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 Report 2010

Healthy Life with Kingworld

Contents

Corporate Information

DIRECTORS

Executive Directors

Mr. Zhao Li Sheng (Chairman)
Ms. Chan Lok San
Mr. Zhou Xuhua
Mr. Lin Yusheng

Independent Non-executive Directors

Mr. Zhang Jianqi
Mr. Duan Jidong
Mr. Wong Cheuk Lam

COMPANY SECRETARY

Mr. Chan Hon Wan

LEGAL ADVISORS TO THE COMPANY

King & Wood
9th Floor, Hutchison House
10 Harcourt Road, Central
Hong Kong

AUDITOR

CCIF CPA Limited
34th Floor
33 Hysan Avenue
Causeway Bay
Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Lin Yusheng
Mr. Chan Hon Wan

REGISTERED OFFICE

Appleby Trust (Cayman) Ltd.
Clifton House, 75 Fort Street
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Block A, Tian An International Building
Renminnan Road
Luohu District, Shenzhen
Guangdong Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 1906-1907, 19th Floor
Shui On Centre
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Wanchai
Hong Kong

Corporate Information

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Appleby Trust (Cayman) Ltd.
Clifton House, 75 Fort Street
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Grand Cayman KY1-1108
Cayman Islands

PRINCIPAL BANKERS

China Construction Bank
Binhe Sub-branch
1st Floor, East Block
Financial Centre
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Shenzhen
The PRC

Agricultural Bank of China
Shenzhen Zhongxinqu Sub-branch
1st Floor, Zhuoyue Building
Fuhua 1 Road 98
Shenzhen
The PRC

Nanyang Commercial Bank
Western Branch
1st Floor - 2nd Floor
359-361 Queen's Road Central
Hong Kong

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

AUDIT COMMITTEE

Mr. Wong Cheuk Lam (Chairman)
Mr. Duan Jidong
Mr. Zhang Jianqi

REMUNERATION COMMITTEE

Mr. Zhang Jianqi (Chairman)
Mr. Duan Jidong
Mr. Wong Cheuk Lam

NOMINATION COMMITTEE

Mr. Duan Jidong (Chairman)
Mr. Zhang Jianqi
Mr. Wong Cheuk Lam

STOCK CODE

01110

WEBSITE ADDRESS

www.kingworld.com.cn

Financial Highlights

	For the year ended 31 December		Changes in %
	2010	2009	Increase/
	RMB '000	RMB '000	(Decrease)
Financial Highlights			
Turnover	**638,046**	556,417	**14.7%**
Cost of sales	**(497,899)**	(435,764)	**14.3%**
Gross profit	**140,147**	120,653	**16.2%**
Profit before taxation	**58,342**	46,753	**24.8%**
Profit attributable to owners of the Company	**42,863**	37,244	**15.1%**
Basic and diluted (RMB cents)	**9.18**	8.28	**10.9%**
Proposed final dividends per share (HK cents)	**3.71**	—	**—%**
Liquidity and Asset-liability Ratio			
Liquidity (1)	**1.8**	1.4	**28.6%**
Quick ratio (2)	**1.7**	1.2	**41.7%**
Asset-liability ratio (3)	**26.4%**	47.8%	**(44.8)%**

Notes:

(1) Liquidity is calculated by dividing the total current asset by the total year-end current liabilities.

(2) Quick ratio is calculated by dividing the difference between current asset and inventory by the total year-end current liabilities.

(3) Asset-liability ratio is calculated by dividing total bank loans by total assets and multiply by 100%.

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors (the "Board" or "Directors") of Kingworld Medicines Group Limited (the "Company"), I am pleased to announce the annual report of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2010 for all shareholders (the "Shareholders").

The year 2010 is a year full of opportunities and challenges for the Group. While the global economy is still recovering, competition in the pharmaceutical industry is more keen following further implementation of the New Medical Reform. On medicine circulation, mergers and acquisitions are taking place more rapidly, such that the Group has been facing pressure and challenges from various sources. On the other hand, as the PRC medicine market is one of the largest in the world, following aging population and the trend of continuous economic development, demands of medicines and healthcare products have been climbing. In addition, it is anticipated that on-going medical reform will be helpful to push further growth in the PRC medicine market, encouraging rapid increase in sales revenue in the industry.

Chairman's Statement

OPERATIONAL PERFORMANCE ACHIEVED HISTORICAL HEIGHT

Under the leadership of the Board, together with the joint efforts from all members of staff, the Group took expanding the scale of leading product sale as its main strategy, took developing new products and new markets as its focus, and used the setup of Product Display Booths as a way to breakthrough. The Group adopted effective sales strategies and measures to continue increasing its market share, so that the Group achieved new historical heights in terms of turnover and profit. During the year under review, the turnover of the Group was RMB638 million, representing an increase of 14.7% compared to last year. The operational profit of the Group reached RMB43 million, representing an increase of 15.1% compared to RMB37 million last year. Basic earnings per share was RMB9.18 cents, representing an increase of 10.9% when compared to RMB8.28 cents last year. The Board recommended a distribution of final dividend of HK3.71 cents per share for the year of 2010, so as to thank the trust and support from the Shareholders to the Group.

DISTRIBUTION NETWORK HAS EXPANDED, AND NEW MARKETS HAVE BEEN DEVELOPED

Our distribution network plays a crucial role in the distribution business in medicines and healthcare products. The Group mainly conducts sales of distributed products through working directly with its distribution customers and sub-distribution customers. During the year under review, the Group developed its existing distribution network in depth in the second and third tier cities in the PRC, while it kept optimizing its customer base. Meanwhile, the Group strives to setup and develop new markets, such as clinics and city community in local residential areas, so as to reach out to a larger population that is not currently covered. Through setting up Product Display Booths in retail pharmacies and commercial supermarkets in the PRC, mainly through setting up Product Display Booths under the name of "Kingworld Healthy Family"(金活健康之家), the Group promotes the brands and products it distributes, increases market share of the distributed products and quickly builds up the image of the products and brand of the Company.

The comprehensive distribution network of the Group in the PRC is comprised of about 190 distribution customers, having a network of 400 sub-distribution customers. The Group had about 1,500 Product Display Booths in 12 provinces covering a total of 38 cities in the PRC, providing products to more than 17,000 retail outlets. A large number of Product Display Booths are being set up systematically, signifying a major step that the Group took in terminal network development and increasing market share. During the year under review, the Group has successfully obtained the wholesaler license in proprietary Chinese medicines in Hong Kong, providing a solid foundation for the Group's entrance to the market of proprietary Chinese medicines in Hong Kong. In the future, the Group will grasp opportunities promptly to introduce new products from time to time, so as to gradually expand its distribution business of medicines and healthcare products in the Hong Kong region.

DISTRIBUTED PRODUCT MIX HAS BEEN OPTIMIZED

Since the establishment of the Group, it has always focused on the distribution of branded and imported medicines and healthcare products in the PRC. The Group has been managing 49 medical products purchased from 13 different suppliers and produced from Japan, Canada, Hong Kong, Taiwan, Thailand and the PRC, including 12 medicines, 7 healthcare product ranges, 28 general food products and 2 medical products. Many products distributed by the Group are very reputable in the industry, including Nin Jiom Pei Pa Koa (京都念慈菴蜜煉川貝枇杷膏), Taiko Seirogan (喇叭牌正露丸), Kawai Liver Oil Drop (可愛的肝油丸) product range, Flying Eagle Wood Lok Medicated Oil (飛鷹活絡油), Imada Red Flower Oil (依馬打正紅花油), Kyushin Pill (救心丸), and Mentholatum (曼秀雷敦) product range. The Group has successfully established long-term relationships with suppliers. Among them are the supplier of Kawai Liver Oil Drop and Kyushin Pill, Tai San Enterprise & Trading Company (since 1996), Nin Jiom Medicine Manufactory Hong Kong Limited, Great Pleasure Company Limited (since 1997), and the supplier of Taiko Seirogan, Etta Trading Company Limited (since 1998). The Group has been working with its five largest suppliers for seven to fourteen years since the establishment of the Group.

Through continuous exchange with customers and irregular market research, the Group strives to expand and explore more potential new products and brands so as to optimize its product mix. During the year under review, the Group successfully renewed a contract with Walt Disney (Shanghai) Company Limited. Apart from keeping the authorization of the original vitamin gum drops (under the category of vitamins) and fever patch (category of body care/cleaning for children), five new scopes of authorization were added. Products in those categories will be able to merge with the existing healthcare product sales counters of the Group to improve the competitiveness of the Group.

CORPORATE GOVERNANCE LEVEL HAS IMPROVED

The Group firmly believes that maintaining a high level of internal control is crucial to the long-term development of the Company. As such, the Company has reinforced internal control of its sales team during the year under review. It sets out standardized targets and schedules in routine visit, customer relations, marketing activities and turnover of its distribution customers and terminal retail pharmacies. Meanwhile, the Group continues to optimize control on workflow and risks of various posts as it makes good use of information technology. Following the successful listing of the Group in Hong Kong, the Group will continue to improve the level of its corporate governance, ensuring that it will align with the international market promptly, so as to reinforce risk prevention and profit-making capabilities of the Group.

During the year under review, the Group has received a range of honorable titles. Among them, the Group is recognized by Shenzhen Food and Drug Administration as A Leading Import Enterprise with Integrity in Shenzhen. The Company was elected by Shenzhen Health Care Association and "Shenzhen Economic Daily" as "The Most Influential Healthy Brand in Consumption". The Group received the award of "Top Ten Customer's Favorite Goods" from Nepstar Drugstore 2010. All these titles proved that "Kingworld" is a well-known distributor in imported medicine and healthcare products in the PRC, and it received extensive recognition and support from the mass market. Such titles also serve as the best return for the continuous hard work contributed by every single staff members of the Company.

Chairman's Statement

FUTURE OUTLOOK AND STRATEGIES

Although competition in the pharmaceutical industry will still be very keen in the future, the reform, separation and restructuring in the medical industry will grow more rapidly. The intensity of medicine distribution will be more prominent. However, the New Medical Reform policies, especially the development plans under the State's "Twelve Five-Year Plan", increased State investment in the medical industry and the increase in pharmaceutical consumption will present new opportunities for the development of the Group. Looking ahead, the Group has formulated new development goals. It plans to further increase the sales volume and market share of famous medicines, healthcare products and general food products that it distributes in the PRC.

As such, the Group will continue to maintain and work on increasing the market share of its leading products. The Group will continue to maintain the leading position of Nin Jiom Pei Pa Koa in the Cough Relieving Product market in terms of its sales volume by introducing Nin Jiom Pei Pa Koa into the second and third tier cities in the PRC, rural markets and new customers, and by developing terminal markets in hospitals. Meanwhile, the Group plans to achieve a substantial growth in the turnover for each of Taiko Seirogan, Kawai Liver Oil Drop, Flying Eagle Wood Lok Medicated Oil, Kyushin Pill, and Mentholatum product range in the PRC market in the coming two to three years, so that they will be new lead products for the Company.

On developing new products, the Group will deploy more quality talents with good education and extensive industry experience, and will continue to introduce more new products by closely following market focus and development trend. Furthermore, the Group will push up the quantity of distribution products through acquiring medicinal distribution companies and making good use of Product Display Booths, so as to develop the Group's distribution network vertically. To improve the Group's market share outside the PRC, the goal of the Group this year is to develop the new product distribution business of the Japanese Bifina in Hong Kong.

The Group will continue to expand its distribution network in both vertical and horizontal dimensions, as it plans to expand its distribution network to terminal markets in retail pharmacies, commercial supermarkets and hospitals. The Group will co-operate directly with the retail outlets within the network of the distribution customers and sub-distribution customers. Moreover, the Group will continue to expand and upgrade its Product Display Booths, and rely on them to enrich its product mix and to strengthen the foundation of its terminal distribution network. The Group will also launch electronic commerce in due course to foster improvement in its sales model.

In addition, the Company has formulated strategies and implementation plans of mergers and acquisitions. In addition to developing its business through the expansion of its distribution network, the Group is also working quickly to propose the acquisition of one or more large-scale pharmaceutical enterprise in the PRC that have a steady cash flow, stable business, better growth and a mature network. The Group is now actively looking for a piece of land that is suitable to build a national distribution center. It will also try its best to officially initiate this project in 2011. Upon completion of the project, the demand of standardized medicine distribution in the PRC will be met.

Here, on behalf of the Board of the Company, I would like to extend my gratitude for the hard work contributed by all staff members and Directors, as well as the support to the Company from all the Shareholders.

Mr. Zhao Li Sheng
Chairman of the Board

Hong Kong, 28 March 2011

Management Discussion and Analysis

INDUSTRY REVIEW

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

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

2. Pharmaceutical consumption is increasing on a yearly basis

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

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

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

Statistics from the National Bureau of Statistics of China showed that during the year of 2010, total turnover of Chinese and Western medicines was RMB298.0 billion, representing an increase of 23.5% over the same period in 2009. In December 2010, total turnover of Chinese and Western medicines was RMB28.5 billion, representing an increase of 24.3% over the same period last year. Based on the consumption prices among residents, the price of healthcare and personal products in China in 2010 showed an increase of 3.2% compared to 2009. The above has illustrated the substantial potential and development prospect in the Chinese pharmaceutical market.

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

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

Management Discussion and Analysis

BUSINESS REVIEW

1. *A strong distribution network has been set up*

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

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

2. *Corporate governance has been strengthened*

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

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

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

4. *Development of new markets has sped up*

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

Management Discussion and Analysis

5. *Competitiveness of distributed product mix has increased*

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

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

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

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

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

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

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

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

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

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

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

Management Discussion and Analysis

FINANCIAL REVIEW

1. *Turnover*

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

2. *Cost of sales*

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

3. *Other revenue*

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

4. *Other net income*

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

5. *Selling and distribution costs*

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

6. *Administrative expenses*

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

7. *Profit from operations*

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

8. *Finance costs*

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

9. *Profit before taxation*

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

10. *Income tax expenses*

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

11. *Profit for the year*

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

TRADE AND OTHER RECEIVABLES

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

INVENTORIES

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

PROPERTIES, PLANTS AND EQUIPMENT

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

TRADE AND OTHER PAYABLES

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

CAPITAL EXPENDITURE

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

CONTINGENT LIABILITIES

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

Management Discussion and Analysis

FUTURE OUTLOOK

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

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

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

2. Speed up the introduction of more superior new products

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

3. Develop the Group's distribution network vertically

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

4. *Integrate distribution customers and sub-distributors*

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

5. *Build a national distribution center for Kingworld*

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

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

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

HUMAN RESOURCES AND TRAINING

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

During the year under review, the Group adopted a human-oriented management concept to involve the staff in the management and development of the Group. The Group has implemented a strict selection process for hiring its employees and a number of initiatives to enhance the productivity of its employees. The Group conducts periodic performance reviews for its employees, and adjusts their salaries and bonuses accordingly. In addition, the Group has implemented training programs for employees in various positions.

Directors’ and Senior Management’s Biographies

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Zhao Li Sheng（趙利生）, aged 52, was appointed as an executive Director on 25 September 2008. He is the co-founder of the Group and the chairman of the Company. He is primarily responsible for the Group’s overall strategic planning and business management. He has over 15 years of experience in business management and development in the distribution of pharmaceutical and healthcare products. He was also appointed as the chairman of Shenzhen Kingworld Industry Company Limited (“SZ Industry”) in 1994 and the general manager and chairman of Shenzhen Kingworld Medicine Company Limited (“SZ Kingworld”) in 1996. Mr. Zhao was qualified as a senior business manager by the Business Management Qualification Accreditation Committee of Hubei Province in December 2002. Mr. Zhao has been a member of the standing committee（常委）of the 4th and 5th Shenzhen Committee of the Chinese People’s Political Consultative Conference（深圳市政協第四及第五屆委員會）. Mr. Zhao is the vice-president of The Fifth Council of the Shenzhen General Chamber of Commerce（深圳市總商會（工商聯）第五屆理事會）in 2005. In 2008, he was the honorary director（名譽會董）of the Federation of Hong Kong Chiu Chow Community Organizations, the council member（理事）of the Third Session of China Overseas Friendship Association（第三屆中華海外聯誼會）and in 2009, the standing council member（常務理事）of the Third China Economic and Social Council（第三屆中國經濟社會理事會）. Currently he is the vice president（副會長）of the Shenzhen Healthcare Association（深圳市保健協會）and the Fourth Council of the Pharmaceutical Profession Association（深圳市醫藥行業協會第四屆理事會）. He is also the chairman of the Youth Chawnese Committee of Shenzhen（深圳潮人海外經濟促進會青年委員會）. He is the spouse of Ms. Chan.

Ms. Chan Lok San（陳樂燊）, aged 47, was appointed as an executive Director on 25 September 2008. She is the co-founder of the Group. She is primarily responsible for the Group’s financial planning and human resources management. She has over 15 years of experience in the pharmaceutical industry as well as over 8 years of experience in property management. Ms. Chan has been working for SZ Industry since 1994 and SZ Kingworld since 1996. She has been the vice chairlady of SZ Kingworld and SZ Industry since 2005 and 2006 respectively, and the vice chairlady of Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited since 2005 and the legal representative of Shenzhen Kingworld Department Store Property Management Company Limited and Shenzhen King Gibson Golf Company Limited. She received a master’s degree in business administration of senior management from Sun Yat-Sen University in 2010. She was also a member of the Global Foundation of Distinguished Chinese（世界傑出華人基金會）in 2003. Currently, she is the director（理事）of Sun Yat-Sen University Entrepreneur Alumni Association (Second Session)（第二屆中山大學企業家校友聯合會）. She is the spouse of Mr. Zhao.

Mr. Zhou Xuhua（周旭華）, aged 44, was appointed as an executive Director on 3 August 2009. He has been the general manager of SZ Kingworld since 2009. He is primarily responsible for the business development and operations of SZ Kingworld. He was the business manager of SZ Industry between 1994 and 1995 and was the regional manager and deputy general manager of SZ Kingworld after he joined SZ Kingworld in 1996. He has 13 years of experience in the pharmaceutical industry. Mr. Zhou has worked as a clerk and was later promoted to become a supervisor of Shenzhen International Arcade between 1987 and 1993. He completed his education at Shenzhen Finance School（深圳市財經學校）in 1987.

Directors' and Senior Management's Biographies

Mr. Lin Yusheng（林玉生）, aged 45, was appointed as an executive Director on 3 August 2009. He has been the deputy general manager of SZ Kingworld since June 2006. He is primarily responsible for the capital management and the operations of the Group. He has approximately 10 years of experience in the pharmaceutical industry. In 1989, he obtained a bachelor's degree in philosophy at Yanan University（延安大學）. He received a master's degree in business administration at the Hong Kong Polytechnic University in 2006. From 1999 to 2004, he worked in Xi'an Lijun Pharmaceutical Company Limited, which is principally engaged in the manufacturing and sale of pharmaceutical products in the PRC, and a wholly owned subsidiary of Lijun International Pharmaceutical (Holding) Company Limited (stock code: 2005), a company listed on the Stock Exchange which, together with its subsidiaries, are engaged in the research, development, manufacturing and selling of finished medicines and bulk pharmaceutical products to hospitals and distributors. Mr. Lin was appointed as a vice president of Lijun International Pharmaceutical (Holding) Company Limited from 2004 to 2006. From 2005 to 2006, he was also appointed as the chairman of Xi'an Lijun Fangyuan Pharmaceutical Company Limited（西安利君方圓製藥有限責任公司）.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Duan Jidong（段繼東）, aged 45, was appointed as an independent non-executive Director on 5 November 2010. He has approximately 20 years of experience in the pharmaceutical industry. He received a bachelor's degree in medicine at The Shanghai Railway Medical Institute（上海鐵道醫學院）in 1989. He was a surgeon with the Central Hospital of Shenyang Railway Bureau（原瀋陽鐵路局中心醫院）from 1989 to 1994 and worked in the Beijing Mundipharma Pharmaceutical Company Limited（北京萌蒂製藥有限公司）from 1994 to 1998. He served as the chairman and legal representative of Kunming Baker Norton Pharmaceutical Company Limited from December 2002 to April 2006, a director of Holley Pharmaceutical (Chongqing) Co., Ltd.（董慶華立藥業股份有限公司，stock code: 000607), a company listed on the Shenzhen Stock Exchange, from 2005 to 2006, and a director of Wuhan Jianmin Pharmaceutical Groups Corp, Ltd.（武漢健民藥業集團股份有限公司，stock code: 600976), a company listed on the Shanghai Stock Exchange, from 2004 to 2006. He was a chief executive officer from 2002 to 2005, and a director from 2004 to 2006, of Kunming Pharmaceutical Group Corporation, Ltd.（昆明製藥集團股份有限公司， stock code: 600422), a company listed on the Shanghai Stock Exchange. He is currently an independent non-executive director of Zhejiang CONBA Pharmaceutical Company Limited（浙江康恩貝製藥股份有限公司， stock code: 600572), a company listed on the Shanghai Stock Exchange and the chairman of Beijing Strategy & Action Enterprise Management Consulting Company Limited（北京時代方略企業理諮詢有限公司）.

Mr. Zhang Jianqi（張建琦）, aged 53, was appointed as an independent non-executive Director on 5 November 2010. He completed a course in industrial enterprise management at Xi'an Foundation University（西安基礎大學）, which now merges with Xi'an University of Finance and Economics（西安財經學院）in 1981. Mr. Zhang obtained a master degree in engineering at Xi'an Jiaotong University（西安交通大學）in 1993. He received a PhD in management at the Xi'an Jiaotong University in 1998. He has over 22 years of experience in tertiary education. He was qualified as a lecturer in Corporate Management in 1987. Since 1999, he has been working as a professor at Lingnan (University) College, Sun Yat-Sen University and later as a PhD tutor at the same University in 2003. He is also a committee member（委員）of the Guangdong Committee of the Chinese People's Political Consultative Conference（政協廣東省委員會）. Mr. Zhang has been the independent non-executive director of Guangzhou Kangwei Group Sports Goods Company Limited（廣州康威集團體育用品股份有限公司）since 2007. He has also been the independent non-executive director of Foshan Nationstar Optoelectronics Company Limited（佛山市國星光股份有限公司 stock code: 002449), a company listed on the Shenzhen Stock Exchange, and Guangdong Alpha Animation and Culture Company Limited（廣東奧飛動漫文化股份有限公司，stock code: 002292), a company listed on the Shenzhen Stock Exchange, since 2008. In October 2009, he was appointed as the independent non-executive director of Zhuguang Holdings Group Company Limited (formerly known as Nam Fong International Holdings Limited), stock code: 01176), a company listed on the Stock Exchange.

Directors' and Senior Management's Biographies

Mr. Wong Cheuk Lam（黃焯琳）, aged 42, was appointed as an independent non-executive Director on 5 November 2010. He has over 15 years of experience in accounting and finance fields. Mr. Wong obtained a bachelor's degree in arts from the University of Hong Kong in 1992 and a master's degree in business from Victoria University of Technology, Australia in 1997. He is a member of the Hong Kong Institute of Certified Public Accountants and is a member of CPA Australia. From 1994 to 2003, he worked in accounting positions for Sakura Finance Asia Limited, BOCI Securities Limited and Going Accounting Services Company. Since 2003, he has been working as a company secretary at Zhengzhou Gas Company Limited(鄭州燃氣股份有限公司)(stock code: 3928), a company listed on the Stock Exchange and has been the chief financial officer since July 2005 and was a financial controller during the period between October 2007 and July 2010 of the same company.

SENIOR MANAGEMENT

Mr. Chan Hon Wan(陳漢雲), aged 50, was appointed as the financial controller and company secretary of the Company on 25 June 2009. He is responsible for the management of the Group's financial matters. He has over 25 years of experience in auditing and accounting fields. He served as a financial controller of Fairwood Fast Food Limited from 1995 to 1998. He also worked as a corporate finance director of Texwood Limited from 2000 to 2005 and a business director of Texwood Group from 2006 to 2008 respectively. He received a bachelor's degree in economics from Macquarie University Australia in 1986. In 2005, he received a master's degree in science (accountancy) from the Hong Kong Polytechnic University. He is an associate member of the Institute of Chartered Accountants in Australia and an associate member of the Hong Kong, Institute of Certified Public Accountants.

Ms. Fang Danna（方丹娜）, aged 45, has been the financial manager of the SZ Kingworld since 1995. She is primarily responsible for the management of SZ Kingworld's financial policies. She has approximately 20 years of experience in the accounting industry. She worked for the accounting department of Shenzhen Xinwei Electronics Company Limited(深圳新偉電子有限公司）in 1989 before she joined SZ Industry as a financial manager in 1995. She completed a course in accounting from Wuhan University（武漢大學）in 1991.

Ms. Luo Qingfang (羅清芳), aged 53, is the human resources manager of SZ Kingworld. She is primarily responsible for the formulation and management of the Group's human resources policies. She has approximately 16 years of experience in human resources. She worked as an office manager of the Southern Investment Advisor (深圳南方投資諮詢有限公司) in 1993 and a human resources manager of Guangdong Nanguo Business Bloc Company Limited (廣東南國企業集團有限公司)in 1994. She completed a master's degree in business administration from Zhongnan University of Economics and Law (中南財經大學) in 2000. In addition, she completed an EMBA course (在職經理工商管理碩士課程研修班) in 2002 at Lingnan (University) College, Sun Yat-Sen University. She joined the Group in 2000.

Mr. Liu Yibing (劉亦兵), aged 52, is the administration director of SZ Kingworld. He is primarily responsible for the implementation of the Group's administrative policies. He has approximately 8 years of experience in the administrative field. He worked in the cadre training center at the human resources department of Foxconn International Group between 1995 and 1998. He received a bachelor's degree in Chinese literature from Hunan Normal University (湖南師範大學) in 1982. He joined SZ Kingworld in 2001.

Mr. Yan Yaodong (閻耀東), aged 38, is the sales director (Sales Region 2) of SZ Kingworld. He is primarily responsible for the overall sales and customer management in Sales Region 2. He has approximately 9 years of experience in the pharmaceutical industry. He completed his secondary education majoring in foreign language (English language) with Hulan Teachers Training College (呼蘭師範專科學校) in 1996. He joined SZ Kingworld in 2010.

Directors' and Senior Management's Biographies

Mr. Ceng Yun (曾澴), aged 40, is the sales director (Sales Region 3) of SZ Kingworld. He is primarily responsible for the overall sales and customer management in Sales Region 3. He has approximately 12 years of experience as a sales manager in the pharmaceutical industry. He completed a master's degree in industrial economics from Nanchang University (南昌大學) in 2001. He joined SZ Kingworld in 1996.

Mr. Yang Yongtao (楊永濤), aged 36, is the promotions director of SZ Kingworld. He is primarily responsible for the implementation of the Group's overall promotional strategies and management of the retail outlets. He has approximately 8 years of experience in the sales and promotion areas. He worked as a promotion officer in the sales and marketing department of TCL Communication Company Limited in 2000 and as a key account supervisor in the marketing & sales center in Raystar Cosmetics (Shenzhen) Company Limited in 2001. He completed a course in facilities engineering and sales management with Changchun University of Science and Technology (formerly known as Changchun Institute of Optics and Fine Mechanic (長春光學精密機械學院), in 1994 and later in economics management with Party School of the Central Committee of the Communist Party of China (中共中央黨校函授學院) in 1999. He joined SZ Kingworld in 2003.

Ms. Liang Caiyun (梁彩雲), aged 42, is the operations and customer services manager of SZ Kingworld. She is primarily responsible for the implementation of SZ Kingworld's overall customer services strategies including but not limited to the delivery of the products and the review of purchase agreements. She has over 20 years of experience in the sales and strategic planning fields. Before joining SZ Kingworld in 1999, she worked in the Aviation Industry Corporation of China ZhongHang Electronic Measuring Instruments Co. Ltd. (中國航空工業總公司中航電測儀器股份有限公司) in 1988 and later as a planning and statistics officer of Chiaphua Appliance (Shenzhen) Company Limited in 1997. She completed her tertiary education in the area of industrial enterprises management with 012 Base Vocational School (012 基地職工學院) in 1988. She received the qualification certificate of specialty and technology for the intermediate level in statistics from the National Bureau of Statistics of China (國家統計局) in 1996.

Ms. Zhang Dan（張丹）, aged 46, is the deputy marketing director (Nin Jiom Product Series) of SZ Kingworld. She is primarily responsible for the formulation and implementation of SZ Kingworld's overall marketing strategies for the products the Group distributes, especially Nin Jiom Pei Pa Koa. She has approximately 11 years of experience in the sales and marketing areas. She received a bachelor's degree in medical treatment from Yunyang Medical College of Tongji Medical University（同濟醫科大學鄖陽醫學院）in 1986. She was a lecturer at the Hubei Province Wuhan Health School between 1986 and 1995. She joined SZ Kingworld in 1996.

Ms. Tian Yongli（田永莉）, aged 48, is the audit and control manager of SZ Kingworld. She is primarily responsible for the formulation, implementation and review of SZ Kingworld's accounting policies and internal control. She has approximately 17 years of experience in the auditing and accounting fields. She worked as an accounting officer for Electronic Industry Bureau of Wuhan City（武漢市電子工業局）in 1992. She received the junior accountant qualification from Finance Department of the PRC(中華人民共和國財政部)in 1999. She received a professional diploma in industrial enterprises' operation and management from Wu Han Radio and TV University（武漢市廣播電視大學）in 1986. She joined SZ Kingworld in 2005.

Mr. Huang Ruozhong（黃若忠）, aged 48, is the corporate finance manager of SZ Kingworld and is responsible for managing the matters relating to the Listing. He has 15 years experience in handling securities and finance related matters. He worked in the securities department of the Shantou branch of the Bank of Communications Co. Ltd. from 1992 to 1999. He worked in the securities trading department of the Shantou Trust and Investment Company from 1999 to 2002, and worked for the Deheng Securities Company Limited（德恒證券有限公司）from 2002 to 2003. Since 2004, he has been the executive directors of the Twelve Subsidiaries and since 2006, the director of Zhuhai Jinming. In 2001, he was presented with the qualification of handling securities business by the Securities Association of China（中國證券協會）. He graduated from the Chinese People's Liberation Army Air Force Engineering University （中國人民解放軍空軍工程大學） and Chinese People's Liberation Army Guilin Air Force Academy （中國人民解放軍桂林空軍學院） in 1985 and 1989 respectively. He joined SZ Kingworld in 2003.

COMPANY SECRETARY

Mr. Chan Hon Wan(陳漢雲)is the company secretary of the Company. He is also the financial controller of the Company. His biographical details are set out under the paragraph with the heading "Senior Management" above.

Corporate Governance Report

The Group recognizes the value and importance of high corporate governance standards in the enhancement of corporate performance and accountability.

While the Board strives to maintain a high level of corporate governance, it works hard to create value and achieve maximum return for its Shareholders. The Board will continue to conduct review with reference to local and international standards and improve the quality of corporate governance practices.

During the period from 25 November 2010 when the Company was listed on the Stock Exchange (the "Listing Date") to 31 December 2010, the Company complied with all applicable code provisions as set out in the Code on Corporate Governance Practices (the "CG Code") in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), save for the deviations from Code Provision A.2.1.

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 chief executive officer. The Board is in the opinion that letting Mr. Zhao to carry out both roles can bring about strong and consistent leadership for the Group, and can be more effective in planning and implementing long-term business strategies. The Board also considers that since members of the Board include competent and independent non-executive directors, this structure will not impair the balance of power and authority between the Board and its management in the business of the Group. The Board is in the opinion that the structure described above will be beneficial to the Company and its business.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following a specific inquiry by the Company, that they have complied with the required standard as set out in the Model Code during the period from the Listing Date to 31 December 2010.

BOARD OF DIRECTORS

The Board is the core of the Company's corporate governance framework and its role is clearly separated from that of senior management. The Board is responsible for providing guidance for senior management and maintaining effective supervision over senior management whereas senior management is responsible for the implementation of the policies resolved. In general, the responsibilities of the Board include formulating operation plans and investment proposals of the Company, preparing the proposed and final annual budgets of the Company, assessing the performance of the Company and overseeing the work of senior management.

The Board comprises a total of seven Directors, being four executive Directors and three independent non-executive Directors ("Independent Non-executive Directors"). These Independent Non-executive Directors, who have different business and professional backgrounds, have brought valuable experience and expertise for the best interests of the Group and its Shareholders. Biographical details of and the relationship between the Directors are set out in the section headed "Directors' And Senior Management's Biographies" of this annual report.

All members of the Board fully understand their collective and individual responsibility for the Company's Shareholders, and will try their best to carry out their duties to make contributions to the Group's results.

The Company has appointed three Independent Non-executive Directors in compliance with the Listing Rules, with at least one Independent Non-Executive Director possessing the appropriate professional qualifications, or accounting or related financial management expertise.

Pursuant to the Articles of Association of the Company, one third of the Directors shall retire from office by rotation at each annual general meeting. Accordingly, Mr. Zhao Li Sheng, Ms. Chan Lok San and Mr. Lin Yusheng shall retire at the forthcoming annual general meeting of the Company. The retiring Directors, all being eligible, shall offer themselves for re-election.

BOARD COMMITTEES

The Board has formed three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All committees have been formed with specific written terms of reference in compliance with Appendix 14 to the Listing Rules which deal with their respective authorities and duties.

Members, duties and responsibilities of the committees are as follows:

AUDIT COMMITTEE

The Company established an Audit Committee ("Audit Committee") on 5 November 2010 with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee has three members, namely Mr. Duan Jidong, Mr. Zhang Jianqi and Mr. Wong Cheuk Lam. Mr. Wong has been appointed as the chairman of the Audit Committee.

The Audit Committee has reviewed the internal control and annual results, as well as accounting principles and practices adopted for the Group for the year ended 31 December 2010. The Company's financial controller, external auditors and senior management have attended Audit Committee meetings, and have answered questions raised by the Audit Committee.

REMUNERATION COMMITTEE

The Company established a Remuneration Committee ("Remuneration Committee") on 5 November 2010 with written terms of reference in compliance with the CG Code. The primary duties of the Remuneration Committee are (among other things) to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management and to make recommendations to the Board on the Group's policy and structure for all remuneration of the Directors and senior management. The Remuneration Committee has three members, namely Mr. Duan Jidong, Mr. Zhang Jianqi and Mr. Wong Cheuk Lam. Mr. Zhang Jianqi has been appointed as the chairman of the Remuneration Committee.

There has been no change to the remuneration policies and structure of Directors and senior management of the Group during the period from the Listing Date and 31 December 2010. Therefore, no Remuneration Committee meeting was held.

NOMINATION COMMITTEE

The Company established a Nomination Committee ("Nomination Committee") on 5 November 2010 with written terms of reference in compliance with the CG Code. The Nomination Committee is mainly responsible for making recommendations to the Board on appointment of Directors and succession planning for Directors. The Nomination Committee has three members, namely Mr. Duan Jidong, Mr. Zhang Jianqi and Mr. Wong Cheuk Lam. Mr. Duan has been appointed as the chairman of the Remuneration Committee.

During the period from the Listing Date to 31 December 2010, the Group has no plans on the appointment of Director and Board succession. Therefore, no Nomination Committee meeting was held.

BOARD MEETINGS AND INDIVIDUAL ATTENDANCE

It is proposed to hold Board meetings at least four times a year regularly. Notice is given to Directors at least fourteen days before a regular Board meeting. Directors will be given reasonable and practicable notification under relevant circumstance for any special Board meeting called.

Before each Board meeting, the Directors are provided with a detailed agenda and sufficient relevant information, so as to enable the Directors to make appropriate decisions in relation to the matters to be discussed therein. All Directors are given an opportunity to include matters of their concern in the agenda of the Board meeting. If the material interest of any Director or any of his/her associate is involved in any resolution of the Board meeting, such Director much abstain from voting and should not be counted in the quorum of the meeting.

All Directors are free to access all the corporate information for the purpose of discharging their duties and responsibilities as directors. The Directors may seek independent professional advice in appropriate circumstances at the Company's expenses. In addition, all Directors have unrestricted access to the senior management of the Company.

Details of the attendance records of Directors on Board meetings and board committee meetings from the Listing Date to 31 December 2010 are as follows:

Meetings held/attended (Since Listing Date)	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
Mr. Zhao Li Sheng *(Chairman)*	—	—	—	—
Ms. Chan Lok San	—	—	—	—
Mr. Zhou Xuhua	—	—	—	—
Mr. Lin Yusheng	—	—	—	—
Independent Non-executive Directors				
Mr. Duan Jidong	—	—	—	—
Mr. Zhang Jianqi	—	—	—	—
Mr. Wong Cheuk Lam	—	—	—	—

Note:

Since there are only thirty seven calendar days from the Listing Date to 31 December 2010, no Board meeting or Board committee meeting was held during the above-mentioned period.

RESPONSIBILITIES OF THE DIRECTORS AND EXTERNAL AUDITORS

The Directors are responsible for the preparation of the Financial Statements of the Group in accordance with the relevant laws and disclosure stipulations of the Listing Rules and ensuring that these statements give a true and fair view of the state of affairs of the Group, its results and cash flows for that period. The responsibilities of the external auditors are to express an independent opinion on the Financial Statements prepared by the Directors based on their audit and to report their opinion solely to all the Shareholders, and for no other purpose.

INTERNAL CONTROL AND INTERNAL COMPLIANCE GUIDELINES

The Board has to be fully responsible for the stability and effectiveness of the systems of internal control and risk management of the Group. Such systems were set up by the Group to fulfill specific needs of the Group and the risks that its management faces. The Group has set up rigorous procedures to avoid unauthorized use or disposal of the Group's assets, ensure proper maintenance of accounting records, and provide reliable financial information for internal and external uses.

The Board has appointed external consultants to conduct a review on the internal control system, work flow and management system of the Group. The result was satisfactory. Such systems and work flow are compliant to the internal compliance guidelines of the Group.

For the year ended 31 December 2010, through reviews conducted by the Audit Committee and study results from external consultants, the Board has conducted a review on the compliance of internal control system and internal compliance guidelines, and has come to the conclusion that such system and guidelines have been effectively executed and followed.

Corporate Governance Report

CORPORATE GOVERNANCE MEASURES

During the period from the Listing Date to 31 December 2010, since there were no new opportunities relating to the Restricted Activity (as defined in the Prospectus) referred to the Group, the Independent Non-executive Directors have not reviewed any decision in relation to new opportunities referred to the Group.

Since there were only 37 calendar days between the Listing Date and 31 December 2010, the Independent Non-executive Directors have also not reviewed the compliance with the non-competition undertaking entered into by Golden Land International Limited ("Golden Land"), Mr. Zhao Li Sheng ("Mr. Zhao"), Golden Morning International Limited ("Golden Morning") and Ms. Chan Lok San ("Ms. Chan"), the controlling shareholders of the Company (the "Controlling Shareholders"), in favour of the Company under the Deed of Non-Competition (as defined in the Prospectus), the options, pre-emptive rights or first rights of refusals, if any, provided by the Controlling Shareholders on its existing or future competing businesses.

Each of the Controlling Shareholders has confirmed that he/she/it has complied with the non-competition undertaking under the Deed of Non-Competition.

Since there was no activity arisen during the period from the Listing Date to 31 December 2010 which was relevant to the Deed of Non-Competition, the Deed of Non-Competition was complied with during the aforesaid period.

COMPLIANCE ADVISER

The Company has appointed Guotai Junan Capital Limited as its compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise the Company in the following circumstances:

(a) before the publication of any regulatory announcement, circular or financial report;

(b) where a transaction, which might be a notifiable or connected transaction, is contemplated (including share issues and share repurchases);

(c) where the Group proposes to use the net proceeds from the initial public offering in a manner different from that detailed in the prospectus or where the Group's business activities, developments or results deviate from any forecast, estimate or other information in the prospectus; and

(d) where the Stock Exchange makes an inquiry of the Group regarding unusual movements in the price or trading volume of the Company's shares or any other matters in accordance with Rule 13.10 of the Listing Rules.

The terms of the appointment shall commence on the Listing Date and end on the date which the Group distributes its financial results as required under Rule 13.46 of the Listing Rules for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

REMUNERATION OF EXTERNAL AUDITORS

During the year ended 31 December 2010, the remuneration paid to the external auditors in Hong Kong and the PRC, for audit services totaled RMB660,000 (equivalent to approximately HK$763,000).

The Audit Committee recommends the reappointment of CCIF CPA Limited as auditors of the Company. Such recommendation has been agreed by the Board, subject to the approval of the Shareholders of the Company at the forthcoming annual general meeting.

INVESTOR RELATIONS

The Company believes that maintaining effective communication with the investment industry is crucial to having a deeper understanding of the Company's business and its development among investors. To achieve this goal and increase transparency, the Company will continue to adopt proactive measures to foster better investor relations and communications. As such, the purpose for the Company to formulate investor relations policies is to let investors have access to information of the Group in a fair and timely manner, so that they can make an informed decision.

We welcome investors to write to the Company or send their inquiries to the Company's website www.kingworld.com.cn to share their opinions with the Board. The Company's website also discloses the latest business information of the Group to investors and the public.

On behalf of the Board
Kingworld Medicines Group Limited
Mr. Zhao Li Sheng
Chairman of the Board

Hong Kong, 28 March 2011

Report of the Directors

On behalf of the Board of Directors of the Company, I am pleased to present the annual report and audited consolidated financial statements of the Group for the year ended 31 December 2010.

GROUP REORGANIZATION

The Company is a limited liability company incorporated in the Cayman Islands on 10 July 2008. Based on the group reorganization in preparation for being listed on the Stock Exchange, since 3 November 2010, the Company has become the holding company comprising of various subsidiary companies of the Group. Further details of the group reorganization are set out in the prospectus of the Company dated 12 November 2010 (the "Prospectus"). Shares of the Company are listed on the main board of the Stock Exchange on 25 November 2010.

MAJOR BUSINESS

The Company is an investment holding company. The principal business of the Group is the distribution of branded imported pharmaceutical and healthcare products in the PRC. As at 31 December 2010, the Group managed a portfolio of 49 products including 12 pharmaceutical products, 7 healthcare products, 28 general foodstuffs and 2 medical products which are manufactured in Japan, Canada, Hong Kong, Taiwan, Thailand and the PRC and sourced from 13 different suppliers. Many of the products distributed by the Group are established brand names including Nin Jiom Pei Pa Koa, Taiko Seirogan, Kawai Product Range, Flying Eagle Wood Lok Medicated Oil, Kyushin Pill and Mentholatum Product Series. Amongst these brands, "Nin Jiom" has always been the best-seller of the Group. Nin Jiom Pei Pa Koa is also the best-selling Chinese medical Cough Relieving Products in the PRC, being the leading product with the largest market share.

RESULTS AND DIVIDENDS

Profit of the Group for the year ended 31 December 2010 and the financial position of the Group and the Company on that date have been set out in pages 44 to 48 in the financial statements.

To express the Company's gratitude for the support of our shareholders, the Board has resolved to recommend the distribution of a final dividend of HK 3.71 cents per share (equivalent to RMB3.12 cents per share) for the financial year ended 31 December 2010 to the shareholders whose names appear on the register of members of the Company on Tuesday, 24 May 2011, subject to the approval by the shareholders of the Company at the forthcoming annual general meeting to be held on Tuesday, 24 May 2011. The total dividend payout ratio is approximately 50% of the Company's distributable profit, after deducting non-distributable statutory reserves for the year ended 31 December 2010 of RMB4,029,000. It is expected that the above final dividend will be distributed on or before 18 June 2011.

The registers of members of the Company will be closed from Wednesday, 18 May 2011 to Tuesday, 24 May 2011, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Share Registrars in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30pm on Tuesday, 17 May 2011.

USE OF PROCEEDS FROM LISTING OF THE COMPANY

The net proceeds from the listing of the Company on the Stock Exchange on 25 November 2010, after deduction of related expenses, was approximately HK$241,862,000 (equivalent to approximately RMB206,167,000). From the Listing Date to 31 December 2010, there were only 37 calendar days, as a result, on the date of year-end 31 December 2010, the proceeds from the listing of the Company had not been utilised yet. Details of the estimated use of proceeds from the listing of the Company have been set out in the Prospectus.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 25 to the Financial Statements.

RESERVES

Details of change in reserves of the Group and the Company are set out on page 49 of the Consolidated Statement of Changes in Equity and Note 25 to the Financial Statements.

DISTRIBUTABLE RESERVE

As at 31 December 2010, the Company's reserve available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to RMB300,747,000. This includes the Company's share premium account amounted to RMB152,700,000 (equivalent to approximately HK$179,450,000), which may be distributed as the final dividends proposed for this year. According to the Companies Law, the Company may make a distribution to its Shareholders from the Company's share premium account under certain circumstances.

CHARITY DONATIONS

Charity donations made by the Group during the year was approximately RMB927,000 (equivalent to approximately HK$ 1,071,000 (2009: RMB428,000).

PROPERTY, PLANT AND EQUIPMENT

Details of changes in property, plant and equipment of the Group are set out in Note 13 to the Financial Statements.

INVESTMENT PROPERTY

The Group's investment property was revalued as at 31 December 2010. Increase in fair value of investment property due to revaluation amounted to approximately RMB9,000,000, which has been included in the Consolidated Income Statement. Details of changes in the Group's investment property for the year ended 31 December 2010 are set out in Note 14 of the Financial Statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the terms of the Company's Articles of Association or the laws in the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to its existing Shareholders.

Report of the Directors

SUBSIDIARY COMPANIES

Details of the major subsidiary companies of the Company as at 31 December 2010 are set out in Note 16 to the Financial Statements.

DIRECTORS

Directors of the Company from the Listing Date up to the date of this annual report are as follows:

Executive Directors

Mr. Zhao Li Sheng *(Chairman)*
Ms. Chan Lok San
Mr. Zhou Xuhua
Mr. Lin Yusheng

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhang Jianqi
Mr. Duan Jidong
Mr. Wong Cheuk Lam

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Company are set out in pages 20 to 23 under "Directors' And Senior Management's Biographies".

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company confirmed that it has received from each Independent Non-executive Director a written annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers, based on the confirmations received, the Independent Non-executive Directors remain independent.

REMUNERATIONS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

The Remuneration Committee considers and makes recommendation to the Board on the remuneration and other benefits payable to the Directors. The committee regularly oversees the remuneration of all Directors to ensure that their remuneration and compensation are at appropriate level. The Group maintains competitive remuneration packages with reference to the industry standard and according to the business development of the Group to attract and retain its Directors as well as to control costs.

The Board determines the remuneration of the Directors on the basis of the Company's performance, together with the relevant Directors' qualifications, responsibilities, experience, contributions to and positions held with the Company. Details of the remuneration of the Directors are set out in Note 11 to the Financial Statements.

The five highest paid individuals of the Group in the year include 4 Directors. Details of the five highest paid individuals are set out in Note 12 to the Financial Statements.

SERVICE CONTRACTS OF DIRECTORS

Executive Directors

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from the Listing Date and may be terminated by not less than three months' prior notice in writing served by either party on the other.

The annual basic salary payable to each of the executive Directors is as follows:

Mr. Zhao Li Sheng	HK$1,200,000
Ms. Chan Lok San	HK$1,000,000
Mr. Zhou Xuhua	HK$1,000,000
Mr. Lin Yusheng	RMB 600,000

Under their respective service contracts, each of the executive Directors is entitled to a discretionary year-end bonus of an amount to be determined by the Board and approved by the Remuneration Committee.

Each of the executive Directors will also be entitled to reimbursement of reasonable traveling, hotel, entertainment and other expenses properly incurred in the performance of his or her duties under the relevant service contract.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the Independent Non-executive Directors has signed a letter of appointment with the Company for a term of three years commencing on the Listing Date and may be terminated by giving three months' notice in writing thereof by either party to the other.

The annual fees payable to each of the Independent Non-executive Directors are as follows:

Mr. Zhang Jianqi	HK$150,000
Mr. Duan Jidong	HK$150,000
Mr. Wong Cheuk Lam	HK$150,000

Each of the Independent Non-executive Directors will also be entitled to reimbursement of traveling expenses properly incurred in the performance of his/her duties under the relevant appointment letter.

Save as disclosed above, none of the Directors has entered or is proposed to enter into any service agreements with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2010, no Director is considered to have interests in the businesses which compete or are likely to compete directly or indirectly with the businesses of the Group.

DISCLOSURE OF INTERESTS

(a) Interests and Short Positions of Directors and Chief Executive in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 31 December 2010, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

(I) Interest in the shares in the Company

Name of Directors	Capacity/Nature of Interest	Number of shares in the Company held	Approximate percentage of the Company's total issued share capital
Mr. Zhao (Note 1)	Interest of a controlled corporation, interest of spouse	450,000,000 shares	72.29%
Ms. Chan (Note 2)	Interest of a controlled corporation, interest of spouse	450,000,000 shares	72.29%

Notes:

1. Mr. Zhao is deemed (by virtue of the SFO) to be interested in 450,000,000 shares in the Company. These shares are held in the following capacity:

   (a) 360,000,000 shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Mr. Zhao is deemed to be interested in the 360,000,000 shares held by Golden Land. Mr. Zhao is also the sole director of Golden Land.

   (b) 90,000,000 shares are held by Golden Morning. Ms. Chan, the spouse of Mr. Zhao, is the beneficial owner of the entire issued share capital of Golden Morning, therefore, Mr. Zhao is also deemed to be interested in the 90,000,000 shares held by Golden Morning.

2. Ms. Chan is deemed (by virtue of the SFO) to be interested in 450,000,000 shares in the Company. These shares are held in the following capacity:

   (a) 90,000,000 shares are held by Golden Morning. Ms. Chan is the beneficial owner of the entire issued share capital of Golden Morning, therefore, Ms. Chan is deemed to be interested in the 90,000,000 shares held by Golden Morning. Ms. Chan is also the sole director of Golden Morning.

   (b) 360,000,000 shares are held by Golden Land. Mr. Zhao, the spouse of Ms. Chan, is the beneficial owner of the entire issued share capital of Golden Land, therefore, Ms. Chan is also deemed to be interested in the 360,000,000 shares held by Golden Land.

(II) Interests in the shares of the associated corporations of the Company

Name of Directors	Name of associated corporations	Capacity/Nature of Interest	Percentage of shareholding
Mr. Zhao	Golden Land	Beneficial Owner	100%
Ms. Chan	Golden Morning	Beneficial Owner	100%

As at 31 December 2010, save as disclosed above, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

Save as disclosed above, as at 31 December 2010, none of the Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(b) Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company

As at 31 December 2010, so far as was known to the Directors, the interests or short positions of the following persons (other than the Directors) in the shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or the interests or short positions recorded in the register kept by the Company under section 336 of the SFO were as follows:

Long position in the Shares

Name of Shareholders	Capacity/Nature of Interest	Number of shares in the Company held	Approximate percentage of the Company's total issued share capital
Golden Land	Beneficial Owner	360,000,000	57.83%
Golden Morning	Beneficial Owner	90,000,000	14.46%
Mr. Zhao (Note1)	Interest of a controlled corporation, interest of spouse	450,000,000	72.29%
Ms. Chan (Note2)	Interest of a controlled corporation, interest of spouse	450,000,000	72.29%

Notes:

1. Mr. Zhao is deemed (by virtue of the SFO) to be interested in 450,000,000 shares in the Company. These shares are held in the following capacity:

   (a) 360,000,000 shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Mr. Zhao is deemed to be interested in the 360,000,000 shares held by Golden Land. Mr. Zhao is also the sole director of Golden Land.

   (b) 90,000,000 shares are held by Golden Morning. Ms. Chan, the spouse of Mr. Zhao, is the beneficial owner of the entire issued share capital of Golden Morning, therefore, Mr. Zhao is also deemed to be interested in the 90,000,000 shares held by Golden Morning.

2. Ms. Chan is deemed (by virtue of the SFO) to be interested in 450,000,000 shares in the Company. These shares are held in the following capacity:

   (a) 90,000,000 shares are held by Golden Morning. Ms. Chan is the beneficial owner of the entire issued share capital of Golden Morning, therefore, Ms. Chan is deemed to be interested in the 90,000,000 shares held by Golden Morning. Ms. Chan is also the sole director of Golden Morning.

   (b) 360,000,000 shares are held by Golden Land. Mr. Zhao, the spouse of Ms. Chan, is the beneficial owner of the entire issued share capital of Golden Land, therefore, Ms. Chan is also deemed to be interested in the 360,000,000 shares held by Golden Land.

Save as disclosed above, to the best knowledge of the Directors of the Company, as at 31 December 2010, no person (other than the Directors) had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or any interest or short positions recorded in the register kept by the Company under section 336 of the SFO.

SHARE OPTION SCHEME

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

Details of the Share Option Scheme are set out in the Prospectus. The principal terms of the Share Option Scheme are summarized 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 (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 report, 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 report.

(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 can under no circumstances be accepted of less than the number of the shares for which it is offered. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK$1.

(f) Any grant of an option to a Director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by the Independent Non-executive Directors (excluding any Independent Non-executive Director who is the grantee of the option).

(g) The Share Option Scheme shall be valid and effective commencing on the date of adoption of the Share Option Scheme, i.e. 5 November 2010, and expiring at the close of business on the business day immediately preceding the tenth anniversary thereof.

As at 31 December 2010, no share option was granted based on the Share Option Scheme.

DIRECTORS' RIGHTS IN ACQUIRING SHARES AND DEBENTURES

Save as disclosed in the paragraph with the heading "Share Option Scheme" in this report, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors or executives (including their spouse and children under 18 years of age) of the Company to have the rights to acquire securities of the Company or its associated companies (as defined in the SFO), or to acquire benefits by means of acquisition of securities of the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the paragraph headed "continuing connected transactions", as at 31 December 2010 and during any time from the Listing Date to 31 December 2010, there was no contract of significance (as defined in Appendix 16 to the Listing Rules) subsisting in which a Director is or was materially interested, whether directly or indirectly.

Save as disclosed under the paragraph headed "continuing connected transactions", as at 31 December 2010 and during any time from the Listing Date to 31 December 2010, there was no contract of significance in relation to the Company's business subsisting to which the Company, its subsidiary, its holding company or a subsidiary of its holding company was a party and in which a Director has or had, or at any time during that period, in any way, whether directly or indirectly, a material interest.

Save as disclosed under the paragraph headed "continuing connected transactions", as at 31 December 2010 and during any time from the Listing Date to 31 December 2010, none of the Directors was in any way, directly or indirectly, materially interested in any contract of significance in relation to the Company's business entered into or proposed to be entered into with the Company.

MANAGEMENT CONTRACTS

There was no contracts concerning the management or administration of the whole or any substantial part of the business of the Company which was entered into or existed during the year.

CONTINUING CONNECTED TRANSACTIONS

During the financial year ended 31 December 2010, the Group had entered into various transactions with certain individuals and entities that are regarded as connected persons of the Company (as defined under Chapter 14A of the Listing Rules). Details of these individuals and entities are set out in Note 31 to the Financial Statements.

The recurring related party transactions set out in Note 31 to the Financial Statements fall within the definition of "continuing connected transaction" in Chapter 14A of the Listing Rules while the key management remuneration set out in Note 31 to the Financial Statements do not fall within the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules. The Company has complied with the relevant disclosure requirements in accordance with Chapter 14A of the Listing Rules.

The Company was granted a waiver in relation to the following continuing connected transactions for a period of 3 years, which will expire on 31 December 2012. Unless otherwise defined herein, terms used below shall have the same meanings as defined in the Prospectus.

Transaction	Member of the Group	Connected person	Waiver obtained	2010 RMB'000	Approximate Annual Cap for 2010 RMB'000
Purchase and distribution of Kingworld Product Range from SZ Kingworld Lifeshine	SZ Kingworld	SZ Kingworld Lifeshine	Announcement and independent shareholders' approval requirements	3,755	5,923
Purchase and distribution of Imada Red Flower Oil from SZ Kingworld Lifeshine	SZ Kingworld	SZ Kingworld Lifeshine	Announcement and independent shareholders' approval requirements	4,014	11,538
Purchase and distribution of Min Tong Chisionhon Granules from Pearl Shining	SZ Kingworld	Ms. Cheng Lok Yam, Ella trading as Pearl Shining	Announcement requirement	0	1,729
Purchase and distribution of Fengbao Jianfu Capsule from Yuen Tai	SZ Kingworld	Yuen Tai	Announcement and independent shareholders' approval requirements	0	2,899

Purchase and distribution of Kingworld Product Range from SZ Kingworld Lifeshine

SZ Kingworld Lifeshine is a wholly-owned subsidiary of Morning Gold which is owned as to 51% by Mr. Zhao and 49% by Ms. Chan.

During the Track Record Period, SZ Kingworld entered into various transactions with SZ Kingworld Lifeshine, pursuant to which SZ Kingworld, as an exclusive distributor of SZ Kingworld Lifeshine, purchased the Kingworld Product Range from SZ Kingworld Lifeshine, the manufacturer of Kingworld Product Range, for its distribution in the PRC. On 14 January 2010, SZ Kingworld entered into a distribution agreement with SZ Kingworld Lifeshine for a period commencing from 1 February 2010 to 31 January 2011, pursuant to which SZ Kingworld, as the exclusive distributor of SZ Kingworld Lifeshine, would purchase the Kingworld Product Range from SZ Kingworld Lifeshine for distribution in the PRC.

On 21 October 2010, SZ Kingworld entered into a new distribution agreement with SZ Kingworld Lifeshine (the "Kingworld Product Range Distribution Agreement"), pursuant to which the agreement entered into in January 2010 was terminated and SZ Kingworld, being the exclusive distributor of SZ Kingworld Lifeshine, agreed to purchase the Kingworld Product Range from SZ Kingworld Lifeshine for distribution in the PRC for a term commencing on the Listing Date and expiring on 31 December 2012. The transactions contemplated under the Kingworld Product Range Distribution Agreement constitute continuing connected transactions of the Company under the Listing Rules.

The Kingworld Product Range Distribution Agreement was negotiated on an arm's length basis and was entered into in the ordinary course of business of SZ Kingworld and on normal commercial terms or on terms no less favourable than those SZ Kingworld can obtain from independent third parties. Under the Kingworld Product Range Distribution Agreement, the purchase prices of Kingworld Product Range payable by SZ Kingworld to SZ Kingworld Lifeshine take into account the PRC government price restrictions and are determined by reference to the prevailing market price or are no less favourable than those SZ Kingworld can obtain from independent third parties.

Purchase and distribution of Imada Red Flower Oil from SZ Kingworld Lifeshine

Before the Group decided to purchase Imada Red Flower Oil from SZ Kingworld Lifeshine, the Group had purchased such products from Luen Wah (H.K.) Medicine Limited ("Luen Wah") until expiration of the distribution agreement at the end of 2009. In order to continue with the distribution of Imada Red Flower Oil and taking into account that the price of Imada Red Flower Oil offered by SZ Kingworld Lifeshine is lower than that offered by Luen Wah, the Group has decided to purchase Imada Red Flower Oil from SZ Kingworld Lifeshine upon commencement of the operation of its production facility for Imada Red Flower Oil. SZ Kingworld Lifeshine had been the processing agent of Imada Red Flower Oil for Luen Wah, an independent third party, since October 2004 and was only engaged in the processing of Imada Red Flower Oil for Luen Wah for the period between October 2004 and December 2009. During that period of time, SZ Kingworld Lifeshine confirmed that it was not engaged in any distribution business of Imada Red Flower Oil for Luen Wah. As advised by the PRC Lawyer, under the laws of the PRC, SZ Kingworld Lifeshine is not permitted to sell or distribute the Imada Red Flower Oil for Luen Wah during that period of time. The processing contracts were entered into between SZ Kingworld Lifeshine and Luen Wah on an arm's length basis and on normal commercial terms. SZ Kingworld Lifeshine commenced the manufacturing of Imada Red Flower Oil in August 2010 after the expiry of the processing contract with Luen Wah in December 2009. The Imada Red Flower Oil manufactured by SZ Kingworld Lifeshine does not contain any of the registered trademarks of Luen Wah. SZ Kingworld is no longer distributing Imada Red Flower Oil sourced from Luen Wah.

As confirmed by the PRC Lawyer, under the laws of the PRC, SZ Kingworld Lifeshine has the right to manufacture Imada Red Flower Oil and no consent is required to be obtained from Luen Wah to manufacture such product from August 2010 onwards.

On 14 January 2010, SZ Kingworld entered into a distribution agreement with SZ Kingworld Lifeshine for the period from 1 February 2010 to 31 January 2011, pursuant to which SZ Kingworld as the exclusive distributor of SZ Kingworld Lifeshine would purchase Imada Red Flower Oil from SZ Kingworld Lifeshine, the manufacturer of Imada Red Flower Oil, for its distribution in the PRC.

On 21 October 2010, SZ Kingworld entered into a new distribution agreement with SZ Kingworld Lifeshine (the "Imada Red Flower Oil Distribution Agreement"), pursuant to which the agreement entered into in January 2010 was terminated and SZ Kingworld, being the exclusive distributor of SZ Kingworld Lifeshine, agreed to purchase the Imada Red Flower Oil from SZ Kingworld Lifeshine for distribution in the PRC for a term commencing on the Listing Date and expiring on 31 December 2012. The transactions contemplated under the Imada Red Flower Oil Distribution Agreement constitute continuing connected transactions of the Company under the Listing Rules.

The Imada Red Flower Oil Distribution Agreement was negotiated on an arm's length basis and was entered into in the ordinary course of business of SZ Kingworld and on normal commercial terms or on terms no less favourable than those SZ Kingworld can obtain from independent third parties. Under the Imada Red Flower Oil Distribution Agreement, the purchase prices of Imada Red Flower Oil payable by SZ Kingworld to SZ Kingworld Lifeshine are determined by reference to the prevailing market price or are no less favourable than those SZ Kingworld can obtain from independent third parties.

PURCHASE AND DISTRIBUTION OF MIN TONG CHISIONBON GRANULES FROM PEARL SHINING

Pearl Shining Company ("Pearl Shining") is a sole proprietorship of Ms. Cheng Lok Yam, Ella, a sister-in-law of Ms. Chan, who is a Controlling Shareholder and a Director. On 21 October 2010, SZ Kingworld entered into a distribution agreement with Pearl Shining (the "Min Tong Chisionhon Granules Distribution Agreement"), pursuant to which SZ Kingworld, being the exclusive distributor of Pearl Shining, agreed to purchase Min Tong Chisionhon Granules from Pearl Shining for distribution in the PRC for a term commencing on the Listing Date and expiring on 31 December 2012. The transactions contemplated under the Min Tong Chisionhon Granules Distribution Agreement constitute continuing connected transactions of the Company under the Listing Rules.

Pearl Shining is an authorised agent appointed by the manufacturer of Min Tong Chisionhon Granules and is responsible for supplying Min Tong Chisionhon Granules to the distributor of such product in the PRC. The Min Tong Chisionhon Granules Distribution Agreement was negotiated on an arm's length basis and was entered into in the ordinary course of business of SZ Kingworld and on normal commercial terms or on terms no less favourable than those SZ Kingworld can obtain from independent third parties. Under the Min Tong Chisionhon Granules Distribution Agreement, the purchase prices of Min Tong Chisionhon Granules payable by SZ Kingworld to Pearl Shining are determined by reference to the prevailing market price.

PURCHASE AND DISTRIBUTION OF FENGBAO JIANFU CAPSULE FROM YUEN TAI

Yuen Tai Pharmaceuticals Limited ("Yuen Tai") was an independent third party until 24 December 2007 when Yuen Tai became beneficially owned by Morning Gold, which was held by Mr. Zhao and Ms. Chan as to 51% and 49% of its shareholding respectively. On 21 October 2010, SZ Kingworld entered into a distribution agreement with Yuen Tai (the "Fengbao Jianfu Capsule Distribution Agreement"), pursuant to which SZ Kingworld, being the exclusive distributor of Fengbao Jianfu Capsule, agreed to purchase Fengbao Jianfu Capsule from Yuen Tai for distribution in the PRC for a term commencing on the Listing Date and expiring on 31 December 2012. The transactions contemplated under the Fengbao Jianfu Capsule Distribution Agreement constitute continuing connected transactions of the Company under the Listing Rules.

The Fengbao Jianfu Capsule Distribution Agreement was negotiated on an arm's length basis and was entered into in the ordinary course of business of SZ Kingworld and on normal commercial terms or on terms no less favourable than those SZ Kingworld can obtain from independent third parties. Under the Fengbao Jianfu Capsule Distribution Agreement, the purchase prices of Fengbao Jianfu Capsule payable by SZ Kingworld to Yuen Tai are determined by reference to the prevailing market price or are no less favourable than those SZ Kingworld can obtain from independent third parties.

The Independent Non-executive Directors have reviewed the above continuing connected transactions and confirm that these transactions have been entered into:

(i) in the ordinary and usual course of business of the Company;

(ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

(iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor of the Company has issued a letter to the Board stating that the above continuing connected transactions:

1. have received the approval of the Board;

2. did not involve the provision of goods and services made by the Group;

3. have been entered into in accordance with the relevant agreements governing the transactions; and

4. did not exceed the respective annual caps as disclosed in the Prospectus.

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

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

SUBSTANTIAL ACQUISITION AND DISPOSAL

For the year ended 31 December 2010, the Group had no substantial acquisition and disposal.

PLEDGE OF ASSETS

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

For the year 2010, the total turnover of the Group's five largest customers accounted for approximately 17.3% of the Group's revenue, in which turnover from the largest customers of the Group accounted for approximately 5.3% of the total revenue of the Group. In 2010, total purchases of the Group's five largest suppliers accounted for approximately 94.1% of the Group's total purchase, in which purchase from the largest supplier of the Group accounted for approximately 73.1% of the total purchase of the Group.

None of the Directors, their respective associates or any Shareholders (interested in 5% or more of the share capital to the best knowledge of the Board) has any interest in any of the five largest suppliers or the Group's five largest customers.

CAPITAL COMMITMENT

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

TAX RELIEF AND EXEMPTION

The Company is not aware that any holders of securities of the Company are entitled to any tax relief or exemption by reason of their holding of such securities.

EMPLOYEE BENEFITS

Details of the employee benefits of the Group for the year ended 31 December 2010 are set out in Note 2(v) to the Financial Statements. No forfeited contributions (by the Group on behalf of employees who leave the defined contribution plans prior to vesting fully in such contributions) can be used by the Group to reduce the existing level of contributions.

PUBLIC FLOAT

According to information disclosed publicly and as far as the Directors are aware, as at the date of this annual report, at least 25% of the issued shares of the Company is held by public shareholders as set out in the Listing Rules.

STATEMENT OF NO CHANGE OF AUDITOR

The Board confirmed that there has been no change of auditor of the Company since the Listing Date.

AUDITOR

This Financial Statements have been reviewed by CCIF CPA Limited. CCIF CPA Limited will retire by the end of the upcoming annual general meeting, but it offers itself for re-appointment. The resolution of re-appointing CCIF CPA Limited will be raised and voted in the upcoming annual general meeting.

Mr. Zhao Li Sheng
Chairman of the Board

Hong Kong, 28 March, 2011

Independent Auditor's Report

CCIF CPA LIMITED
34/F The Lee Gardens
33 Hysan Avenue
Causeway Bay Hong Kong

TO THE SHAREHOLDERS OF KINGWORLD MEDICINES GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Kingworld Medicines Group Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 44 to 113, which comprise the consolidated and Company statements of financial position as at 31 December 2010 and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirement of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of the report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 28 March 2011

Leung Chun Wa
Practising Certificate Number P04963

Consolidated Income Statement

For the year ended 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Turnover	4	**638,046**	556,417
Cost of sales		**(497,899)**	(435,764)
Gross profit		**140,147**	120,653
Valuation gain on investment property	14	**9,000**	600
Other revenue	5 (a)	**8,683**	6,786
Other net income	5 (b)	**3,664**	7,143
Selling and distribution costs		**(64,861)**	(58,378)
Administrative expenses		**(25,473)**	(20,441)
Listing expenses		**(4,786)**	—
Profit from operations		**66,374**	56,363
Finance costs	6 (a)	**(8,032)**	(9,610)
Profit before taxation	6	**58,342**	46,753
Income tax	7	**(15,479)**	(9,509)
Profit for the year		**42,863**	37,244
Attributable to:			
Owners of the Company	8	**42,863**	37,244
Dividends	9	**25,054**	26,400
Earnings per share			
Basic and diluted (RMB cents)	10	**9.18**	8.28

The notes on pages 52 to 113 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010
(Expressed in Renminbi)

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

The notes on pages 52 to 113 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	13	**4,431**	3,633
Investment property	14	**55,000**	46,000
Prepaid lease payments	15	**7,259**	7,502
		66,690	57,135
Current assets			
Inventories	18	**59,317**	75,862
Trade and other receivables	19	**222,925**	178,513
Pledged bank deposits	20	**131,873**	246,619
Cash and cash equivalents	21	**269,526**	83,562
		683,641	584,556
Current liabilities			
Trade and other payables	22	**168,493**	172,882
Bank loans	23	**197,846**	246,606
Current taxation	24(a)	**8,661**	4,637
		375,000	424,125
Net current assets		**308,641**	160,431
Total assets less current liabilities		**375,331**	217,566
Non-current liabilities			
Bank loans	23	**—**	60,000
Deferred tax liabilities	24(b)	**5,023**	1,538
		5,023	61,538
NET ASSETS		**370,308**	156,028

The notes on pages 52 to 113 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2010
(Expressed in Renminbi)

	Note	**2010** **RMB'000**	2009 RMB'000
CAPITAL AND RESERVES	25		
Share capital		**53,468**	1
Reserves		**316,840**	156,027
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**370,308**	156,028

Approved and authorised for issue by the board of directors on 28 March 2011.

Mr. Zhao Li Sheng
Director

Ms. Chan Lok San
Director

The notes on pages 52 to 113 form part of these financial statements.

Statement of Financial Position

At 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Investments in subsidiaries	16	**155,864**	—
Current assets			
Other receivables	19	**—**	3,532
Cash and cash equivalents	21	**224,290**	—
		224,290	3,532
Current liabilities			
Other payables	22	**3,904**	60
Amounts due to subsidiaries	22	**24,423**	3,472
		28,327	3,532
Net current assets		**195,963**	—
NET ASSETS		**351,827**	—
CAPITAL AND RESERVES	25		
Share capital		**53,468**	—
Reserves		**298,359**	—
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**351,827**	—

Approved and authorised for issue by the board of directors on 28 March 2011.

Mr. Zhao Li Sheng
Director

Ms. Chan Lok San
Director

The notes on pages 52 to 113 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010
(Expressed in Renminbi)

	Share capital RMB'000 (note 25(a))	Share premium RMB'000 (note 25(b))	Share-holders' equity loans RMB'000 (note 25(c))	Capital reserve RMB'000 (note 25(d))	Statutory and discretionary reserves RMB'000 (note 25(e))	Contributed surplus RMB'000 (note 25(f))	Exchange reserve RMB'000 (note 25(g))	Retained profits RMB'000	Total RMB'000
At 1 January 2009	—	—	89,000	68	15,561	—	86	14,220	118,935
Changes in equity:									
Capitalisation issue	1	89,000	(89,000)	—	—	—	—	—	1
Transfer	—	—	—	—	4,305	—	—	(4,305)	—
Total comprehensive income for the year	—	—	—	—	—	—	(152)	37,244	37,092
At 31 December 2009	1	89,000	—	68	19,866	—	(66)	47,159	156,028
At 1 January 2010	**1**	**89,000**	**—**	**68**	**19,866**	**—**	**(66)**	**47,159**	**156,028**
Changes in equity:									
Shares issued for acquisition of a subsidiary pursuant to the Reorganisation	**—**	**(89,000)**	**—**	**(68)**	**—**	**89,068**	**—**	**—**	**—**
Capitalisation issue	**38,650**	**(38,650)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Shares issued upon placing and public offering	**12,883**	**193,252**	**—**	**—**	**—**	**—**	**—**	**—**	**206,135**
Shares issued upon exercise of the over-allotment option	**1,934**	**29,015**	**—**	**—**	**—**	**—**	**—**	**—**	**30,949**
Share issuance costs	**—**	**(30,917)**	**—**	**—**	**—**	**—**	**—**	**—**	**(30,917)**
Transfer	**—**	**—**	**—**	**—**	**4,029**	**—**	**—**	**(4,029)**	**—**
Dividends	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(32,037)**	**(32,037)**
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**—**	**—**	**(2,713)**	**42,863**	**40,150**
At 31 December 2010	**53,468**	**152,700**	**—**	**—**	**23,895**	**89,068**	**(2,779)**	**53,956**	**370,308**

The notes on pages 52 to 113 form part of these financial statements.

Consolidated Statement of Cash Flows

(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Operating activities			
Profit before taxation		**58,342**	46,753
Adjustments for:			
Amortisation of prepaid lease payments	6(c)	**243**	81
Depreciation	6(c)	**885**	881
Finance costs	6(a)	**8,032**	9,610
Impairment loss on trade receivables	6(c)	**268**	50
Interest income	5(a)	**(4,862)**	(4,481)
Loss on disposal of property, plant and equipment	6(c)	**2**	7
Reversal of impairment loss on trade receivables	6(c)	**—**	(14)
Net unrealised gain on forward foreign exchange contracts	5(b)	**(2,129)**	(3,068)
Valuation gain on investment property	14	**(9,000)**	(600)
Write-down of inventories	18	**341**	559
Changes in working capital			
Decrease in inventories		**16,204**	22,199
(Increase)/decrease in trade and other receivables		**(42,551)**	86,445
(Decrease)/increase in trade and other payables		**(4,389)**	8,153
Cash generated from operations		**21,386**	166,575
PRC income tax paid		**(7,970)**	(7,928)
Net cash generated from operating activities		**13,416**	158,647

The notes on pages 52 to 113 form part of these financial statements.

Consolidated Statement of Cash Flows

(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Investing activities			
Payment for the purchase of property, plant and equipment		**(1,685)**	(424)
Proceeds from sale of property, plant and equipment		**—**	4
Prepaid lease payments paid		**—**	(4,413)
Interest received		**4,862**	4,481
Net cash generated from/(used in) investing activities		**3,177**	(352)
Financing activities			
Decrease/(increase) in pledged bank deposits		**114,746**	(143,223)
Proceeds from new bank loans		**143,611**	247,538
Repayment of bank loans		**(252,371)**	(200,527)
Finance costs paid		**(8,032)**	(9,610)
Dividend paid		**(32,037)**	—
Proceeds from shares issued upon placing and public offering		**206,135**	—
Proceeds from shares issued upon exercise of the over-allotment option		**30,949**	—
Share issuance costs		**(30,917)**	—
Issue of shares		**—**	1
Net cash generated from/(used in) financing activities		**172,084**	(105,821)
Increase in cash and cash equivalents		**188,677**	52,474
Cash and cash equivalents at beginning of year		**83,562**	31,240
Effect of foreign exchange rate changes		**(2,713)**	(152)
Cash and cash equivalents at end of year	21	**269,526**	83,562

The notes on pages 52 to 113 form part of these financial statements.

Notes to the Financial Statements

1. GENERAL INFORMATION

Kingworld Medicines Group Limited (the "Company") was incorporated as an exempted company in the Cayman Islands with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 10 July 2008. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 25 November 2010 (the "Company's Listing"). The 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 Company and its subsidiaries (the "Group") are principally engaged in distribution sale of branded imported pharmaceutical and healthcare products in the People's Republic of China ("PRC").

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

2. SIGNIFICANT ACCOUNTING POLICIES

a) *Statement of compliance*

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

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

b) *Basis of preparation of the financial statements*

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair values as explained in the accounting policies set out below:

— investment property (see note 2(g));

— financial assets at fair value through profit or loss (see note 2(e)); and

— derivative financial instruments (see note 2(f))

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 28.

c) *Subsidiaries*

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less any impairment losses (see note 2(k)(ii)).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

d) *Jointly controlled entity*

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entity.

The Group recognises its interest in jointly controlled entity using proportionate consolidation. The Group's share of the assets, liabilities, income and expenses of the jointly controlled entity are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

When the Group's entities transact with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

e) *Financial assets at fair value through profit or loss*

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

— such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

— the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on the basis; or

— it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

At the end of each reporting period subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

f) *Derivative financial instruments*

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

g) *Investment property*

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(i)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated in the consolidated statement of financial position at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(t)(ii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(i)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2(i).

h) *Property, plant and equipment*

Property, plant and equipment are stated in the consolidated statement of financial position at cost less accumulated depreciation and any impairment losses (see note 2(k)(ii)):

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Building	Over the shorter of the unexpired lease term and estimated useful lives, being no more than 20 years
Leasehold improvements	5 years or over the remaining term of the lease, if shorter
Furniture, fixtures and office equipment	10%-20% per annum
Motor vehicles	10%-20% per annum

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) *Property, plant and equipment* *(Continued)*

An asset's carrying amount is written down immediately to its recoverable amount of the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Construction in progress represents buildings and plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is stated at cost less any identified impairment loss (see note 2(k)(ii)). Cost comprises construction expenditure and other direct costs attributable to such projects, if the amount of capital expenditures and the time involved to complete the construction are significant. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. No depreciation is provided in respect of construction in progress until it is substantially complete and ready for its intended use.

i) *Leased assets*

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

i) *Classification of assets leased to the Group*

Assets held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

— Property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 2(g)).

— Land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

i) *Leased assets* *(Continued)*

ii) *Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

The cost of acquiring land held under operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

j) *Inventories*

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

k) *Impairment of assets*

i) *Impairment of trade and other receivables*

Trade and other receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

k) Impairment of assets (Continued)

i) Impairment of trade and other receivables (Continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For trade and other receivables and other financial assets carried at amortised cost, impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment and construction in progress;

— prepaid lease payments; and

— investments in subsidiaries

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

k) *Impairment of assets* *(Continued)*

ii) *Impairment of other assets* *(Continued)*

If any such indication exists, the asset's recoverable amount is estimated.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a cash-generating unit).

Recognition of impairment losses

An impairment loss is recognised in the profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying amount of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 2(k)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

m) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

p) Income tax *(Continued)*

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary differences or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

p) Income tax *(Continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

q) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

r) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Other borrowing costs are expensed in profit or loss in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceased when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided that when it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

i) Sales of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax and other sales taxes and is stated after deduction of returns and discounts.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

t) *Revenue recognition* *(Continued)*

ii) *Rental income from operating leases*

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

iii) *Commission income*

Commission income is recognised when the services are rendered.

iv) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

v) *Government grants*

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

u) *Segment reporting*

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

v) *Employee benefits*

i) *Short term employee benefits and contribution to define contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contribution to define contribution retirement plans and cost of non-monetary benefits are accrued in each of the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii) *Defined contribution retirement plan obligation*

Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

iii) *Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

w) *Related parties*

For the purposes of these financial statements, a party is considered to be related to the Group if:

i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

ii) the Group and the party are subject to common control;

iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

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

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

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

Amendments to HKAS 17 Leases, as part of Improvements to HKFRSs issued in 2009

HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee. The application of the amendments to HKAS 17 has had no impact on the Group's financial statements.

Hong Kong Interpretation 5, Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ("HK (Int) 5") clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time should be classified by the borrower as current liabilities. The Group has applied HK (Int) 5 for the first time in the current year. HK (Int) 5 requires retrospective application. The application of HK (Int) 5 has had no impact on the Group's financial statements.

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

4. TURNOVER

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

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

5. OTHER REVENUE AND OTHER NET INCOME

a) Other revenue

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

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

b) Other net income

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

Notes to the Financial Statements

6. PROFIT BEFORE TAXATION

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

		2010 RMB'000	2009 RMB'000
a)	**Finance costs**		
	Total interest expense on financial liabilities not at fair value through profit or loss:		
	Interest on bank loans wholly repayable within five years	**8,032**	9,610
b)	**Staff costs (including directors' remuneration)**		
	Salaries and other benefits	**22,702**	18,941
	Contributions to defined contribution retirement plan	**2,706**	2,028
		25,408	20,969
c)	**Other items**		
	Amortisation of prepaid lease payments	**243**	81
	Auditors' remuneration	**660**	35
	Cost of inventories (note 18)	**497,899**	435,764
	Depreciation	**885**	881
	Impairment losses on trade receivables (note 19(c))	**268**	50
	Listing expenses	**4,786**	—
	Loss on disposal of property, plant and equipment	**2**	7
	Operating lease charges in respect of land and buildings	**1,812**	1,882
	Rental income from investment property less direct outgoings of RMB390,000 (2009: RMB260,000)	**(1,034)**	(1,065)
	Reversal of impairment loss on trade receivables (note 19(c))	**—**	(14)

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

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

	2010 RMB'000	2009 RMB'000
Current tax		
– PRC Income tax	**10,994**	7,668
Deferred tax (note 24(b))		
– current year	**4,511**	1,879
– attributable to a change in tax rate	**(26)**	(38)
	4,485	1,841
	15,479	9,509

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

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

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

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

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

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(Continued)*

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

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

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

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

8. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company includes a loss of RMB7,816,000 (2009: RMB nil) which has been dealt with in the financial statements of the Company.

9. DIVIDENDS

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

a) The amounts of interim dividend during the year of RMB5,637,000 and final dividend proposed after 31 December 2009 of RMB26,400,000 , which were declared and paid prior to the Reorganisation, represent dividends declared by Kingworld Medicine and Healthcare Group Limited ("BVI Kingworld"), a direct subsidiary of the Company, to their then shareholders prior to the Reorganisation. The rates of dividend and the number of shares ranking for dividends are not presented in these consolidated financial statements as it is not indicative of the future dividend policy of the Company.

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

10. BASIC AND DILUTED EARNINGS PER SHARE

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

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

Weighted average number of ordinary shares

	Number of shares	
	2010 **'000**	2009 '000
Issued ordinary shares at 1 January	**450,000**	450,000
Effect of share issued in the placing and public offering (note 25(a)(iv))	**15,205**	—
Effect of the exercise of the over-allotment option (note 25(a)(v))	**1,911**	—
Weighted average number of ordinary shares at 31 December	**467,116**	450,000

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

11. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Fees	Basic salaries, allowances and other benefits	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2010					
Executive directors:					
Zhao Li Sheng	**—**	**830**	**—**	**—**	**830**
Chan Lok San	**—**	**625**	**70**	**—**	**695**
Lin Yusheng	**—**	**347**	**1,531**	**10**	**1,888**
Zhou Xuhua	**—**	**733**	**18**	**52**	**803**
Independent non-executive directors:					
Duan Jidong (note)	**11**	**—**	**—**	**—**	**11**
Wong Cheuk Lam (note)	**11**	**—**	**—**	**—**	**11**
Zhang Jianqi (note)	**11**	**—**	**—**	**—**	**11**
	33	**2,535**	**1,619**	**62**	**4,249**
2009					
Executive directors:					
Zhao Li Sheng	—	755	—	8	763
Chan Lok San	—	559	78	8	645
Lin Yusheng	—	273	—	5	278
Zhou Xuhua	—	670	—	45	715
	—	2,257	78	66	2,401

During the years ended 31 December 2010 and 2009, no amount was paid or payable to the directors or any of the five highest paid individuals set out in note 12 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which any director waived or agreed to waive any remuneration during both years.

Note:

Appointed on 5 November 2010.

12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group include 4 (2009: 4) directors during the year, whose emoluments are disclosed in note 11. The aggregate of the emoluments in respect of the remaining individuals are as follows:

	2010 **RMB'000**	2009 RMB'000
Salaries and allowance	**336**	121
Bonuses	**61**	66
Retirement scheme contributions	**—**	29
	397	216

The emoluments of individuals other than directors with the highest emoluments are within the following bands:

	2010	2009
HK$nil to HK$1,000,000	1	1

13. PROPERTY, PLANT AND EQUIPMENT

The Group

	Building RMB'000	Leasehold improvements RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2009	—	129	3,838	3,523	—	7,490
Additions	707	110	135	122	—	1,074
Disposal	—	—	(40)	(62)	—	(102)
At 31 December 2009 and 1 January 2010	707	239	3,933	3,583	—	8,462
Additions	—	53	419	704	509	1,685
Disposal	—	—	(18)	—	—	(18)
At 31 December 2010	**707**	**292**	**4,334**	**4,287**	**509**	**10,129**
Accumulated depreciation						
At 1 January 2009	—	56	1,776	2,207	—	4,039
Charge for the year	8	38	435	400	—	881
Disposal	—	—	(36)	(55)	—	(91)
At 31 December 2009 and 1 January 2010	8	94	2,175	2,552	—	4,829
Charge for the year	32	45	472	336	—	885
Disposal	—	—	(16)	—	—	(16)
At 31 December 2010	**40**	**139**	**2,631**	**2,888**	**—**	**5,698**
Carrying amount						
At 31 December 2010	**667**	**153**	**1,703**	**1,399**	**509**	**4,431**
At 31 December 2009	699	145	1,758	1,031	—	3,633

The building is held under a medium term lease in the PRC and held for the Group's own use.

14. INVESTMENT PROPERTY

	The Group RMB'000
Fair value	
At 1 January 2009	45,400
Fair value gain	600
At 31 December 2009 and 1 January 2010	46,000
Fair value gain	9,000
At 31 December 2010	55,000

a) The Group's investment property was revalued as at 31 December 2010 and 2009 respectively on an open market value basis calculated by reference to recent market transactions in comparable properties and net rental income allowing for reversionary income potential. The valuations were carried out by an independent firm of valuers, DTZ Debenham Tie Leung Limited, who have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued.

b) The Group's investment property is held under medium-term lease in the PRC.

c) The Group's investment property was pledged to secure banking facilities granted to the Group during the year (note 23(c)).

d) The Group leases out investment property under an operating lease. The lease runs for a period of four years. None of the lease includes contingent rentals.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2010 RMB'000	2009 RMB'000
Within 1 year	**1,493**	1,422
After 1 year but within 5 years	**857**	2,350
	2,350	3,772

15. PREPAID LEASE PAYMENTS

	The Group RMB'000
Cost	
1 January 2009	—
Additions	7,583
At 31 December 2009, 1 January 2010 and 31 December 2010	7,583
Accumulated amortisation	
At 1 January 2009	—
Amortisation for the year	81
At 31 December 2009 and 1 January 2010	81
Amortisation for the year	243
At 31 December 2010	324
Carrying amount	
At 31 December 2010	7,259
At 31 December 2009	7,502

a) The Group's prepaid lease payments comprise land use rights held under medium term lease in the PRC.

b) The amortisation charge is included in the administrative expenses in the consolidated income statement.

16. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2010 RMB'000	2009 RMB'000
Unlisted shares, at cost	**155,864**	—

16. INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following list contains the particulars of subsidiaries of the Group as at 31 December 2010. The class of shares held is ordinary, except for those subsidiaries which were established in the PRC.

Name	Place of incorporation/ operations	Proportion of ownership interest held by the Group at effective interest	Issued and fully paid share capital/ registered capital	Principal activities
BVI Kingworld (Note (a))	BVI / Hong Kong	100%	USD110	Investment holding
Kingworld Medicine Healthcare Limited	Hong Kong	100%	HK$101,162,537	Investment holding and provision of marketing service
深圳市金活醫藥有限公司 SZ Kingworld (Note (b))	The PRC	100%	RMB80,000,000	Distribution sale of branded imported pharmaceutical and healthcare products in the PRC
武漢市金活信息諮詢服務有限責任公司 Wuhan City Kingworld Information Consultancy Services Company Limited (Note (c))	The PRC	100%	RMB100,000	Provision of marketing and consultancy service
無錫市金活信息諮詢服務有限責任公司 Wuxi City Kingworld Information Consultancy Services Company Limited (Note (c))	The PRC	100%	RMB100,000	Provision of marketing and consultancy service
南昌市金活信息諮詢服務有限責任公司 Nanchang City Kingworld Information Consultancy Services Company Limited (Note (c))	The PRC	100%	RMB100,000	Provision of marketing and consultancy service

16. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ operations	Proportion of ownership interest held by the Group at effective interest	Issued and fully paid share capital/ registered capital	Principal activities
大原市金活企業信息諮詢服務有限公司 Taiyuan City Kingworld Information Consultancy Services Company Limited (Note (c))	The PRC	100%	RMB100,000	Provision of marketing and consultancy service
福州金活企業信息諮詢服務有限公司 Fuzhou City Kingworld Information Consultancy Services Company Limited (Note (c))	The PRC	100%	RMB100,000	Provision of marketing and consultancy service
北京市金活信息諮詢服務有限責任公司 Beijing City Kingworld Information Consultancy Services Company Limited (Note (c))	The PRC	100%	RMB100,000	Provision of marketing and consultancy service
西安市金活信息諮詢服務有限責任公司 Xi'an City Kingworld Information Consultancy Services Company Limited (Note (c))	The PRC	100%	RMB100,000	Provision of marketing and consultancy service
蘭州市金活信息諮詢服務有限責任公司 Lanzhou City Kingworld Information Consultancy Services Company Limited (Note (c))	The PRC	100%	RMB100,000	Provision of marketing and consultancy service
合肥市金活信息諮詢服務有限責任公司 Hefei City Kingworld Information Consultancy Services Company Limited (Note (c))	The PRC	100%	RMB100,000	Provision of marketing and consultancy service

16. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ operations	Proportion of ownership interest held by the Group at effective interest	Issued and fully paid share capital/ registered capital	Principal activities
鄭州市金活信息諮詢服務有限責任公司 Zhengzhou City Kingworld Information Consultancy Services Company Limited (Note (c))	The PRC	100%	RMB100,000	Provision of marketing and consultancy service
杭州金活信息諮詢服務有限公司 Hangzhou City Kingworld Information Consultancy Services Company Limited (Note (c))	The PRC	100%	RMB100,000	Provision of marketing and consultancy service
南寧市金活商務服務有限公司 Nanning City Kingworld Business Services Company Limited (Note (c))	The PRC	100%	RMB100,000	Provision of marketing and consultancy service

Notes:

a) Except for BVI Kingworld which is directly owned by the Company, all other subsidiaries are indirectly owned by the Company.

b) Wholly-foreign owned enterprise established in the PRC.

c) A limited liability company established in the PRC.

d) The English names of the above PRC subsidiaries are for identification purpose only.

17. JOINTLY CONTROLLED ENTITY

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

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

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

	At 31 December	
	2010	2009
	RMB'000	RMB'000
Non-current assets	**4,811**	4,456
Current assets	**22,921**	39,542
Current liabilities	**(17,302)**	(31,425)
Net assets	**10,430**	12,573

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Income	**76,916**	57,080
Expenses	**(69,533)**	(54,086)
Profit before taxation	**7,383**	2,994
Income tax	**(1,526)**	(629)
Profit for the year	**5,857**	2,365
Other comprehensive income	**—**	—

17. JOINTLY CONTROLLED ENTITY *(Continued)*

	2010 RMB'000	2009 RMB'000
Share of the jointly controlled entity's capital commitments as at 31 December 2010:		
Contracted but not provided for:		
Capital expenditure for construction of office premise and warehouse	**11,571**	—

18. INVENTORIES

	The Group	
	2010 RMB'000	2009 RMB'000
Trading stocks	**59,317**	75,862

The analysis of the amount of inventories recognised as an expense is as follows:

	2010 RMB'000	2009 RMB'000
Carrying amount of inventories sold	**497,558**	435,205
Write-down of inventories	**341**	559
	497,899	435,764

19. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2010 **RMB'000**	2009 RMB'000	**2010** **RMB'000**	2009 RMB'000
Trade and bills receivables (notes (b) to (e))	**208,194**	111,745	**—**	—
Less: Allowance for doubtful debts	**(2,840)**	(2,779)	**—**	—
	205,354	108,966	**—**	—
Other receivables	**6,627**	4,822	**—**	—
Amounts due from related parties (note 31(b))	**—**	47,519	**—**	—
Loans and receivables	**211,981**	161,307	**—**	—
Derivative financial instruments (note 26)	**2,129**	3,068	**—**	—
Prepayments	**5,657**	13,968	**—**	3,532
Trade and other deposits	**3,158**	170	**—**	—
	222,925	178,513	**—**	3,532

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

b) *Ageing analysis*

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

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

The Group generally granted credit terms ranging from 30 days to 90 days to its customers during the year, except for the customers for purchase of the Group's product, Flying Eagle Wood Lok Medicated Oil (飛鷹活絡油), to which credit terms within 12 months (2009: 12 months) were granted during the year. As at 31 December 2010, the Group had trade and bills receivables of RMB25,371,000 (2009: RMB16,480,000) of this product. Further details on the Group's credit policy are set out in note 27(a).

19. TRADE AND OTHER RECEIVABLES *(Continued)*

c) *Impairment of trade and bills receivable*

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

Movements in the allowance for doubtful debts:

	The Group	
	2010	2009
	RMB'000	RMB'000
At 1 January	**2,779**	2,784
Impairment losses recognised (note 6(c))	**268**	50
Uncollectible amounts written off	**(207)**	(41)
Impairment losses reversed (note 6(c))	**—**	(14)
At 31 December	**2,840**	2,779

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

19. TRADE AND OTHER RECEIVABLES *(Continued)*

d) Trade and bills receivables that are not impaired

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

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

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

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

e) Bills receivables of RMB15,800,000 (2009: RMB1,139,000) as at 31 December 2010 were pledged to banks for bank loans and banking facilities granted to the Group (note 23(c)).

20. PLEDGED BANK DEPOSITS

All bank deposits are pledged to banks as security for banking facilities granted to the Group (see note 23(c)). Pledged banks deposits carry interest at market rates which range from 0.4% to 2.5% (2009: 0.4% to 2.3%) per annum for the year ended 31 December 2010.

21. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank balances	**269,312**	83,508	**224,290**	—
Cash on hand	**214**	54	**—**	—
Cash and cash equivalents in the consolidated statement of financial position and the consolidated statement of cash flows	**269,526**	83,562	**224,290**	—

Deposits with banks carry interest at market rates which range from 0.1% to 0.4% (2009: 0.1% to 0.4%) per annum for the year ended 31 December 2010.

22. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade and bills payables (notes (b) and (c))	**134,137**	115,972	**—**	—
Accruals	**2,559**	1,735	**618**	—
Other payables	**16,105**	4,364	**3,286**	—
Amounts due to related parties (note 31(b))	**—**	1,393	**—**	60
Amounts due to subsidiaries (note (d))	**—**	—	**24,423**	3,472
Financial liabilities measured at amortised cost	**152,801**	123,464	**28,327**	3,532
Trade deposits received	**12,716**	46,748	**—**	—
Receipts in advance	**2,976**	2,670	**—**	—
	168,493	172,882	**28,327**	3,532

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.

22. TRADE AND OTHER PAYABLES *(Continued)*

b) Ageing analysis

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

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

c) Bills payables of RMB7,093,000 (2009: RMB nil) as at 31 December 2010 were pledged by the Group's bank deposits (note 23(c)).

d) The amounts due to subsidiaries are unsecured, interest free and have no fixed terms of repayment.

23. BANK LOANS

The bank loans are secured and repayable as follows:

	The Group	
	2010	2009
	RMB'000	RMB'000
Within 1 year or on demand	**197,846**	246,606
After 1 year but within 2 years	**—**	60,000
	197,846	306,606
Representing:		
Current portion	**197,846**	246,606
Non-current portion	**—**	60,000

a) All of the bank loans are carried at amortised cost. None of the non-current interest-bearing loans were expected to be settled within one year.

23. BANK LOANS *(Continued)*

b) The range of effective interest rates on the Group's bank loans are as follows:

	The Group	
	2010	2009
Effective interest rates:		
Fixed rate loans	**2.0% - 7.7%**	0.2% - 2.6%
Variable rate loans	**2.3% - 5.4%**	0.1% - 5.4%

c) As at 31 December 2010, the bank loans and bills payables were secured by the following assets of the Group. As at 31 December 2009, the bank loans were secured by the following assets of the Group and the guarantees given by a director of the Company and a related party (note 31(c)).

	The Group	
	2010	2009
	RMB'000	RMB'000
Investment property (note 14(c))	**55,000**	46,000
Bills receivables (note 19(e))	**15,800**	1,139
Pledged bank deposits (note 20)	**131,873**	246,619
	202,673	293,758

24. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

a) Current taxation in the consolidated statement of financial position represents:

	The Group	
	2010	2009
	RMB'000	RMB'000
Provision for PRC income tax	**10,994**	7,668
Provisional income tax paid	**(2,333)**	(3,031)
	8,661	4,637

24. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION *(Continued)*

b) *Deferred tax assets and liabilities recognised:*

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	The Group		
	Revaluation of investment property RMB'000	**Withholding tax RMB'000**	**Total RMB'000**
At 1 January 2009	(340)	1,520	1,180
Charged to consolidated income statement (note 7(a))	120	1,759	1,879
Tax paid	—	(1,483)	(1,483)
Effect of change in tax rate	(38)	—	(38)
At 31 December 2009	(258)	1,796	1,538
At 1 January 2010	**(258)**	**1,796**	**1,538**
Charged to consolidated income statement (note 7(a))	**1,980**	**2,531**	**4,511**
Tax paid	**—**	**(1,000)**	**(1,000)**
Effect of change in tax rate	**(26)**	**—**	**(26)**
At 31 December 2010	**1,696**	**3,327**	**5,023**

c) *Deferred tax assets and liabilities not recognsied*

There were no significant unrecognsied deferred tax assets and liabilities of the Group and the Company as at 31 December 2010 and 2009.

25. SHARE CAPITAL AND RESERVES

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of the equity between the beginning and the end of the year are set out below:

	Share capital RMB'000 (note a)	Share premium RMB'000 (note b)	Contributed surplus RMB'000 (note f)	Exchange reserve RMB'000 (note g)	Accumulated losses RMB'000	Total RMB'000
At 1 January 2009	—	—	—	—	—	—
Changes in equity:						
Total comprehensive income for the year	—	—	—	—	—	—
At 31 December 2009	—	—	—	—	—	—
At 1 January 2010	**—**	**—**	**—**	**—**	**—**	**—**
Change in equity:						
Shares issued for acquisition of a subsidiary pursuant to the Reorganization	**1**	**—**	**155,863**	**—**	**—**	**155,864**
Capitalisation issue	**38,650**	**(38,650)**	**—**	**—**	**—**	**—**
Shares issued upon placing and public offering	**12,883**	**193,252**	**—**	**—**	**—**	**206,135**
Shares issued upon exercise of the over-allotment option	**1,934**	**29,015**	**—**	**—**	**—**	**30,949**
Share issurance cost	**—**	**(30,917)**	**—**	**—**	**—**	**(30,917)**
Total comprehensive loss for the year	**—**	**—**	**—**	**(2,388)**	**(7,816)**	**(10,204)**
At 31 December 2010	**53,468**	**152,700**	**155,863**	**(2,388)**	**(7,816)**	**351,827**

25. SHARE CAPITAL AND RESERVES *(Continued)*

a) *Share Capital*

The Group

The share capital of the Group as at 31 December 2009 represents the aggregate amount of issued share capital of the Company and BVI Kingworld. The share capital of the Group as at 31 December 2010 represents the issued and fully paid share capital of the Company.

The Company

	Note	Number of shares '000	Amount HK$'000	Amount equivalent to RMB$'000
Authorised:				
Ordinary shares of HK$0.1				
At 1 January 2009, 31 December 2009 and 1 January 2010	(i)	3,800	380	334
Increase in authorised share capital	(ii)	9,996,200	999,620	877,566
At 31 December 2010		10,000,000	1,000,000	877,900
Issued and fully paid:				
Ordinary shares of HK$0.1				
At 1 January 2009, 31 December 2009 and 1 January 2010	(i)	—	—	—
Shares issued for acquisition of a subsidiary pursuant to the Reorganisation	(ii)	9	1	1
Capitalisation issue	(iii)	449,991	44,999	38,650
Shares issued under the placing and public offering	(iv)	150,000	15,000	12,883
Shares issued upon exercise of the over-allotment option	(v)	22,500	2,250	1,934
At 31 December 2010		622,500	62,250	53,468

25. SHARE CAPITAL AND RESERVES *(Continued)*

a) *Share Capital* *(Continued)*

i) The Company was incorporated on 10 July 2008 with an authorised share capital of HK$380,000 comprising 3,800,000 ordinary shares of HK$0.1 each. On the date of incorporation and 25 September 2008, 1 and 99 ordinary shares, respectively, of HK$0.1 each were allotted and issued at par.

ii) In preparation for the Company's Listing, the following changes in authorised and issued share capital of the Company took place on 5 November 2010:

— the authorised share capital of the Company increased from HK$380,000 to HK$1,000,000,000 by the creation of 9,996,200,000 ordinary shares at par value of HK$0.1 each, ranking pari passu with the existing ordinary shares of the Company in all respects, pursuant to the written resolutions of the shareholders of the Company passed on that date.

— an aggregate of 8,580 ordinary shares of the Company of HK$0.1 each were allotted and issued to the then shareholders of Kingworld BVI, credited as fully paid at par, as consideration for the acquisition of the entire issued capital of Kingworld BVI of HK$858 (equivalent to RMB740) pursuant to the Reorganisation.

iii) On 25 November 2010, an aggregate of 449,991,320 ordinary shares of HK$0.1 each were allotted, issued and fully paid at par, by way of capitalisation of the sum of HK$44,999,132 (equivalent to RMB 38,650,000) to the share premium account, to the then shareholders of the Company at the close of business on 5 November 2010 in proportion to their respective then existing shareholding prior to the Company's Listing.

iv) On 25 November 2010, 150,000,000 ordinary shares of HK$0.1 each were issued upon the placing and public offering at a price of HK$1.6 per share for an aggregate gross proceeds of HK$240,000,000 (equivalent to RMB206,135,000), of which HK$15,000,000 (equivalent to RMB12,883,000) and HK$225,000,000 (equivalent to RMB193,252,000) were credited to the share capital and the share premium respectively.

v) On 1 December 2010, the Sole Global Coordinator of the Company's Listing fully exercised the over-allotment option on behalf of the underwriters. The Company allotted and issued an aggregate of 22,500,000 additional shares, representing 15% of the shares initially issued under the placing and public offering, at a price of HK$1.6 per share with an aggregate gross proceeds of HK$36,000,000 (equivalent to RMB30,949,000), of which HK$2,250,000 (equivalent to RMB1,934,000)and HK$33,750,000 (equivalent to RMB29,015,000) were credited to the share capital and the share premium respectively.

b) *Share premium*

The application of the share premium account of the Company is governed by the Companies Law of the Cayman Islands.

c) During the year ended 31 December 2009, the shareholders' equity loans of RMB89,000,000 were capitalised into 100 ordinary shares of US$1 each at par of BVI Kingworld and RMB88,999,230 was recognised in the Group's share premium account.

25. SHARE CAPITAL AND RESERVES *(Continued)*

d) Capital reserve

Capital reserve represents the excess of paid-up capital over the registered capital of the subsidiaries comprising the Group prior to the Company's Listing.

e) Statutory and discretionary reserves

The Group's PRC subsidiaries are required to transfer 10% of their net profits as determined in accordance with the PRC regulations to the statutory reserve until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders.

The transfer of net profits to the discretionary reserve of the Group's PRC subsidiaries is determined by the owners in general meetings in accordance with the article of association and the PRC regulations. The transfer to this reserve must be made before the distribution of a dividend to shareholders.

The statutory and discretionary reserves are non-distributable. They can be used to reduce previous years' losses, if any, and may be converted into share capital by the issue of new shares to owners in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

f) Contributed surplus

The Group's contributed surplus represents the difference between the nominal value of the shares issued by the Company and the aggregate of the share capital and share premium of the subsidiaries acquired upon the Reorganisation.

The Company's contributed surplus represents the excess of total net assets of the subsidiaries acquired, pursuant to the Reorganisation prior to the Company's Listing, over the nominal value of the Company's shares issued in exchange therefore.

g) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2(s).

25. SHARE CAPITAL AND RESERVES *(Continued)*

h) Distributable reserves

i) Under the Companies Law of the Cayman Islands, the funds in the share premium account and contributed surplus account of the Company are distributable to the owners of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

ii) At 31 December 2010, the aggregate amount of reserves available for distribution to owners of the Company was RMB300,747,000 (2009: RMB nil). After the end of the reporting period, the directors proposed a final dividend of HK3.71 cents (equivalent to approximately RMB3.12 cents) (2009: HK nil cents) per share amounting to RMB19,417,000 (2009: RMB nil) (note 9(b)). This dividend has not been recognised as a liability at the end of the reporting period.

26. DERIVATIVE FINANCIAL INSTRUMENTS

	The Group	
	2010	2009
	RMB'000	RMB'000
Forward foreign exchange contracts at fair value and included under current assets (note 19)	**2,129**	3,068
Notional principal amounts of forward foreign exchange contracts outstanding at the end of the reporting period	**122,047**	245,466

a) All forward foreign exchange contracts have the maturity period within or on one year.

b) Derivative financial assets represented the amounts the Group would receive if the position was closed at the end of the reporting period.

27. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The Group's major financial instruments include cash and bank balances, pledged bank deposits, trade and other receivables and payables, bank loans, derivative financial instruments of forward foreign exchange contracts. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, interest rate risk, currency risk and business risk. The policies on how to mitigate these risks are set out as below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

a) Credit risk

i) As at 31 December 2010, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance.

ii) In respect of trade receivables, in order to minimise risk, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of its customers' financial position and condition is performed on each and every major customer periodically. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group does not require collateral in respect of its financial assets. Trade receivables are usually due within 30 days to 90 days from the date of billing, except for the receivables in relation to the Group´s product, Flying Eagle Wood Lok Medicated Oil, which are due within 12 months from the date of billing.

27. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

a) *Credit risk* *(Continued)*

iii) In respect of trade receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk. At the end of the reporting period, the Group had certain concentration of credit risk of 2% (2009: 10%) of the total trade receivables due from the Group's largest customer and 27% (2009: 24%) of the total trade receivables due from the Group's five largest customers as at 31 December 2010.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 19.

iv) In respect of other receivables, the credit quality of the debtors is assessed by taking into account of their financial position, relationship with the Group, credit history and other factors. Management regularly reviews the recoverability about these other receivables and follow up the amounts overdue, if any. The directors are of the opinion that the probability of default by counterparties is low.

v) The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings given by international credit-rating agencies.

b) *Liquidity risk*

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to board approval. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Group relies on bank borrowings as a significant source of liquidity.

27. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

b) *Liquidity risk* *(Continued)*

The following liquidity risk tables set out the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current rates at the end of the reporting period) and the earliest date the Group is required to pay:

	The Group			
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amount RMB'000
2010				
Non-derivative financial liabilities				
Trade and bills payables	**134,137**	**—**	**134,137**	**134,137**
Accruals	**2,559**	**—**	**2,559**	**2,559**
Other payables	**16,105**	**—**	**16,105**	**16,105**
Bank loans	**197,846**	**—**	**197,846**	**197,846**
	350,647	**—**	**350,647**	**350,647**
2009				
Non-derivative financial liabilities				
Trade and bills payables	115,972	—	115,972	115,972
Accruals	1,735	—	1,735	1,735
Other payables	4,364	—	4,364	4,364
Amounts due to related parties	1,393	—	1,393	1,393
Bank loans	246,606	66,391	312,997	306,606
	370,070	66,391	436,461	430,070

27. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

b) *Liquidity risk* *(Continued)*

	The Company			
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amount RMB'000
2010				
Non-derivative financial liabilities				
Accruals	**618**	**—**	**618**	**618**
Other payables	**3,286**	**—**	**3,286**	**3,286**
Amounts due to subsidiaries	**24,423**	**—**	**24,423**	**24,423**
	28,327	**—**	**28,327**	**28,327**
2009				
Non-derivative financial liabilities				
Other payables	60	—	60	60
Amounts due to subsidiaries	3,472	—	3,472	3,472
	3,532	—	3,532	3,532

27. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

c) *Interest rate risk*

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank loans and bank balances (notes 23 and 21) and fair value interest rate risk in relation to fixed-rate bank loans and pledged bank deposits (notes 23 and 20).

i) *Interest rate profile*

The following table details the interest rate profile of the Group's bank loans, bank balances and deposits at the end of the reporting period:

	2010		2009	
	Effective interest rates %	**RMB'000**	Effective interest rates %	RMB'000
Fixed rate borrowings:				
Bank loans	**2.0-7.7**	**105,021**	0.2-2.6	91,457
Variable rate borrowings:				
Bank loans	**2.3-5.4**	**92,825**	0.1-5.4	215,149
Total borrowings		**197,846**		306,606
Net fixed rate borrowings as a percentage of total borrowings		**53%**		30%
Variable rate bank balances and deposits	**0.1-0.4**	**269,312**	0.1-0.4	83,508
Fixed rate pledged bank deposits	**0.4-2.5**	**131,873**	0.4-2.3	246,619

ii) *Sensitivity analysis*

All of the bank loans and the pledged deposits of the Group which are fixed rate instruments are insensitive to any change in interest rates. A change in interest rates at the end of the reporting period would not affect profit or loss.

At 31 December 2010, it is estimated that a general increase/decrease of 100 basis points in interest rates for variable rate bank loans, bank balances and deposits, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately RMB1,765,000 (2009: decrease/increase the Group's profit after tax and retained profits by approximately RMB1,316,000). Other components of consolidated equity would not change in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual end of the reporting period. The analysis is performed on the same basis for the 2009.

27. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

d) Currency risk

The Group is exposed to currency risk primarily through purchases which give rise to trade and bills payables, bank balances and bank loans that are denominated in foreign currencies other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars ("USD") and Hong Kong dollars ("HK$") to the extent that they are not the functional currency of the operations to which the transactions and balances related. The Group enters into forward foreign exchange contracts to manage its foreign currency risk arising from above anticipated transactions denominated in foreign currencies.

i) Exposure to currency risk

	2010	2009
	RMB'000	RMB'000
Assets/(Liabilities)		
Cash and cash equivalents		
USD	**—**	1
HK$	**8**	2,322
Trade and bills payables		
HK$	**(132,699)**	(115,925)
Bank loans		
USD	**(89,221)**	(36,362)
HK$	**(32,825)**	(209,104)
Derivative financial assets/(liabilities)		
USD	**1,486**	(214)
HK$	**643**	3,282
	2,129	3,068
Total assets		
USD	**1,486**	1
HK$	**651**	5,604
Total liabilities		
USD	**(89,221)**	(36,576)
HK$	**(165,524)**	(325,029)

27. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

d) Currency risk

ii) Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of the reporting period.

The Group

	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
At 31 December 2010			
USD	**5%**	**(4,387)**	**—**
	(5)%	**4,387**	**—**
HK$	**5%**	**(8,244)**	**—**
	(5)%	**8,244**	**—**
At 31 December 2009			
USD	5%	(1,829)	—
	(5)%	1,829	—
HK$	5%	(15,971)	—
	(5)%	15,971	—

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the Group entities' exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual end of the reporting period. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes. The analysis is performed on the same basis for 2009.

27. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

e) Business risk

The Group has a certain concentration of business risk as 72% (2009: 67%) of its total turnover during the year from a principal product, Nin Jiom Pei Pa Koa（京都念慈庵蜜煉川貝枇杷膏）, which was purchased from a sole supplier that is the designated distributor of the manufacturer of Nin Jiom Pei Pa Koa. In April 2010, the Group entered into a three-year period distribution agreement with the manufacturer and the supplier of Nin Jiom Pei Pa Koa, pursuant to which the Group is entitled the non-exclusive distribution right to sell Nin Jiom Pei Pa Koa in certain provinces in the PRC and is granted the credit terms of 60 days. If there is any change in consumer taste and demand of the product, or the supplier does not renew the purchase agreement, the Group's turnover and profitability will be adversely affected.

f) Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured at fair value at the end of the reporting period, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: fair value measurements are those derived from using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.
- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

	2010 **Level 2** **RMB'000**	2009 Level 2 RMB'000
Financial assets at fair value through profit or loss		
Derivative financial assets	**2,129**	3,068

Save as disclosed above, the fair values of cash and bank balances, pledged bank deposits, trade and other receivables and payables and bank loans are not materially different from their carrying amounts because of the immediate or short-term maturity of these financial instruments. The carrying amounts of bank loans approximate their fair values.

27. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

g) *Estimation of fair values*

The following summarises the major methods and assumptions used in estimating the fair values of the following financial instruments.

i) *Interest-bearing bank loans*

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

ii) *Forward foreign exchange contracts*

The fair value of forward foreign exchange contracts is determined by using the forward exchange rates at the end of the reporting period and comparing to the contractual rates.

h) *Capital management*

The Group's objectives when managing capital are to ensure that entities in the Group will be able to continue as a going concern while maximising the return to owners of the Company through the optimisation of the debt and equity balance. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt.

The Group monitors its capital structure on the basis of a debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. The Group defines net debt as interest-bearing bank loans less pledged bank deposits and cash and cash equivalents. Adjusted capital comprises all components of equity.

The Group's net debt-to-adjusted capital ratio at 31 December 2010 and 2009 were as follows:

	2010 RMB'000	2009 RMB'000
Bank loans	**197,846**	306,606
Total debt	**197,846**	306,606
Less: Pledged bank deposits	**(131,873)**	(246,619)
Cash and cash equivalents	**(269,526)**	(83,562)
Net debt	**—**	—
Total equity	**370,308**	156,028
Net debt-to-adjusted capital ratio	**0%**	0%

28. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set forth in note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

a) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

b) Impairment of assets

If circumstances indicate that carrying value of the Group's property, plant and equipment and prepaid lease payments may not be recoverable, the assets may be considered impaired, and an impairment loss may be recognised in profit or loss. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volumes, sales revenue and amount of operating costs.

c) Valuation of investment property

Investment property is included in the consolidated statement of financial position at its open market value, which is assessed annually by independent qualified valuers, after taking into consideration on an open market value basis calculated by reference to recent market transactions in comparable properties and the net income allowing for reversionary potential.

The assumptions adopted in the property valuation are based on the market conditions existing at the end of the reporting period, with reference to current market sales prices and the appropriate capitalisation rate.

28. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

d) Impairment for bad and doubtful debts

The Group estimates allowance for impairment of doubtful debts on trade and other receivables resulting from inability of the debtors to make the required payments. The Group bases the estimates on the ageing of the trade and other receivables balance, debtor credit-worthiness, and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimates.

e) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated selling expenses. These estimates are based on the current market conditions and the historical experience of selling merchandise of similar nature. It could change significantly as a result of changes in customer taste or competitor actions. The Group reassesses these estimates at the end of the reporting period.

f) Income tax

Determining income tax provision involves judgement on the future tax treatment of certain transactions. The directors carefully evaluate tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, the directors' judgement is required to assess the probability of future taxable profits. The directors' assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

g) Fair value of derivative financial instruments

The fair values of outstanding derivative transactions are based on independent valuations and are cross checked against fair values obtained from major financial institutions. Judgement is required in determining such valuations. Changes in the underlying assumptions may materially impact profit or loss.

h) Interests in subsidiaries

Interests in subsidiaries are carried at cost less any impairment. Judgement is required when determining whether an impairment existed. In making this judgement, historical data and factors such as industry, sector performance and financial information regarding the subsidiaries are taken into account.

29. COMMITMENTS

a) Commitments under operating lease

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

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

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

b) Capital commitments

Other than the Group's share of capital commitments of the jointly controlled entity disclosed in note 17, the Group did not have any other significant capital commitments as at 31 December 2010 and 2009.

30. EMPLOYEE RETIREMENT BENEFITS

The Group participates in a state-managed scheme. The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute ranging from 8% to 11% of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to income statement of RMB 2,706,000 (2009: RMB 2,028,000) represents contributions payable to these schemes by the Group during the year.

31. RELATED PARTY TRANSACTIONS

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

Name of related parties	Relationship
Mr. Zhao	The Company's director and the sole shareholder of the ultimate holding company of the Company
Ms. Chan	The Company's director and the wife of Mr. Zhao
Huang Lanjiao ("Ms. Huang")	Mother of Mr. Zhao
Morning Gold Medicine Company Limited ("Morning Gold")	Wholly owned by both Mr. Zhao and Ms. Chan
Pearl Shining Co. ("Pearl Shining")	Note (i)
Yuen Tai Pharmaceuticals Limited ("Yuen Tai")	Subsidiary of Morning Gold
深圳市金活利生藥業有限公司 Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited ("SZ Kingworld Lifeshine")	Subsidiary of Morning Gold
深圳市金活實業有限公司 Shenzhen Kingworld Industry Company Limited ("SZ Industry")	Directly wholly owned by Mr. Zhao prior to 9 September 2009 and indirectly wholly owned by both Mr. Zhao and Ms. Chan since the above date
上海金活實業有限公司 Shanghai Kingworld Industry Company Limited ("SH Industry")	Subsidiary of SZ Industry
深圳市新華鵬消毒劑有限公司 Shenzhen Xin Hua Ping Sterilization Company Limited ("Xin Hua Peng")	Subsidiary of SZ Industry
廣東金保利醫藥有限公司 Guangdong Jinbaoli Medicine Company Limited ("Jinbaoli")	Note (ii)

31. RELATED PARTY TRANSACTIONS *(Continued)*

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

Name of related parties	Relationship
深圳市金世界百貨物業管理有限公司 Shenzhen Kingworld Department Store Property Management Company Limited ("Kingworld Department Store Property Management")	Note (iii)
深圳市金活吉遜高爾夫用品有限公司 Shenzhen King Gibson Golf Company Limited ("King Gibson PRC")	Note (iv)

Notes:

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

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

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

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

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

31. RELATED PARTY TRANSACTIONS *(Continued)*

b) Related party transactions and balances

Recurring transactions

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

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

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

— SZ Industry granted certain rights to the Group to use its trademarks and distribution right for sale of goods in the PRC and its domain names "Kingworld.cn" and "Kingworld.com.cn" with a nil consideration during the years ended 31 December 2010 and 2009.

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

Non-recurring transactions

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

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

31. RELATED PARTY TRANSACTIONS *(Continued)*

b) Related party transactions and balances *(Continued)*

Amounts due from/(to) related parties

		Outstanding balance		Maximum outstanding balance	
	Note	**2010 RMB'000**	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Mr. Zhao					
Other receivable	(iv)	**—**	—	**14,400**	—
Other payable		**—**	(15)		
Net payable		**—**	(15)		
Ms. Chan					
Other receivable	(iv)	**—**	—	**3,600**	—
Other payable		**—**	(4)		
Net payable		**—**	(4)		
Morning Gold					
Other receivable		**—**	—	**—**	1,344
Trade payable		**—**	(578)		
Other payable		**—**	(44)		
Net payable		**—**	(622)		
Pearl Shining					
Trade payable		**—**	(722)		
Yuen Tai					
Other receivable		**—**	9,418	**9,418**	9,456
SZ Kingworld Lifeshine					
Other receivable		**—**	4,218	**4,218**	27,982
Trade payable		**—**	(3,611)		
Net receivable		**—**	607		

31. RELATED PARTY TRANSACTIONS *(Continued)*

b) Related party transactions and balances *(Continued)*

Amounts due from/(to) related parties *(Continued)*

	Note	Outstanding balance 2010 RMB'000	Outstanding balance 2009 RMB'000	Maximum outstanding balance 2010 RMB'000	Maximum outstanding balance 2009 RMB'000
SZ Industry					
Other receivable	(iv)	**—**	—	**18,800**	41,358
Other payable		**—**	(30)		
Net payable		**—**	(30)		
SH Industry					
Trade receivable		**—**	2,260		
Jinbaoli					
Other receivable		**—**	35,234	**35,234**	50,093
King Gibson PRC					
Other receivable		**—**	—	**—**	1,871
Xin Hua Peng					
Other receivable		**—**	—	**—**	521
Total net receivables included in amounts due from related parties (note 19)	(v)	**—**	47,519		
Total net payables included in amounts due to related parties (note 22)	(v)	**—**	(1,393)		

31. RELATED PARTY TRANSACTIONS *(Continued)*

b) Related party transactions and balances *(Continued)*

Amounts due from/(to) related parties *(Continued)*

Notes:

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

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

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

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

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

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

Year ended 31 December 2010

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

Year ended 31 December 2009

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

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

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

31. RELATED PARTY TRANSACTIONS *(Continued)*

d) Key management remuneration:

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 11 and certain of the highest paid employees as disclosed in note 12, is as follows:

	2010	2009
	RMB'000	RMB'000
Salaries, allowances and other benefits	**3,907**	3,351
Discretionary bonus	**2,347**	695
Contributions to defined contribution retirement plan	**300**	265
	6,554	4,311

32. MAJOR NON-CASH TRANSACTION

The Group had major non-cash transaction for the acquisition of a property of RMB3,820,000 which was recognised in the Group's prepaid lease payments and buildings held for own use of RMB3,170,000 and RMB650,000 respectively during the year ended 31 December 2009 from a related party. The consideration for acquisition of the above property was satisfied by settlement of the amount due from the related party. Details of this transaction refer to note 31(b)(iii).

33. IMMEDIATE AND ULTIMATE HOLDING COMPANY

The Company's directors consider the immediate and ultimate holding company of the Company as at 31 December 2010 to be Golden Land International Limited, a company incorporated in the BVI.

34. EVENT AFTER REPORTING PERIOD

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

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

35. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATION ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new and revised standards and interpretations which are not yet effective for the year ended 31 December 2010.

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[2]
HKFRS 1 (Amendments)	Servere Hyperinflation and Removal of Flxed Dates for First-time Adopters[3]
HKFRS 7 (Amendments)	Disclosures — Transfer of Financial Assets[3]
HKFRS 9	Financial Instruments[4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
HKAS 24 (as revised in 2009)	Related Party Disclosures[6]
HKAS 32 (Amendments)	Classification of Rights Issues[7]
HK (IFRIC*) — Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
HK (IFRIC*) — Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

* IFRIC represents the International Financial Reporting Interpretations Committee.

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.

2 Effective for annual periods beginning on or after 1 July 2010.

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

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

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

6 Effective for annual periods beginning on or after 1 January 2011.

7 Effective for annual periods beginning on or after 1 February 2010.

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

Financial Summary

	For the year ended 31 December			
	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Results				
Turnover	**638,046**	556,417	536,021	527,327
Profit before taxation	**58,342**	46,753	45,441	35,570
Income tax	**(15,479)**	(9,509)	(11,044)	(6,335)
Profit for the year	**42,863**	37,244	34,397	29,235
Attributable to				
Owners of the Company	**42,863**	37,244	34,397	29,235
Asset and Liabilities				
Total assets	**750,331**	641,691	547,853	499,439
Total liabilities	**380,023**	485,663	428,918	367,279
Equity attributable to owners of the Company	**370,308**	156,028	118,935	132,160

Note:

The summary of the results and assets and liabilities for each of the three years ended 31 December 2009 were extracted from the Company's Prospectus dated 12 November 2010 and prepared on a combined basis as if the current structure of the Group has been in existence throughout the years.