5	**15,401**	(1,516)
Selling and distribution costs		**(149,129)**	(101,473)
Administrative expenses		**(75,543)**	(69,273)
Amortisation of intangible assets		**(18,831)**	(17,262)
Profit from operations		**95,720**	49,153
Finance costs	6 (a)	**(12,969)**	(15,738)
Share of profit of a joint venture		**6,293**	17,907
Profit before taxation	6	**89,044**	51,322
Income tax	7	**(21,638)**	(11,935)
Profit for the year		**67,406**	39,387
Attributable to:			
Owners of the Company		**46,966**	31,205
Non-controlling interests		**20,440**	8,182
Profit for the year		**67,406**	39,387
Earnings per share	9		
Basic (RMB cents)		**7.26**	4.74
Diluted (RMB cents)		**7.26**	4.74

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
Profit for the year	**67,406**	39,387
Other comprehensive income/(loss) for the year		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside the PRC	**(4,599)**	(2,039)
Available-for-sale investments:		
Change in fair value	**7,969**	1,513
Reclassification adjustments for gain on disposal included in the consolidated statement of profit or loss	**(2,395)**	—
	975	(526)
Total comprehensive income for the year (net of tax)	**68,381**	38,861
Attributable to:		
Owners of the Company	**48,705**	29,601
Non-controlling interests	**19,676**	9,260
Total comprehensive income for the year	**68,381**	38,861

Consolidated Statement of Financial Position

At 31 December 2016

	Note	**2016** **RMB'000**	2015 RMB'000
Non-current assets			
Property, plant and equipment		**22,808**	15,811
Investment properties		**108,130**	107,880
Interest in a joint venture		**69,233**	62,940
Deposit paid for property, plant and equipment		**75,000**	75,000
Deposit paid for acquisition of land		**18,988**	—
Goodwill		**90,693**	90,693
Intangible assets		**97,334**	116,165
Financial assets at fair value through profit or loss		**4,232**	—
Available-for-sale financial assets		**19,401**	9,609
		505,819	478,098
Current assets			
Inventories		**127,633**	79,005
Trade and other receivables	10	**437,874**	287,110
Available-for-sale financial assets		**65,199**	86,296
Other financial asset		**533**	4,604
Financial assets at fair value through profit or loss		**17,400**	14,040
Cash and bank balances		**239,281**	140,178
		887,920	611,233
Current liabilities			
Trade and other payables	11	**271,689**	166,747
Other financial liability		**13,623**	16,362
Bank loans		**311,196**	167,560
Liability component of mandatorily convertible bonds		**—**	4,155
Liability component of convertible bonds		**114,909**	—
Current taxation		**15,503**	17,059
		726,920	371,883
Net current assets		**161,000**	239,350
Total assets less current liabilities		**666,819**	717,448
Non-current liabilities			
Deferred tax liabilities		**28,169**	30,182
		28,169	30,182
NET ASSETS		**638,650**	687,266

	Note	2016	2015
		RMB'000	RMB'000
CAPITAL AND RESERVES			
Share capital		**53,468**	53,468
Reserves		**470,347**	537,918
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**523,815**	591,386
NON-CONTROLLING INTERESTS		**114,835**	95,880
TOTAL EQUITY		**638,650**	687,266

Notes to the Financial Statements

For the year ended 31 December 2016
(Expressed in Renminbi unless otherwise indicated)

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 address of the Company's registered office and the principal place of business are disclosed in the corporate information in the annual report.

The Company is an investment holding company. The Group is principally engaged in (i) distribution sales of branded imported pharmaceutical and healthcare products, and (ii) manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices in the People's Republic of China (the "PRC") and Hong Kong.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These 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") and 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 of Hong Kong Limited (the "Listing Rules").

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

b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2016 comprise the Group and the Group's interest in a joint venture.

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity (the "functional currency"). The financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand except when otherwise indicated. The Company and other investment holding subsidiaries incorporated in the British Virgin Islands (the "BVI") and Hong Kong have adopted Hong Kong dollars ("HK$") as their functional currency. The functional currency of the PRC subsidiaries is RMB. As the Group mainly operates in the Mainland China, RMB is used as the presentation currency of the Group.

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

— investment properties;

— other financial asset;

— other financial liability;

— available-for-sale financial assets; and

— financial assets at fair value through profit or loss

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 nature of production processes, 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.

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

In the current year, the Group has applied the following new and revised HKFRSs issued by the HKICPA.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle

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

Amendments to HKAS 1 Disclosure Initiative

The Group has applied the amendments to HKAS 1 Disclosure Initiative for the first time in the current year. The amendments to HKAS 1 clarify that an entity need not provide a specific disclosure required by an HKFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in HKFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

In addition, the amendments clarify that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Group, and should be separated into the share of items that, in accordance with other HKFRSs: (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The application of these amendments has not resulted in any impact on the financial performance or financial position of the Group.

Amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The Group has applied the amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation for the first time in the current year. The amendments to HKAS 16 Property, Plant and Equipment prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 Intangible Assets introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue; or

b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

In addition, the amendments also clarify that in choosing an appropriate amortisation method an entity could determine the predominant limiting factor that is inherent in the intangible asset.

As the Group already uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively, the application of these amendments has had no impact on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2012-2014 Cycle

The Group has applied the Annual Improvements to HKFRSs 2012-2014 Cycle for the first time in the current year which include a number of amendments to various HKFRSs as summarised below.

The amendments to HKFRS 5 clarify when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in HKFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held-for-distribution accounting is discontinued.

The amendments to HKFRS 7 provide additional guidance to clarify whether a servicing contract constitutes continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to HKAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The application of these amendments has had no effect on the Group's consolidated financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4. Revenue

Revenue represents sales of branded imported pharmaceutical and healthcare products, electrotherapeutic and physiotherapeutic devices, and general medical examination devices at net invoiced value of goods sold, less value-added and sales taxes, returns and discounts, during the year.

	2016	2015
	RMB'000	RMB'000
Sales of		
– pharmaceutical products	**643,933**	444,023
– healthcare products	**222,482**	128,389
– medical devices	**187,112**	141,136
	1,053,527	713,548

5. OTHER INCOME AND OTHER NET LOSS

Other income

	2016 RMB'000	2015 RMB'000
Total interest income on financial assets not at fair value through profit or loss:		
Bank interest income	**597**	4,313
Interest from available-for-sale financial investments	**2,439**	4,033
Gross rental income from investment properties	**2,742**	2,740
Promotional service income	**14,437**	10,630
Government grant (Note)	**1,368**	466
Dividend income	**2,070**	—
Others	**556**	578
	24,209	22,760

Other net loss

Exchange loss	**(9,972)**	(17,255)
Change in fair value of other financial asset	**(4,071)**	(2,573)
Change in fair value of other financial liability	**2,739**	(1,814)
Change in fair value of financial assets at fair value through profit or loss	**1,566**	(2,634)
Net gain on disposal of available-for-sale investment	**930**	—
	(8,808)	(24,276)
	15,401	(1,516)

Note: Government grant was awarded to the Group by the local government agencies as incentives primarily to encourage the development of the Group and the contribution to the local economic development.

6. PROFIT BEFORE TAXATION

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

	2016	2015
	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	**7,205**	14,468
Interest imputed on the liability component of convertible bonds	**5,764**	1,270
	12,969	15,738
b) Staff costs (including directors' and chief executive's remuneration)		
Salaries and other benefits	**75,493**	58,974
Contributions to defined contribution retirement plan	**8,953**	7,573
	84,446	66,547
c) Other items		
Amorisation of intangible assets	**18,831**	17,262
Auditor's remuneration		
– audit service	**1,386**	976
– non-audit services	**1,011**	1,274
Cost of inventories	**729,955**	486,771
Depreciation	**4,234**	3,814
Impairment losses on trade receivables	**951**	145
Impairment loss on available-for-sales	**4,897**	—
Reversal of impairment loss on trade receivables	**(3,717)**	—
Write-off of other receivables	**—**	10
Write off of trade receivable	**330**	—
Write-down of inventories	**3,096**	—
Loss on disposal of property, plant and equipment	**153**	40
Operating lease charges in respect of land and buildings	**8,435**	5,355
Rental income from investment properties less direct outgoings of RMB 313,000 (2015: RMB139,000)	**(2,742)**	(2,740)
Research and development cost	**7,813**	7,415

Notes:

(i) Cost of inventories includes approximately RMB25,182,000 (2015: 19,915,000) relating to staff costs, depreciation and operating lease rentals, which are included in the respective total amounts disclosed separately above.

7. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Income tax in the consolidated statement of profit or loss represents:

	2016	2015
	RMB'000	RMB'000
Hong Kong Profits tax		
– Current year	**7,308**	5,600
PRC Income tax		
– Current year	**17,614**	6,201
Deferred tax		
– Origination and reversal of temporary differences	**(3,284)**	134
	21,638	11,935

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

ii) The provision for Hong Kong Profits Tax for the years ended 31 December 2016 and 31 December 2015 is calculated at 16.5% of the estimated assessable profits for the year.

iii) The PRC income tax charge of the Group during the year ended 31 December 2016 represented mainly the PRC income tax charge of the Group's subsidiary, Shenzhen Kingworld Medicine Company Limited ("SZ Kingworld") and is based on a statutory rate of 25% (2015: 25%), except for a newly acquired PRC subsidiary, Shenzhen Don Di Xin Technology Company Limited, which is based on a preferential income tax rate of 15%.

8. DIVIDENDS

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

	2016	2015
	RMB'000	RMB'000
Final dividend proposed after the end of the reporting period of HK2.95 cents (equivalent to RMB2.64 cents) (2015: HK1.53 cents (equivalent to RMB1.28 cents)) per ordinary share	**16,434**	7,968

The final dividend for the year ended 31 December 2016 proposed after the end of the reporting period is subject to approval by the Company's shareholders in the forthcoming annual general meeting. It has not been recognised as a liability at the end of the reporting period.

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

	2016	2015
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK1.53 cents (equivalent to approximately RMB1.28 cents) (2015: HK1.92 cents (equivalent to approximately RMB1.51 cents))	**8,519**	9,400

9. EARNINGS PER SHARE

a) Basic earnings per share

The calculation of the basic earnings per share attributable to owners of the Company is based on the following data:

	2016	2015
	RMB'000	RMB'000
Earnings		
Profit for the year attributable to owners of the Company	**46,966**	31,205
Interest imputed on the liability component of mandatorily convertible bonds	**272**	1,270
Earnings for the purpose of basic earnings per share	**47,238**	32,475

	2016	2015
	'000	'000
Number of shares		
Weighted average number of ordinary shares in issue	**622,500**	622,500
Effect of weighted average number of ordinary shares to be issued upon the conversion of mandatorily convertible bonds*	**28,311**	62,250
Weighted average number of ordinary shares for the purpose of basic earnings per share	**650,811**	684,750

* The convertible bonds are mandatorily convertible into ordinary shares of the Company on the maturity date. Shares that are issuable solely after the passage of time are not contingently issuable shares and are included in the calculation of basic earnings per share.

On 15 June 2016, the terms of the convertible bonds were amended pursuant to a supplemental deed entered into between the Company, the holders and the subscriber on 18 May 2016, of which the convertible bonds are no longer mandatorily convertible into ordinary shares of the Company on maturity date, whereas the intension of convention is subject to the consent from both the Company and the subscriber.

b) Diluted earnings per share

Diluted earnings per share for the year ended 31 December 2016 and 2015 was the same as the basic earnings per share because both of the exercise price of the share options granted and the conversion price of the convertible bonds were higher than the weighted average market price of the Company's shares during the period from the date of grant of share options to 31 December 2016.

10. TRADE AND OTHER RECEIVABLES

	2016	2015
	RMB'000	RMB'000
Trade and bills receivables (note (b))	**295,233**	176,184
Less: Impairment losses of trade and bills receivable	**(5,677)**	(4,726)
	289,556	171,458
Other receivables	**43,802**	27,271
Other loan	**48,521**	45,446
Amount due from a director	**1,121**	2,914
Loans and receivables	**383,000**	247,089
Prepayments	**19,672**	23,275
Trade and other deposits	**1,191**	964
Trade deposits to related parties	**34,011**	15,782
	437,874	287,110

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

	2016	2015
	RMB'000	RMB'000
0-90 days	**255,667**	132,703
91-180 days	**22,692**	23,094
181-365 days	**3,788**	15,412
More than 1 year	**7,409**	249
	289,556	171,458

The Group generally granted credit terms ranging from 30 days to 90 days to its customers.

11. TRADE AND OTHER PAYABLES

	2016	2015
	RMB'000	RMB'000
Trade payables (note (b))	**237,446**	124,086
Accruals	**10,413**	10,314
Other payables	**15,999**	22,087
Financial liabilities measured at amortised cost	**263,858**	156,487
Trade deposits received	**7,831**	10,260
	271,689	166,747

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 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.

	2016	2015
	RMB'000	RMB'000
0-90 days	**233,757**	124,086
91-180 days	**3,689**	—
	237,446	124,086

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET AND INDUSTRY REVIEW

1. The healthcare reform is put forward in full scale with huge expansion of the industry

All aspects of healthcare reform have been put forward intensively since the introduction of the "New Healthcare Reform" in 2009. China has established a basic health care system covering more than 95% of the population, with the focus of healthcare reform shifting from the construction of national essential medicines system to reform of healthcare service system. Since 2015, various policies were promulgated with regard to the public hospital reform to encourage social capital's participation in the construction of medical institutions. However, the supply of medical resources in China is still seriously inadequate. With the aging of the population intensified, domestic medical demand will enter a period of rapid growth, resulting a huge expansion in domestic medical service market in the future. By the end of December 2016, the Medical Reform Office of the State Council National together with Health and Family Planning Commission, China Food and Drug Administration, National Development and Reform Commission, Ministry of Industry and Information Technology, Ministry of Commerce, State Administration of Taxation and State Administration of Traditional Chinese Medicine printed and issued the "Notice on the Distribution of the Opinions on the Implementation of the "Two-Invoice System" in Drug Procurement by Public Medical Institutions (for Trial Implementation)" (《關於在公立醫療機構藥品採購中推行「兩票制」的實施意見 (試行) 的通知》). As such, in the face of the significant increase in market demands, it is necessary to attract social capital to invest in medical services and significantly increase the supply of medical services. While more stringent and efficient policies and measures will promote the industry integration and eliminate those upstream enterprises lacking competitiveness. Under such long-term stringent supervision, industry leader will benefit the most.

On 30 September 2016, The notice on requesting public comment on "The Work Plan of the Adjustment of Drug Category of the National Basic Health Insurance, Employment Injury Insurance and Maternity Insurance (Consultation Paper)" (《二零一六年國家基本醫療保險、工傷保險和生育保險藥品目錄調整工作方案 (徵求意見稿) 》) was issued by Ministry of Human Resources and Social Security to put forward the overall requirement regarding the new drug category of health insurance: 1. To complete adjustment on drug category of health insurance by the end of 2016; 2. To amend and improve management measures on basic health insurance drugs and gradually establish a standardized mechanism of dynamic adjustment of drug category in 2017. It is therefore expected that the year of 2017 will enter into the implementation stage for adjusting health insurance drug category in which the sales volume of new categories in the list is expected to increase rapidly with the help of health insurance payment, so as to promote the growth of corporate performance.

In addition, the "Healthy China 2030" blueprint, printed and distributed on October 2016 by the Communist Party of China (CPC) Central Committee and the State Council clearly stated the strategic goals of "Health China", which is, by 2020, China will have established a basic medical and health care system with Chinese characteristics that has covered both urban and rural residents; health literacy will continue to improve; the health service will be more complete and efficient; all the people will have access to basic medical and health care services and basic physical fitness services; a system of health industry with rich contents and reasonable structure will take shape preliminarily; and in terms of the main health indicators, China will top other mid- and high-income countries in the world. By 2030, the institutional system for promoting health for all will be more complete; the development in the health sector will become more coordinated; health lifestyles will be popularized; the quality of health services and the level of health security will continue to improve; the health industry will be prosperous; health equality will be realized general; and in terms of the main health indicators, China will rank top among the high-income countries in the world. By 2050, a health China that has achieved socialist modernization will have been built. As such, the concept of "Health China" will be more deeply rooted, the sound development of pharmaceutical industry will be further strengthened with a huge expansion of domestic medical service market in the future.

Products currently sold by the Group are premium products of high quality produced in various countries. The products are in compliance with relevant national regulation standards. With excellent quality and good consumer reputation, the Group will maintain its leading position in the context of health care reform, and the expansion of the overall industry will also bring a brighter future to the development of the Group.

2. New development opportunities are emerged in internet + pharmaceutical industry

At present, the drug circulation industry is faced with the new situation of the strategic implementation of "Health China" and the reform of pharmaceutical and health care system. By the end of 2016, the Ministry of Commerce issued The National Development Plan for Drug Circulation Industry (2016-2020) (《全國藥品流通行業發展規劃 (二零一六至二零二零年) 》) (hereinafter referred to as the "Plan"), which proposed that China will foster and establish a number of large-scale drug distribution enterprises covering the whole country and at a high level of intensification and informatization, to facilitate the integrated online and offline development.

Medical e-commerce entered into the development stage with the gradual liberalization of the policy, which promote the transformation of offline enterprises. Following the debut of "Internet + pharmaceuticals" in 2014, online medical services, such as purchasing medicines and seeking medical advice online, experienced an unprecedented development. Various online medical services and products were further integrated and distributed in 2015, forming a more comprehensive internet medical system. In 2016, the Plan clearly stated the model and direction for "Internet + pharmaceuticals", putting forward new requirements on the transformation and upgrading of the industry and also indicating new development opportunities for medical e-commerce. According to China Medical E-Commerce Market Research Report for the Year 2016 (《中國醫藥電商市場專題研究報告二零一六》), it is expected that the transaction scale of Chinese Medical B2C Market will exceed RMB60 billion in 2018.

Looking forward, driven by various aspects including the support of national policies, upgrading of internet technology, reform of traditional pharmaceutical business model, the Chinese medical internet market will maintain its rapid development. With the greater efforts being made to the marketing of different online platforms, it is believed that the Group's revenue from online sales will continue to rise, and the Group will further broaden the Internet market in the future.

3. The consumption structure of maternity and childcare market is upgraded in full scale with dividend ready to release

With the complete introduction of two-child policy on 1 January 2016, China has stepped into the era of complete two children. According to the industry report of Huatai Securities, new births in China may increase by around 1 to 2 million every year. According to the prediction in the "Report on consumption trend of China Maternity and Childcare products" (《2016中國母嬰產品消費趨勢報告》) issued by the 21st Century Economic Research Institute (21世紀經濟研究院), it is expected that the complete introduction will drive China's potential economic growth rate to raise by around 0.5%, and will place a direct impact on maternity and childcare consumption market, which is expected to bring about over RMB30 billion a year and at least an average of around 13% new growth per year. The accelerating transformation towards the consumption-led economy in China, together with the trend of the fertility peak and upgrading consumption brought by the complete introduction of two-child policy, will become the double engine for a rapid growth in maternity and childcare industry. Furthermore, as the first generation born under the "One-Child Policy" has reached the marriage and child-bearing age, and the Post-80s and Post-90s generation has become the major contributor of maternity and childcare consumption, more attention has been paid to the safety and quality of maternity and childcare products with the improvement of livelihoods.

Since 2014, the maternity and childcare e-commerce has been growing by leaps and bounds as the growth rate of maternity and childcare online transaction in China has exceeded the growth rate of overall online shopping. According to the "Report on consumption trend of China Maternity and childcare products", the market capitalization of the maternity and childcare market in China was RMB2,3 trillion in 2015, an increase of 25.2% year-on-year, of which the online transaction reached RMB360.6 billion, representing an increase of 98.4% year-on-year and four times of the growth rate of overall maternity and childcare consumption. It is expected that in the next few years, the growth of online transaction will be significantly faster than the growth rate of overall maternity and childcare consumption. By the end of 2015, the penetration rate of maternity and childcare online consumption was 15.5%, which is expected to be increased as there is still much room for improvement of maternity and childcare e-commerce development in the future based on the experience of the United States' mature maternity and childcare market.

Supported by the national two-child policy, the e-commerce, medical and healthcare markets for mothers and babies and other relevant markets is experiencing extensive growth of high-frequency rigid demand. Efforts is being made with respect to various maternity and childcare products sold by the Group, such as Culturelle probiotic series of the USA and Lifeline Care fish oil nutrients from Norway (挪威Lifeline Care魚油營養素), to cater this upgrading trend of consumption structure.

4. Demand for quality health care products is booming with the trend of health for all

As China takes the health for all as an important strategic investment, the contribution of the health industry to the national economy brings about unlimited prospects. According to the survey data from China Health Care Association, China's annual sales of health products amounted to about approximately RMB200 billion currently. The Outline for the Development of Food and Nutrition in China (2014-2020) (《中國食物與營養發展綱要(2014-2020年)》) mentioned that China plans to actively improve the people's nutrient intake and will list the development of health food and fortified food as one of the development priorities, which will support the development of Chinese health food market.

The improvement of urban healthy lifestyle and health awareness of consumers, population aging, complete introduction of two-child policy as well as other trends all contribute to the vigorous development of the health care products market. It is noted that urban women are becoming a strong consumer group of health care products, resulting in continuous expansion of women's health care products market and boosting the demand for quality imported health products.

In addition, high-performance medical equipment was listed as a key area in "Made in China 2025" listed, focusing on improving the ability of medical equipment innovation. With the mobile medical, telemedicine and intelligent medical becoming mainstream, their supporting portable medical electronics, wearable medical devices, home medical equipment and other medical equipment and devices with the characteristics of convenience, light, small become the focus. The equity acquisition of Shenzhen Dong Di Xin Technology Company Limited ("Dong Di Xin") by the Group for fully expanding the coverage of its health business segment and deployment of global medical and healthcare electronic product market is in line with this market trend.

BUSINESS REVIEW

1. Seized opportunities of production development to achieve over RMB1 billion of sales for the first time

For the year ended 31 December 2016, the Group proactively seized the development opportunities of the industry, innovated and upgraded the brand marketing and market distribution strategies, tailored diversified market expansion plans for its core and new health products, effectively consolidated the leading market position of its core products and promoted a fast growth of new product market, driving the Group to reach a total annual revenue of approximately RMB1,053,527,000, officially breaking over RMB1 billion of revenue. The Group has therefore stepped into a rapid development channel.

With respect to the core products of the Group, namely Nin Jiom Chuan Bei Pei Pa Koa (京都念慈菴蜜煉川貝枇杷膏) series of products, as the new import registration licence of the product has been successful approved, followed by a rapid recovery of overall supply of the product, together with focusing on the product prices at terminals and display maintenance, sales rebate of distributors, integrated marketing among products and kicking off brand promotional campaigns, etc., the Group effectively facilitates the rapid recovery of annual sales of the products. In addition, through operation strategies such as the acceleration of expanding the product's distribution coverage and the price increase on supply side, the Group realized further growth of such product. For the year ended 31 December 2016, sales of Nin Jiom Chuan Bei Pei Pa Koa was approximately RMB617,143,000, representing a significant increase by 71.2% when comparing to the same period in 2015.

In addition, as the Group continued to facilitate the development of new health care products market in recent years, such products developed rapidly during the year, of which, Culturelle probiotic series product from USA (美國康萃樂益生菌), the typical product for the category of health care products of the Group has become the second major product series of the Group by leveraging its strong market growth momentum. During the Year Under Review, the Group accelerated the extension of market coverage of such product strategically, and carried out a full range of online and offline multi-channel marketing and distribution. With the steady development of Culturelle series product in Hong Kong and Macau offline market and cross-border e-commerce platform, the Group strongly enhanced its promotion and distribution in key regional markets of Mainland China during the Year Under Review.

In terms of network expansion, the Group further enhanced the distribution terminals of Hong Kong and Macau market, covering stores such as Mannings, CRCare, Eugene Baby stores and major chain pharmacies. In addition, with the successful launch of Culturelle powder and chewable tablet product (PRC version) in the offline retail market in China by the Group, the Group selected professional retail stores relating to maternity and babies, chain pharmacies, major General Merchandise Stores (GMSs) and hospitals as key channel terminals for large-scale distribution of key markets. Up to now, Culturelle series product have been successfully distributed to Hong Kong, Macao market, as well as maternal and child stores, pharmacies and high-end GMSs covering more than 341 cities in 32 provincial administrative regions (including Tibet and Xinjiang) in mainland China.

As to branding, according to the market development, the phrased distribution and other factors, the Group has placed the multimedia platform advertisements in Hong Kong, Macau and mainland China, comprehensively improving the exposure and brand recognition of the products in the relevant market. During the year, the Group continued to place advertisements of Culturelle series products in transportation systems including MTR and bus and media platforms including newspapers and televisions in Hong Kong and Macau. In addition, the Group also fully carried out the advertising and promotion in mainland market to cope with such products' expansion in Mainland China market, of which, subway advertisings in six major cities, being Beijing, Shanghai, Guangzhou, Shenzhen, Chengdu, and Xi'an were launched on September 2016 simultaneously, forming a significant linkage spread effect. Furthermore, the Group also thoroughly got in touch with the target audience of products through cooperating with famous experts in child health care and medical institutions, participating in and organizing seminars about maternity and childcare health, participating in maternity and childcare professional seminars and all kinds of health exhibitions, expanding the products' brand influence in health segment. In the charitable activities of "Dissemination of Maternity and Childcare and Healthy Growth in China" ("中國母嬰健康成長萬里行"), the Group, together with Culturelle probiotic series product, completed 23 forums on maternity and childcare in 22 cities over the country, covering around 30,000 families and over 12,000,000 attendances, receiving favourable responses in parenting groups and the community.

To sum up, with an intensified network expansion and promotion of Culturelle probiotic series product, as well as continuous improvement of production and supply ability of manufactures, the growth of sales of such products continued to accelerate during the year. For the year ended 31 December 2016, sales of Culturelle probiotic series product from USA reached approximately RMB159,387,000, representing an increase of 173.3% comparing to the same period of 2015.

In addition, other products of the Group also recorded positive performance, for example, with respect to the Hoe Hin White Flower Embrocation product, the latest oil product for external use introduced the Group, the Group took full advantage of its brand influence in key markets and continued to increase distribution and tap the sales potential. In the meantime, the Group also made full use of its advanced resources of marketing channel and diversified launching and promotion strategies, extending its brand influence from key markets to other markets so as to form a significant sales growth. For the year ended 31 December 2016, sales of Hoe Hin White Flower Embrocation product reached approximately RMB8,526,000, representing an increase of more than seven times comparing to the same period of 2015.

2. **Expanded proactively to achieve outstanding results in Hong Kong and Macau market.**

The Group officially launched new market businesses in Hong Kong, Macau market along with the successful introduction of Culturelle probiotic series product and the official sale in Hong Kong's retail market in October 2014. Over the past two years, through continuously strengthening the promotion of new product series led by Culturelle in Hong Kong and Macau retail shops market, the Group recorded sales of approximately RMB30,291,000 in Hong Kong and Macau retail shops market in 2016, fully reflecting the Group's sales capability and operation level in new markets.

During the year, Culturelle was the top selling probiotics product among the sales of probiotic products in Hong Kong Mannings retail terminal, and was sold out quickly at the HKBPE in August in the meantime, fully reflecting the demands of Hong Kong market and consumer's acceptance of such product. Up to now, products of the Group has successfully covered over 900 retail stores in Hong Kong and Macau regions including Mannings, Watson, CRCare, major department stores as well as pharmacies. Hong Kong and Macau market, as a bridgehead for the introduction of overseas products by the Group, is also a window for the Group's brand export and display of its image. Its continuous expansion and rapid emergence are of great importance to the Group's development.

3. **Accelerated product introduction to deploy health segment in full scale**

During the Year Under Review, the Group actively responded to market challenges while persisting on its product advantages, and continued to focus on searching medicines and healthcare products in the world to meet its healthy brand positioning and the consumer demand. The Group also speeded up the introduction of target quality brand products and quickly carried out marketing, promotion and operation on the latest introduced brands for the year.

The Group was successfully granted the exclusive agency right of Lifeline Care fish oil nutrients from Norway (挪威Lifeline Care魚油營養素) in the Greater China during the year, and tailed corresponding marketing and operation plans for such brand product immediately. During the Year Under Review, by leveraging the Group's mature distribution networks and product operation strategies, such brand product rapidly explored the online market, and its product of DHA fish oil nutrients for kids was successfully launched on offline retail stores in Hong Kong and Macau regions such as Mannings, maternal and child stores and chain pharmacies. In the meantime, the Group also placed a wide range of product advertisements on diversified online and offline platforms, such as crowded subway stations, bus stations, customs clearances, and paper media, maternal and child websites, social media as well as all kinds of forums, which effectively established the brand recognition and laid a significant brand foundation for the market expansion and sales growth of the product, making a good sales start for such product series. In addition, with the increasing demands of Chinese maternity and childcare healthcare market, the Lifeline Care fish oil nutrients from Norway (挪威Lifeline Care魚油營養素) series product, as the top-selling fish oil brand in Norway with standards higher than EU's stringent standards, is expected to become another major new product of the Group after Culturelle.

In the meantime, other new and quality health products that the Group introduced previously, such as BRAINSTRONG Prenatal DHA (BRAINSTRO孕婦DHA), BLACKMORES fish oil (澳佳寶魚油), FUYUNHON body care products and African Sea-Coconut Lozenges, also achieved positive results during the year.

4. Built platforms for "Global Slimming" products to foster new tendencies for health management

In recent years, as increasing number of people suffer from obesity problems and demands on quality and health slimming products also increases, the Group also paid attention to this trend and continuously introduced advanced foreign sliming products into China so as to explain that relevant groups can realize weight management through the healthiest way.

As such, the Group built a brand-new "Global Slimming" platform with diversified health slimming products. After the successful introduction of FATBLASTER slimming coconut water from Australia (澳洲減肥瘦身品牌菲拉思德椰子水), the Group again introduced many natural sliming products from European countries or the United States during the year, such as Tilman herbal tea bags (fat-burning) from Belgium (比利時Tilman植物燃脂茶包), ZUCCARI slimming series (義大利ZUCCARI瘦身系列) from Italy and BMI smart from Germany (德國慧纖), and carried out a series of market expansion and brand promotion campaigns successively. At the International Marathon Shenzhen 2016 and 2016 Guangzhou Marathon in December 2016, the debut of BMI smart angels representing the brand of German BMI smart became a climax and were reported by many media, successfully enhanced the brand attention.

5. Made persistent efforts to achieve excellent performance in cross-border e-commerce business

In the information age with high-speed development of "Internet + ", rooted in its advantageous offline channels, the Group also actively promoted the development of online platforms in the meantime. Through continuous expansion of online channels and improvement of custom service system, e-commerce channels have been consolidated, brand awareness has been built, and corporate influence of the Group has been enhanced.

With the extensive quality product mix and the experience of operating and developing e-commerce platform, the Group followed the policies closely, constantly optimised the operation strategies including the tiered management over channels, delivery of diversified products, control and management over online sources and price, and promotion and marketing, and further achieved the strategic cooperation with key e-commerce platform. At present, it has explored integrated e-commerce platforms, including Tmall, JD.com, Suning.com and Vip.com, and also conducted business on several specialized e-commerce platforms, including Beibei.com, Kaola.com, Muyingzhijia, Jumei.com and Shenba.com.

In 2016, the Group focused on the operation development of "Kingworld Health" WeChat shop. By seizing the current WeChat market and the opportunities arising from the rapid growth of mobile platform consumption demand, the Group developed the WeChat shop into one of our major online sales platforms, further achieving the sales strategic layout of full channels. Furthermore, the Group will continue to exert effort in the development of new Qianhai cross-border e-commerce platform and speed up the launching and operation of Qianhai e-commerce platform of Kingworld Health Family product.

For the year ended 31 December 2016, the sales of cross-border e-commerce business reached approximately RMB124,504,000, representing a significant increase of 115.3% as compared with the same period of 2015.

6. Profitability of investment projects was further enhanced to provide a promising prospect

Various investment projects of the Group all achieved positive returns in 2016 with the Group's capital operation becoming more effective.

Regarding the project of acquiring Dong Di Xin, the Group continued to deepen the synergy and integration of resources in terms of corporate operation, business development and other aspects. In the broader context of the continuous growth in medical device market and the export industry having benefited from the exchange rate changes during the year, with its outstanding research and development, manufacturing and sales capabilities, as well as corporate businesses, the revenue of Dong Di Xin continued to grow steadily during the year. For the year ended 31 December 2016, Dong Di Xin recorded revenue of approximately RMB187,112,000, representing an increase of 32.6% as compared with the same period of 2015; its net profit amounted to approximately RMB43,240,000, representing an increase of 153.1% as compared with the same period of 2015.

During the year, other investment projects of the Group were also operated smoothly. The Group acquired 15% equity interest of Dong Hua Tong Investments Limited (東華通投資有限公司) in 2015 to hold indirect interest in Miquel Alimentació (a leading corporate in Spain engaging in food distribution and wholesale, brand operation and management of supply chain) and Manassen Foods Australia (a large food company). As at 31 December 2016, the Group had invested over HK$50,000,000 with respect to such project. Such project was operated smoothly during the year, which brought a positive dividend for the Group. Furthermore, the Group subscribed for 2,302,000 shares of and allotted by Chuangmei Pharmaceutical Co., Ltd. (stock code: 2289 HK) at the offer price of HK$8.6 per share at a consideration of approximately HK$20,000,000. The company has achieved steady growth in business and performance in 2016, providing a promising prospect.

In addition, on 14 May 2016, Shenzhen Kingworld, a wholly-owned subsidiary of the Company, entered into a cooperation agreement with Shenzhen Xinda Shanghenggang Cooperative Stock Company ("Shenzhen Shanghenggang") in relation to the establishment of a project company for the land parcel at Baolong Industrial Zone, Longgang District, Shenzhen City, the PRC. Pursuant to the cooperation agreement, Shenzhen Kingworld paid RMB18,988,000 to Shenzhen Shanghenggang and made capital contribution to project company by way of cash injection of RMB25,920,000 to own 90% equity of such company. Hence, the Group will make full use of such land parcel to build its own logistic center and ancillary facilities, combining with its self-operated business and resource allocation to further enhance the standard of strategic development.

7. Intensified strategic cooperation to improve industry influence

During the year, the Group and its strategic cooperation partner, Sinopharm Capital Management Company Limited (國藥資本管理有限公司) ("Sinopharm Capital") continued to carry out in-depth integration work in terms of product resources, channel expansion, terminal distribution, capital operation and other aspects. In addition, the Group also issued a supplemental deed in relation to the issuance of convertible bonds for an aggregate principal amount of HK$133,837,500 (convertible into approximately 62,250,000 shares), pursuant to which the conversion period is extended from 18 months from the issue date to 36 months from the issue date.

In the future, the Group will enhance its capital interaction and further intensify the strategic cooperation relationship with Sinopharm Capital on the basis of continuous business and industrial cooperation with Sinopharm Capital so as to improve the brand influence in pharmaceutical industry in China.

MANAGEMENT REVIEW

1. Improved performance appraisal and incentive mechanism to bring staff's subjective initiative into play

In 2016, the Group formulated a talent introduction plan and appraisal and incentive mechanism according to its strategies to improve the organization efficiency and per capital performance. During the year, the Group provided special awards for those marketing positions, including sales representatives, supervisor, officers and managers who over-fulfilled their tasks, as well as award and incentive policies based on different levels and excessive completion of business. In addition, the Group also introduced the competition mechanism of the survival of the fittest, in which the staff and management personnel with the worst performance will be eliminated. After smooth implementation of the appraisal and incentive and competition mechanism, the initiative and subjective initiative of the Group's sales personnel have been fully played and thereby boost the growth of sales business of the Group directly.

2. Improved data platform to start the corporation systematic operation at full speed

In respect of information management, the Group cooperated with the international leading providers of SAP of corporate management software and technology solutions and upgraded the overall level of informatization in order to be on par with the advanced level of international peers. During the year, the Group's BI data system and SAP ERP data management center were officially put into operation, which enables comprehensive data management for financial accounting, business management, master data management and human resources management, effectively indicating that the Group Management Center is able to access sales data, distributor information and network distribution and operation of products in each area in a timely manner, and therefore formulate effective and accurate operation and management strategies to ensure an accurate and orderly operation of the Group's businesses.

During the year, the Group made a full usage of the data management of SAP, regularly examined the budget execution in each department and each region, and accounted the regional performance contribution. In the meantime, it also intensified the team building of SAP ERP internal consultants and optimised the job division of information system. In addition, the Group started the preparation for SAP Hybris e-commerce project for integrating management platforms of e-commerce supply chains and realising order consolidation and automatic financial approval. In the meantime, the Group also launched the new business data base, accumulated information for model building, which promotes data sharing and can be extensively applied in marketing examination.

3. Formulated reasonable financial planning to effectively reduce the risks of exchange rate fluctuations

In view of continuous fluctuation of exchange rate of Renminbi, in November 2016 and as disclosed in the announcement of the Company dated 18 November 2016, the Group entered into the Master Foreign Exchange Swap Agreement with CITIC Shenzhen Branch to purchase HKD for RMB, which is effective for five years. As at the date of such announcement and as at 31 December 2016, the Group has purchased a total sum of HKD199 million for the RMB/HKD foreign exchange swap service under the Master Foreign Exchange Swap Agreement.

Entering into such agreement indicates that the Group is able to avoid the risks of exchange rate fluctuations and quantify the exposure as a fixed cost of the transaction which is conducive to reasonable control over currency risks.

HONOR

During the Year Under Review, the Group had received the following honors and achievements:

– In January 2016, the Group won the "Most Investment Value Award";

- In March 2016, the Group acted as the supporting unit to provide Flying Eagle Wood Lok Medicated Oil, Imada Red Flower Oil applying service at six checkpoints alongside the racetrack at the Mofang Shenzhen 100KM with 100,000 participants, receiving a favorable response;

- In April 2016, the Group was awarded as the "Most Socially Responsible Pharmaceutical Enterprise in 2015";

- In June 2016, the Group was declared as the Guangdong Province Enterprise of Observing Contract and Valuing Credit;

- In June 2016, the Group received title as "The Credible Benchmarking Enterprise Trusted by Consumer" at the China (Guangzhou) International Health Industry Expo Welcome Dinner Party and Oscar Award Ceremony; and

- In December 2016, the Group won the "Best Strategic Cooperation Partnership" award by Er Tian Tang (二天堂); and acted as the authorised sponsor of medicated oil for external use and service provider of medical stations for 2016 Guangzhou Marathon, International Marathon Shenzhen 2016 and 2015 Shantou International Half Marathon.

During the Year Under Review, the Kingworld Care and Health Foundation also actively fulfilled its social responsibility according to the Group's arrangement and received favourable responses:

- In February 2016, it cooperated with China Charity Federation and Qinghai Charity Federation to donate Kyushin worth of RMB5,600,000 to aged persons in poverty-stricken minority areas suffering from heart disease;

- In May 2016, it cooperated with Shenzhen Civilisation Office, Health and Family Planning Commission of Shenzhen Municipality, Shenzhen Project Care Committee and Foundation, Shenzhen Health Education and Promotion Center and Shenzhen Evening News to initiate the launch ceremony of the Action of Developing a Healthy Lifestyle of "Do A Good Deed Everyday" ("日行一善") and jointly organized a series of public welfare events such as the Caring our Candidates community event, the Tender Hand (溫柔之手) caring event and Pathways to Health (溫柔之手) caring event;

- In September 2016, it attended the 5th China Charity Fair and held the opening ceremony of Kingworld Care and Health Foundation;

- In October 2016, the Group supported the charitable project of "Pangolin Protection" Funny Run Campaign sponsored by TNC as a co-organizer; and

- In September 2016, the Group signed the donation agreement with Hong Kong University of Science and Technology (HKUST), pursuant to which, the Group donated HK$3,500,000 in support of the HKUST's Chinese Medicine R&D and student exchange activities. As a return, HKUST named a tiered classroom of the Lee Shau Kee Business Building after the company as the "Kingworld Medicines Group Classroom", which was officially opened in January 2017.

FINANCIAL REVIEW

1. Revenue

Revenue of the Group for the Year Under Review was approximately RMB1,053,527,000, representing an increase of approximately RMB339,979,000, or 47.7% compared to approximately RMB713,548,000 for the year ended 31 December 2015. The increase was mainly as a result of the increased revenue consolidated from Dong Di Xin and the increase in revenue of Culturelle and Nin Jiom Chuan Bei Pei Pa Koa.

2. Cost of sales

For the Year Under Review, cost of sales for the Group amounted to approximately RMB729,955,000, representing an increase of approximately RMB243,184,000 or 50.0% when compared to that of approximately RMB486,771,000 for the year ended 31 December 2015. The increase in cost of sales was due to the increase in revenue. Gross profit margin decreased slightly from 31.8% for the year ended 31 December 2015 to 30.7% for the year ended 31 December 2016 as a result of the increase in revenue of the lower margin products such as Nin Jiom Chuan Bei Pei Pa Koa during the Year Under Review.

3. Other income

Other income mainly included promotional service income, rental income, government grant, dividend income and interest income. For the Year Under Review, other income amounted to approximately RMB24,209,000, representing an increase of approximately RMB1,449,000 or 6.4% when compared to that of approximately RMB22,760,000 for the year ended 31 December 2015. This increase was mainly due to the increase in promotional service income of approximately RMB3,807,000, dividend income of approximately RMB2,070,000 and government grant of approximately RMB902,000 respectively which was partially off-set by the decrease in bank interest income.

4. Other net loss

Other net loss was mainly comprised of net foreign exchange loss and change in fair value of financial assets. For the Year Under Review, other net loss amounted to approximately RMB8,808,000, representing a decrease of RMB15,468,000 or 63.7% when compared to that of approximately RMB24,276,000 for the year ended 31 December 2015. This decrease in other net loss was mainly due to the decrease in foreign exchange loss of the depreciation of Renminbi during the Year Under Review.

5. **Selling and distribution costs**

For the Year Under Review, selling and distribution costs amounted to approximately RMB149,129,000, which had increased by approximately RMB47,656,000 or 47.0% when compared to that of approximately RMB101,473,000 for the year ended 31 December 2015. This increase was primarily attributable to an increase in advertising expenses of approximately RMB39,997,000, transportation cost of approximately RMB4,627,000 and staff costs of approximately RMB1,818,000.

6. **Administrative expenses**

For the Year Under Review, administrative expenses amounted to approximately RMB75,543,000, which had increased by approximately RMB6,270,000 or 9.1% when compared to that of approximately RMB69,273,000 for the year ended 31 December 2015. For the Year Under Review, rental expenses was approximately RMB3,665,000, administrative staff costs was approximately RMB10,380,000 and legal and professional fees was approximately RMB5,759,000, which comprised mainly of financial reporting costs of the Company and legal advisory and consultancy fees, and provision for obsolete stock was approximately RMB3,096,000 (2015: rental expenses was approximately RMB3,117,000, administrative staff costs was approximately RMB11,412,000, legal and professional fees was approximately RMB4,018,000, and provision for obsolete stock was RMB nil).

7. **Profit from operations**

For the Year Under Review, profit from operations for the Group amounted to approximately RMB95,720,000, which had increased by approximately RMB46,567,000 or 94.7% when compared to that of approximately RMB49,153,000 for the year ended 31 December 2015. Increase in profit from operations was mainly due to the increase in gross profit and decrease in foreign exchange loss for the Year Under Review.

8. **Finance costs**

For the Year Under Review, finance costs amounted to approximately RMB12,969,000, representing a decrease of approximately RMB2,769,000 or 17.6% when compared to that of approximately RMB15,738,000 for the year ended 31 December 2015. The decrease was mainly due to the decrease in interest charged on bank loans and convertible bonds.

9. **Profit before taxation**

For the Year Under Review, profit before taxation for the Group amounted to approximately RMB89,044,000, which had increased by approximately RMB37,722,000 or 73.5% when compared to that of approximately RMB51,322,000 for the year ended 31 December 2015. Increase in profit before taxation was mainly due to the increase in profit from operation and decrease in finance costs for the Year Under Review.

10. Income tax

For the Year Under Review, profit tax expenses for the Group amounted to approximately RMB21,638,000, which had increased by approximately RMB9,703,000 or 81.3% when compared to that of approximately RMB11,935,000 for the year ended 31 December 2015. This increase was mainly due to the increase in profit before tax. The effective tax rate for the Year Under Review was 24.3% when compared to 23.3% for the year ended 31 December 2015.

11. Profit for the year

For the Year Under Review, profit for the year of the Group amounted to approximately RMB67,406,000, which increased by approximately RMB28,019,000 or 71.1% when compared to that of approximately RMB39,387,000 for the year ended 31 December 2015. Increase in profit for the year was mainly due to the increase in profit before tax of approximately RMB37,722,000 which was partially off-set by the increase in income tax expenses of approximately RMB9,703,000 for the Year Under Review.

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 prepayments, deposits and other receivables. Trade and other receivables of the Group as at 31 December 2016 amounted to RMB437,874,000, which had increased by RMB150,764,000 when compared to trade and other receivables as at 31 December 2015 which amounted to approximately RMB287,110,000. As at 31 December 2016, trade receivables and bills receivables of the Group amounted to approximately RMB105,358,000 and RMB189,875,000 respectively, representing an increase of RMB31,558,000 and RMB87,491,000 respectively when compared to trade receivables and bills receivables of approximately RMB73,800,000 and RMB102,384,000 as at 31 December 2015 respectively.

2. Inventories

As at 31 December 2016, inventories owned by the Group amounted to approximately RMB127,633,000, representing an increase of RMB48,628,000 when compared to that of RMB79,005,000 as at 31 December 2015. The main reason of increase in inventories was the increase in finished goods of approximately RMB48,346,000 for the Year Under Review.

3. Properties, plants and equipment

Properties, plants and equipment owned by the Group include leasehold improvements, furniture, fixtures and office equipments, machinery, motor vehicles and construction-in-progress. As at 31 December 2016, the net book value of properties, plants and equipment owned by the Group amounted to approximately RMB22,808,000, showing an increase of RMB6,997,000 when compared to that of approximately RMB15,811,000 as at 31 December 2015. Increase in properties, plants and equipment was mainly due to the addition of fixed assets of approximately RMB10,944,000, which was partially off-set by the depreciation of approximately RMB4,234,000 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 2016, trade and other payables owned by the Group amounted to approximately RMB271,689,000, showing an increase of approximately RMB104,942,000 when compared to that of approximately RMB166,747,000 as at 31 December 2015 as a result of an increase in trade payable of approximately RMB113,360,000 which was partially off-set by the decrease in other payable of approximately RMB6,088,000.

CASH FLOW

The Group's cash is primarily used to meet the demand of financing its working capital requirement, repaying interest and principal of debts and providing funds for capital expenditures and growth of the Group's operations.

1. Net cash 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 inflow generated from operating activities amounted to approximately RMB5,995,000, while the net cash inflow generated from operating activities for the year ended 31 December 2015 was approximately RMB102,790,000. The decrease in net cash inflow was primarily due to an increase in trade and other receivables.

2. Net cash used in investing activities

The Group's net cash outflow used in investing activities amounted to approximately RMB27,978,000 for the Year Under Review, while the net cash outflow used in investing activities was approximately RMB168,128,000 for the year ended 31 December 2015. The decrease in net cash outflow was mainly due to the proceeds from disposal of available-for-sales financial assets during the Year Under Review.

3. Net cash generated from/(used in) financing activities

The Group's net cash inflow generated from financing activities amounted to approximately RMB114,566,000 for the Year Under Review, while the net cash outflow used in financing activities was approximately RMB888,000 for the year ended 31 December 2015. The increase in net cash inflow was mainly due to the decrease in repayment of bank loans during the Year Under Review.

CAPITAL STRUCTURE

1. Indebtedness

The total indebtedness of the Group as at 31 December 2016 was approximately RMB311,196,000 (as at 31 December 2015: approximately RMB167,560,000), which will be due within one year. During the Year Under Review, the Group did not experience any difficulties in renewing its banking facilities with the lenders.

2. Gearing ratio

As at 31 December 2016, the Group's gearing ratio was approximately 22.3% (as at 31 December 2015: 15.5%), calculated as the total bank borrowings divided by total assets multiplied by 100%. The increase was mainly due to an increase in bank borrowings.

3. Pledge of assets

As at 31 December 2016, the Group had pledged investment properties to the bank in the total amount of approximately RMB96,000,000. As at 31 December 2015, the Group did not have any assets pledged to the bank.

4. Capital expenditures

The capital expenditures of the Group primarily included purchases of plant and equipment and leasehold improvements. The Group's capital expenditures amounted to approximately RMB10,994,000 and RMB6,259,000 for the year ended 31 December 2016 and 2015 respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long-term and short-term bank borrowings. For the Year Under Review, the effective interest rate for fixed rate loans ranged from 1.8% to 5.2%. Taking into account the cash flow generated from operations and the long-term and short-term 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 2016, the Group had cash and cash equivalents of approximately RMB239,281,000 (as at 31 December 2015: RMB140,178,000) which was mainly generated from operations of the Group, funds raised from the issue of convertible bond in September 2014 and the listing of the shares of the Company in November 2010.

CAPITAL COMMITMENT

As at 31 December 2016, the Group had capital commitment of approximately RMB37,626,000 (as at 31 December 2015: RMB23,800,000).

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

For the year ended 31 December 2016, the Group has not made any material acquisition and disposal.

LITIGATION

As disclosed in the 2015 Annual Report, the 2016 Interim Report and the announcements of the Company dated 24 October 2016 and 31 October 2016, a claim was filed by the former Chief Executive Officer of Dong Di Xin (the "Plaintiff") against the substantial shareholder of Dong Di Xin (the "Substantial Shareholder") and Dong Di Xin. An appeal was lodged by Dong Di Xin (the "Appeal") to Shenzhen Intermediate People's Court of Guangdong Province (廣東省深圳市中級人民法院) (the "Court") against the judgment handed down by Shenzhen Nanshan District People's Court of Guangdong Province (廣東省深圳市南山區人民法院) ordering: (1) the Substantial Shareholder to transfer his 15% equity interest in Dong Di Xin to the Plaintiff (the "Equity Transfer"); (2) the Substantial Shareholder and Dong Di Xin to assist in all relevant procedures for completing the Equity Transfer; and (3) the litigation fee of RMB2,900 shall be borne by the Substantial Shareholder and Dong Di Xin.

As disclosed in the announcement of the Company dated 24 October 2016, the Judgement will not have any material adverse impact on the Group's ordinary operations and financial positions as the Company will not bear any liability or any significant litigation fee being ordered to pay and there will be no dilutive effect on the Group's holding in the equity interest in Dong Di Xin.

The Appeal had been heard on 21 February 2017, and as at the date of this announcement the Appeal has not yet to be decided by the Court. The Company will keep the Shareholders of the Company and the public informed of any material progress on the Appeal by way of further announcement(s) as and when appropriate.

Future Outlook

1. Implementing the "fourth five-year strategy" to enhance its industrial layout

2017 mark the first year of the implementation of the Group's "fourth five-year strategy". The Group will stick to the mission "to serve the community and to heal the souls" and the vision of becoming a "globally leading and renowned health services provider", so as to continue to adopt the core value of "Everything is possible with the spirit" and to fully implement the spirit of the four five-year strategy.

In the future, under the guidance of the new "fourth five-year strategy", the Group will further enhance its industrial layout, build three product sources of the introduction of new products, investments by mergers and acquisitions, and industrial production through positioning as a health industry, build four platforms of traditional business, new business, investment management, and e-commerce platform business to foster intensive growth and launch integrated strategies, in order to speed up the pace of internationalization and accelerate the establishment of management system, and enhance the core competitiveness.

2. Improving the KA system of the pharmaceutical line and exploring the KA system of maternity and childcare

In 2016, the Group furthered the KA chain cooperation with key terminals, and has successfully established cooperation with the top 100 enterprises in the industry and the head offices of chains ranking top 30 in regional markets, increasing the annual growth rate in KA sales to 30% or above.

In the future, the Group will continue to improve the KA system of the pharmaceutical line and actively explore the KA system of maternity and childcare in the Greater China to speed up the layout of diverse terminals while simultaneously and continuously strengthening the cooperation with key pharmaceutical chains. By means of speeding up the opening of stores, optimizing promotion schemes, promoting the point of sales, and building model stores, the Group will enhance the sales and maintenance at personal care chain stores, such as Watsons and Mannings, speed up the pace of the exploration of the large maternity and childcare chain network throughout the nation, and strengthen the terminal network and sales regulation.

3. Speeding up the omni-channel layout and sales of new products of the Culturelle probiotic series

In 2017, the Group will continue to actively expand the distribution from cross-border e-business and self-operated platforms covered in Culturelle probiotic series products. Meanwhile, the Group will further expand the retail outlet network of the Kids Probiotics as a core product in the Hong Kong and Macau markets to reach 1,000 terminals covered in the products and take further advantage of the brand's market competitiveness. In the Mainland China market, through strengthening the process of paving the way for products at terminals, such as KA chains in key markets and the maternity and childcare chains, the Group will accelerate the omni-channel layout of the Culturelle probiotic series in the Mainland market.

In addition, the Group will continue to introduce new products of the Culturelle probiotic series and effectively control the transportation costs occurred by the Culturelle through reasonably planned logistics and warehouse management to maximize profitability.

4. Facilitating the rapid development of the family of "Global Sliming"

The Group will strive to portray "Global Sliming" as a fashionable platform of fitness. Through the joint introduction and synergy effect of various brands and products, the Group aims at building a health slimming concept from all aspects and thereby actively seize shares of Hong Kong-Macau-Mainland China slimming market.

The Group will continue to enrich the product mix of the family of the "Global Sliming" in 2017 and select best-selling and quality fitness products without toxic side effects from around the world. While maintaining the good sales operation of the FATBLASTER slimming coconut water from Australia, the Group will reinforce the marketing and brand promotion planning of new products, such as the BMI smart from Germany (德國慧纖), Tilman herbal tea bags (fat-burning) from Belgium (比利時Tilman植物燃脂茶包), ZUCCARI slimming series (義大利ZUCCARI瘦身系列) from Italy and VL slimming gel from Japan (日本VL瘦身霜系列). Through intensifying the cooperation with existing major e-business platforms and distribution channels, establishing a cooperative mechanism with new major channels, such as Netease Kaola and VIP shop to become a strategic client of their fitness product mix, and establishing cooperation with the T-mall platform for Kingworld's family of "Global Sliming" as well as operation strategies, the Group will build a comprehensive platform of weight and health management that sets quality brand management, sales, and customer services as a whole.

5. Improving the incentive and award policies to optimize management mechanism

In the future, through continuing to improve and implement a combination of various incentive and award policies, the Group will fundamentally enhance the proactivity of sales staff. In terms of remuneration, adjustments in the remuneration structure for staffs will be made to update the annual salary system for sales management staff, fundamentally resolve motivation problems of staff, and increase incentive as internal fairness in basic salary as well as efficiency are valued while profit share is in line with area performance. The Group will continue to optimize assessment schemes, promote the scientific, systematic and targeted assessment system, and highlight the orientation of objectives to reorganize the KPI indicators among departments, simplify the performance assessment indicators for employees, and enhance assessment efficiency.

In addition, the Group will implement the shift duties for the Vice President of Sales from 2017 to closely follow up the arrangements, assessment, incentives, duty report, and evaluation of staff on shifts and continuously revise and improve shift management schemes for relevant positions to ensure that the objectives of increasing performance and selecting outstanding management personnel are reached.

6. Building a base in the Greater China to consolidate the leading position as a brand-named health agency

As a leading brand-named health agency in the nation, the Group has the exclusive rights to sell various quality overseas health products in the Greater China and enjoys significant advantages of its operation experience and resources in the industry. In the future, the Group will speed up the pace of internationalization, consolidate the Hong Kong and Macau markets, explore Asia markets, and launch investigation and research in the Taiwan region and key markets in the Southeast Asia to explore the feasibility of introducing its products into wider markets.

The Group will build a comprehensive product introduction system to put forward the establishment of systems, such as the category management of product introduction, market observation, dynamic analysis, target progress, and nurturing internal talents, and leveraging original momentum. Meanwhile, the Group will take advantage of multi-channel resources to speed up the introduction of a diversity of products, such as drugs, health products, health food, slimming products, beauty care, and medical devices, and aim at portraying its products as leader brands in their respective segmentation systems to consolidate its leading position in the industry as a brand-named agency in the health segment.

7. Optimizing the capital operation system to establish financial mechanism for risk coping

In the future, the Group will continue to upgrade the layout of the health segment, reasonably utilize diverse capital tools, and adopt investment strategies of market differentiation to actively and orderly promote the capital operation of the Group. The Group will continuously explore the core competitiveness of channel resources while fully utilizing its capital strengths to speed up the integration of industrial chains, reasonably layout the health market, input original momentum for main operations, and to enhance the capital expandability of the Group.

In addition, with the product mix of introduced overseas products increasing and the RMB exchange rate continuing to fluctuate, the Group will establish a financial system that is set to adapt to fluctuating exchange rate, establish a streamlined and standardized budget system and accounting system to promote independent accounting of different sectors, regions and departments. In 2017, the Group will evaluate the risk in exchange rate from time to time, adopt measures, such as forward transaction of foreign exchange, for hedging against exchange rates fluctuation, and establish a sound financial mechanism for risk coping.

HUMAN RESOURCES AND TRAINING

As of 31 December 2016, the Group had a total of 986 employees, of which 127 worked at the Group's headquarter in Shenzhen, and 386 stationed in 34 regions with main responsibility of sales and marketing; 473 worked at Dong Di Xin. Total staff cost for the Year Under Review amounted to approximately RMB84,446,000 (2015: RMB66,547,000). 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). The management team is responsible for coordinating front-line sales and marketing teams to meet the annual sales target.

During the Year Under Review, the Group adopted a "people-oriented" management concept to have its staffs closely involved in the management and development of the Group. The Group has implemented a strict selection process for hiring its employees and adopted a number of incentive mechanisms 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 established a business college and has cooperated with higher education institutions for introducing teachers from EMBA and EDP courses from higher education institutions.

The Company also operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who have contributed to the success of the Group, including eligible employees of the Group. Details of such share option scheme are set out under the paragraph headed "Share Option Scheme" in this report.

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 HK$2.95 cents per share to shareholders whose names appear on the register of members of the Company on Wednesday, 7 June 2017, amounting to approximately HK$18,364,000, subject to the approval in the Company's forthcoming annual general meeting to be held on Friday, 26 May 2017. Total dividend payout ratio is 35.0% of the profit for the year attributable to owners of the Company. The above-mentioned final dividend is expected to be paid on or before Friday, 30 June 2017.

CLOSURE OF THE REGISTER OF MEMBERS

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

The register of members of the Company will be closed from Tuesday, 23 May 2017 to Friday, 26 May 2017 (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 Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Monday, 22 May 2017.

To qualify for the proposed final dividends

The register of members of the Company will be closed from Monday, 5 June 2017 to Wednesday, 7 June 2017 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for receiving the proposed final dividends, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Friday, 2 June 2017.

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 of Hong Kong Limited (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 2016, the Group had used net proceeds of approximately RMB134,920,000, of which RMB4,000,000 had been applied for upgrading the transportation and delivery services to customers, RMB15,760,000 had been applied for expanding the product display booth scheme, approximately RMB20,600,000 as working capital and approximately RMB94,560,000 has been applied for acquisition of Dong Di Xin. The remaining net proceeds are intended to be applied in accordance with the proposed application set forth in the Prospectus.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants, including directors, eligible employees, consultants, suppliers, customers, and shareholders of any member of the Group or associated company or any of their respective associates, who contributed to the success of the Group. The Share Option Scheme 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.

The principal terms of the Share Option Scheme are summarised as follows:

(a) The maximum number of the Company's shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company must not exceed 10% of the nominal amount of all issued shares of the Company as at the Listing Date (i.e. 25 November 2010, the "Listing Date") (which were 600,000,000 shares) unless shareholders' approval has been obtained, and which must not in aggregate exceed 30% of the shares of the Company in issue from time to time.

    As at the date of this announcement, the total number of shares available for issue under the Share Option Scheme is 60,000,000 shares, which represents 10% of the issued shares as at the Listing Date and approximately 9.64% of the issued shares of the Company as at the date of this announcement.

(b) The total number of shares issued and to be issued upon the exercise of options granted to each participant (including both exercised and outstanding options) under the Share Option Scheme and any other share option schemes of the Company in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue.

(c) The subscription price of a share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to the relevant participant and shall be at least the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a business day; (ii) the average of the closing prices of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of the Company's shares on the date of grant of the option.

(d) An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine, which shall not exceed 10 years from the date of grant subject to the provisions of early termination thereof.

(e) An offer for the grant of options must be accepted within 7 days inclusive of the day on which such offer was made and must be accepted in its entirety and any number of shares which is less than what has been offered under any circumstances shall not be accepted. The amount payable by the grantee of an option to the Company on acceptance for the grant of an option is HK$1.

GOING CONCERN

Based on the current financial position and the available financing facilities, 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 the 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% of the issued shares of the Company was held by public shareholders.

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

For the year ended 31 December 2016, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE PRACTICES

The Board strives to uphold the principles of corporate governance set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and adopted various measures to enhance the internal control system, the Directors' continuing professional training and other areas of practice of the Company. While the Board strives to maintain a high level of corporate governance, it also works hard to create value and achieve maximum return for its Shareholders. The Board will continue to conduct review and improve the quality of corporate governance practices with reference to local and international standards.

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as 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 inside information, has been requested to comply with the provisions of the Model Code and the Company's code of conduct regarding securities transactions by Directors. No incidence of non-compliance of the employees' written guidelines by the relevant employees was noted by the Company during the Year Under Review.

AUDIT COMMITTEE

The Company established an Audit Committee (the "Audit Committee") on 5 November 2010 and has formulated its written terms of reference, which have from time to time been modified in accordance with the prevailing provisions of the CG Code. The Audit Committee has three members, namely Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam, who are Independent Non-executive Directors. Mr. Wong has been appointed as the chairman of the Audit Committee.

The Audit Committee has, together with the management of the Company and external independent auditors, reviewed the consolidated financial statements, accounting principles and practices adopted for the Group for the year of 2016, and agreed with the accounting treatment adopted by the Group.

EVENTS AFTER THE REPORTING PERIOD

There is no material event after the reporting period as at the date of this announcement.

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 2016 containing all necessary information as required by the Listing Rules will be sent to shareholders of the Company in due course, and will be published on the website of the Stock Exchange (http://www.hkexnews.hk) under "Listed Company Information" and the website of the Company (http://www.kingworld.com.cn) under "Investor Relations".

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

Hong Kong, 28 March 2017

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