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

2012 Annual Report

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

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AUTHORISED REPRESENTATIVES

Mr. Lin Yusheng
Mr. Chan Hon Wan

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Cayman Islands

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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

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Financial Highlights

	For the year ended 31 December		Changes in %
	2012	2011	Increase/
	RMB '000	RMB '000	(Decrease)
Financial Highlights			
Turnover	**705,519**	685,562	2.9%
Cost of sales	**(541,674)**	(524,730)	3.2%
Gross profit	**163,845**	160,832	1.9%
Profit before taxation	**63,257**	73,816	(14.3)%
Profit attributable to owners of the Company	**48,535**	51,031	(4.9)%
Basic earnings per share (RMB cents)	**7.80**	8.20	(4.9)%
Proposed final dividends per share (HK cents)	**2.90**	4.04	(28.2)%
Liquidity and Asset-liability Ratio			
Liquidity [(1)]	**2.2**	2.4	(8.3)%
Quick ratio [(2)]	**2.0**	2.2	(9.1)%
Asset-liability ratio [(3)]	**9.3%**	7.6%	22.4%

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 inventories 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%.

Dear Shareholders,

On behalf of the Board of Directors (the "Board" or "Directors") of Kingworld Medicines Group Limited (the "Company"), I hereby present the annual report of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2012 (the "Year Under Review") for all shareholders (the "Shareholders").

YEAR UNDER REVIEW

In 2012, there occurred considerably significant events affecting the pharmaceutical market in China. The Diaoyu Islands incident brought impact on the demand of products made in Japan. The poison capsule issue triggered reforms on the safety administration on the pharmaceutical industry. At the same time, during the "Twelveth Five-Year Period", it was ordered by the PRC State Council that all retail drug stores and other medical institutions should be equipped with and use essential drugs. The percentages of reimbursement claims on essential drugs would then be apparently higher than non-essential drugs. These issues brought considerable pressure and challenges to the development of the Group.

As the urbanisation process became more in-depth and well developed, income per capita continued to increase. Public became increasingly concerned about health and safety. There were rising demands for imported health products of high quality by consumers at large. Moreover, the total costs invested by the PRC government in health services surged notably. The pharmaceutical market in China will continue to expand, which will push further growth in the total output of the pharmaceutical industry, encourage rapid increase in total profit and bring impetus together with business opportunities to the Group.

1. TIMELY REFINED PRODUCT STRATEGIES AND COMPOSITIONS UPHELD THE STABILITY OF OPERATION RESULTS

Under the leadership of the Board, together with the joint efforts from all staff, the Group resolved the unfavourable effect arising from industry policies and political contingencies, and proactively refined its product composition. In addition to maintaining the market share of products traditionally leading in the industry, the Group speedily explored the market of new products during the Year Under Review. Product ranges such as cough relieving and medicines for external use were relied to achieve breakthrough. By placing emphasis on the advantages of end-user terminals and "Kingworld Healthy Family"(金活健康之家), the Group vigorously implemented accurate marketing strategies by a sales team with coverage throughout China, and expanded the market share of its key products. Hence, the turnover and profit of the Group as a whole remained generally steady. For the year ended 31 December 2012, the turnover of the Group reached approximately RMB705,519,000, representing a year-on-year increase of 2.9%. The profit for the year of the Group was approximately RMB48,535,000, representing a decrease of 4.9% compared to RMB51,031,000 the year before. Basic earnings per share was RMB7.80 cents, representing a decrease of RMB0.40 cents when compared to RMB8.20 cents the year before. The Board recommends a distribution of final dividend of HK$2.90 cents per share for the year of 2012, to express its gratitude for the trust and support from the Shareholders.

2. COOPERATION WITH LEADING PHARMACEUTICAL GROUPS AND EXPANSION OF DISTRIBUTION CHANNEL WITH TOP 100 PHARMACEUTICAL ENTERPRISES, TO ENHANCE THE STABILITY OF DISTRIBUTION AND END-USER TERMINAL NETWORK

The Group actively initiated extensive and comprehensive cooperation with leading national pharmaceutical groups in China. In the meantime, the Group also strengthened its cooperation with other enterprises ranked as top 100 pharmaceutical wholesale enterprises. The structure of the distribution network was optimised and the area covered by the network was expanded. This operation sought to lay a foundation for the smooth distribution of the Group's products to various medical end-user terminals, and increased the market coverage of our products. As at 31 December 2012, there were 230 primary distributors in the Group's network, which had a total of approximately 668 secondary sub-distributors.

The top 100 pharmaceutical wholesale chain enterprises did not only standardise the services provided to mid-to-high-end consumers, but also played a crucial role to the Group in its distribution business of medicines and healthcare products where coverage was extensive due to a large number of outlets, and had been meaningful in communicating the product branding. Hence, the Group kicked off numerous promotion activities and sales events in cooperation with the top 100 pharmaceutical wholesale chain enterprises during the Year Under Review, from which certain results were achieved. As at 31 December 2012, there were 468 customers under the Group's key chain drug stores enterprise, and there were a total of 10,317 outlets under such key chain drug stores enterprise.

During the Year Under Review, with a view to increasing the sales from "Kingworld Healthy Family", the Group optimised the portfolio of Product Display Booths under the name of "Kingworld Healthy Family" and reorganised those Product Display Booths that were not meeting the sales requirements or approaching expiry of cooperation. We continued to set up Product Display Booths at mega stand-alone drug stores and drug stores chain as well as commercial supermarkets in the urban areas, primarily by way of building up Product Display Booths under the name of "Kingworld Healthy Family". On the one hand, this served to promote the branded products of the Group, which maintained the market share of traditional products. On the other hand, this enhanced the sales of new products, which also remarkably improved the corporate brand image. As of 31 December 2012, there were a total of 2,643 Product Display Booths set up by the Group under the name of "Kingworld Healthy Family" in a total of 38 cities in 12 provinces in China.

3. HIGH QUALITY MANAGEMENT WITH FOCUS ON PRODUCT CATEGORIES AND SPECIFICATIONS AND CONTINUING OPTIMISATION OF PRODUCT PORTFOLIO

During the Year Under Review, in order to further explore health services provided to targeted consumers, the Group optimised and upgraded product categories development strategies for various types of disease medication and healthcare products. As to cough relieving products, the Group did not only preserve the market share of Nin Jiom Mi Lian Chuan Bei Pei Pa Koa (京都念慈庵蜜煉川貝枇杷膏), but also increased the market share of Nin Jiom Chuan Bei Pei Pa Candies (京都念慈菴川貝枇杷糖), a wellness product in nature. In addition, there were more flavours added to Nin Jiom Chuan Bei Pei Pa Candies product series, which further enhanced the health food nature of the product. Hence, a series of cough relieving health product, comprising of "medication + wellness + health food" was formed. The consumers' demand on cough relieving was thus adequately fulfilled. Moreover, the sales amount and profit of cough relieving product series from distribution and end-user terminal network could be increased.

As to medicated oil for external use, the Group formed a product bundle of Flying Eagle Wood Lok Medicated Oil (飛鷹活絡油) and Imada Red Flower Oil (依馬打正紅花油) once the one-off approval for Flying Eagle Wood Lok Medicated Oil was obtained in the second half of the Year Under Review. Such bundle with two different products of medicated oil for external use targeting "high-end + low-end" consumers did not only satisfy the wellbeing needs of high end consumers in muscles relieving, bruise trimming and pain relieving, but also the same for low end consumers in the medical end-user services segment. Furthermore, the combination of this bundle with Mentholatum (曼秀雷敦) menthol cream formed a medication category for external use of "pain relieving medicated oil for external use + itch relieving cream for external use". The needs of different consumers were fulfilled to the maximum extent.

As to medication for diarrhea, in 2012, the Group created a new specification of Seirogan (正露丸) of 200 tablets, which formed a series with multiple specifications of "50 tablets +100 tablets +200 tablets" that can satisfy different requirements of individuals, families, business units or private clinics.

4. MANAGEMENT OVER TALENT, STRATEGIES AND INTERNAL CONTROL STRENGTHENED THAT NOTABLY IMPROVED THE STANDARD OF CORPORATE GOVERNANCE

We were sincerely convinced that competition of enterprises in future is mainly a competition for talents. Therefore, the Group placed much emphasis on the introduction and cultivation of talents that can play an important role to the Company's development. During the Year Under Review, the Group speeded up the recruitment of high quality talents from external talent bank, whilst endeavours were also made in improving the competencies and standards of the existing management team. Through extensive cooperation with certain famous universities in China, "Kingworld Executives Training Course" (金活委培班) and "Kingworld EMBA Programme" (金活EMBA班) were organised, so that substantially all of the management cadres and key management officers were given opportunities to conduct systematic re-learning and acquired current effective management tactics and methods to enhance operation efficiency and corporate effectiveness.

On the other hand, it is extremely critical to maintain high standard of capabilities in corporate governance for the long-term development of the Company. Therefore, during the Year Under Review, the Company utilised a modernised tool of Internet, field-pass system to strengthen the corporate governance and execution capacities of the sales and marketing teams. Through the field-pass system, the Group can find out about the daily work routine and plans of sales representatives in different regions. At the same time, the sales representatives in different regions can also find out about the regulations, policies and requirements of the Group simultaneously. Communications between the Group and the sales representatives became more timely and swiftly.

In order to assure sustainable development of the competitiveness of its core businesses, the Group has already finalised its "Strategic Development Plan in the Third Phase" during the Year Under Review, and formulated strategic objectives in different aspects, such as future development of channels, end-user terminals, products and talents. Upon the implementation and conclusion of the "Strategic Development Plan in the Third Phase", our core competitiveness was further exemplified. Our profitability and risk prevention measures were elevated and consolidated.

5. SOCIAL AND CHARITABLE ACTIVITIES LAUNCHED FURTHER ENHANCED THE BRAND EQUITY OF THE GROUP

In the course of the Group's operation, we took up social responsibilities and actively participated in social and charitable activities. We joined the First Million Dollar Walk in Shenzhen (深圳首屆百萬行活動) and have paid for surgical operations of cataract patients at poverty-stricken areas for many continuous years. The Group also delivered "Heart to Heart" gospel ("心連心"福音) for poverty-stricken families of patients with congenital heart disease since the Year Under Review. All these titles proved that "Kingworld" is a well-known distributor in imported medicine and healthcare products in China, and that it received extensive recognition and support from the mass market.

Besides, during the Year Under Review, the Group received numerous honorable titles. Among them, the Group was again recognised as one of the Top 100 Import Enterprises of 2011 Chinese Medicines and Healthcare Products, and the trademark "Kingworld (金活)" was awarded the recognition of "Shenzhen Heritage Label (深圳老字號)".

FUTURE OUTLOOK

The pharmaceutical industry in China sees new changes and new trends in 2013. Factors such as the slight downward fluctuation of drug price, the expediting of new medication approval process, the introduction of the new essential medicines directory, the trial of county-level essential medicines directory and the raised threshold for certification, etc. all acted to make the industry more concentrated and the market more competitive, hence creating more opportunities for well-known pharmaceutical enterprises (including the Group). Under the guidance of the "Strategic Development Plan in the Third Phase", the Group was able to take full advantage of its own brands to build new marketing models by consolidating the multi-level brands of healthcare product brands, as well as utilising the benefits created by developments in the industry to increase the Group's growth rate.

1. TO CONTINUE TO DEVELOP THE HOSPITAL MARKET

As China's medical reform intensifies in 2013, development of urban hospitals and county-level hospitals will become faster; hence products distributed by the Group like Nin Jiom Chuan Bei Pei Pa Koa, Taiko Seirogan and Imada Red Flower Oil shall continue to consolidate its development in the hospital markets in Eastern and Southern China regions, while at the same time actively bid for tenders in order to lay foundation for the development of the county-level hospital market.

2. TO DEVELOP DIVERSIFIED SALES OF NON-PHARMACEUTICAL PRODUCTS IN CHAIN DRUG STORES

Due to the introduction of medical insurance and essential medicine directory reform, sales growth of prescriptive drugs covered by medical insurance at retail pharmacies and OTC drugs were soft, particularly as chain drug stores were actively adapting the strategy of diversification against this change, making the market share of non-pharmaceutical products (including well-being products, health food, health supplies and medical devices, etc.) at retail drug stores rise rapidly.

The Group will continue to liaise with relevant government departments, and with the support of the manufacturers, will strive for the government's approval to import the Japanese Kawaii Liver Oil Drop range of products. Once the approval is received, the Group will introduce a diverse operation model jointly with mainstream chain drug stores, in order to increase the popularity & sales of the products.

For medical devices, in addition to Band-Aids, in 2012, other products like Cooling Gel Sheets were also introduced under the Disney-franchised "Disney's Gold 100" range of products. Thus boosting product sales through end-user promotions as well as enriching the product mix.

Also, the Group will be introducing other well-being products and health food to participate in a variety of promotion activities held by drug store chains, as well as collaborating with market distribution network in order to serve the health needs of end-users.

3. TO OPTIMISE BRAND MANAGEMENT OF THE GROUP'S HEALTH PRODUCTS

For the brand management of the cough-relief medicine products, Nin Jiom Mi Lian Chuan Bei Pei Pa Koa continues to be the leading product, whereas Nin Jiom Chuan Bei Pei Pa Candies was the key promotion product. The Group will continue to concentrate on the promotion of the cough-relief product lines by adopting a joint promotion strategy of "cough-relief medicines + cough-relief well-being products + cough-relief health food".

In terms of brand management of external-use medicine, the marketing strategy of combining the promotion of "pain relieving medicated oil + anti-itching topical cream" concentrated on the joint promotion of the three leading products of Flying Eagle Wood Lok Medicated Oil, Imada Red Flower Oil and Mentholatum menthol cream. To meet with the spending habits of consumers from Northern China, the Group will also start to introduce the "Pain Relieving Bandages"(活血止痛貼劑) in order to expand the distribution and marketing network.

For the gastrointestinal product line, the Group will utilise the advantages provided by Taiko Seirogan to develop the markets in medical institutes and factory and mines clinics to expand existing sales channels.

4. TO INCREASE THE NUMBER OF KINGWORLD HEALTH FAMILY DISPLAY BOOTH AND QUALITY STANDARDS

The Kingworld Health Family Display Booth has always been the foremost and an important platform for the Group to display its products, raise brand awareness, enhance consumer communications and gauge consumer needs. In 2013, the Group plans to build on the foundation of number of booths that has been established, adding 357 booths to the existing 2,643 booths to a total 3,000 booths. The Group also plans to improve display booth quality and design, to carry out various promotional activities surrounding the booths, as well as to utilise the well-known brands represented by the display booths to develop other second-line products. Besides, display booths with higher customer traffic and sales will also be selected as flagship booths to feature the Company's various products according to phased changes of the marketing strategy.

5. TO INTRODUCE KINGWORLD HEALTH FAMILY E-BUSINESS PLATFORM

The pharmaceutical e-Business environment has been maturing steadily in recent years. SFDA (國家食品藥品監督管理局) has already approved the licensing of 67 online B2C pharmaceutical sales service websites. On the other hand, leading e-Business platforms have joined the online pharmacy bandwagon and introduced B2C pharmaceutical websites. This further increases the size and suppliers' input of the pharmaceutical e-Business market. According to the China Pharmaceutical e-Business Association's statistics, B2C pharmaceutical sales volume increased by 300% from approximately RMB400 million in 2011 to approximately RMB1.7 billion in 2012. It is expected that B2C pharmaceutical sales volume will continue to grow by 300% to approximately RMB5 billion in 2013 which demonstrates the development of B2C pharmaceutical sales is still good.

Looking forward, the Group will strive to penetrate the e-Business market for a bigger market share by expanding the Kingworld Health Family's e-Business official website, as well as reinforcing the Group's partnership with other websites by establishing special distribution channels for brands. Furthermore, the Group will also establish distribution channels on third-party e-business platforms. We believe this will provide tremendous boost in the sales of non-prescription drugs and health food for the Group.

6. TO BUILD A TALENTED TEAM

In order to meet with the increasing human resources need, the Group will be recruiting high caliber candidates from the relevant medical and pharmaceutical industries, including, on the one hand, recruiting talented professionals in the field of sales and marketing to bring new management philosophy and methods, and on the other hand, introducing experts in brand management to enhance the sustained and rapid growth of the Group's products and corporate brands. Meanwhile, the Group will continue to collaborate with universities and academic institutes in China, to provide training opportunities for the Group's existing management and key personnel in order to improve work effectiveness.

7. TO ACCELERATE MERGERS AND ACQUISITIONS IN THE INDUSTRY

In 2013, by leveraging on the State's policies and the progresses on modernisation, the Group will expand its scope of selecting targets for mergers and acquisitions to include the great wellness industry (大健康產業), including but not limited to the enterprises engaging in research and development of Chinese and western medicines by advanced technologies, medical enterprises engaging in specific niche market with advantages in the industry, enterprises engaging in production and distribution of products with high growth potentials, enterprises engaging in medical devices of high technology and high added value, enterprises with competitive advantages in wholesale at the regional markets, enterprises engaging in retail chain operations with advantages over its geographical regions. We will speed up the process and seek to complete the acquisition of enterprises.

8. TO CONTINUE CONSTRUCTION OF "KINGWORLD NATIONAL DISTRIBUTION CENTRE"

The Group has already signed a letter of intent with the Shenzhen Qianhai Development Authority to establish the "Kingworld National Distribution Centre" in the economic zone. The Group will also continue to strengthen communication and coordination with relevant authorities to expedite the construction of the "Kingworld National Distribution Centre" in order to meet with the need of the Group for centralised distribution throughout China.

On behalf of the Board of the Company, I hereby wish to extend my gratitude for the hard work contributed by all staff and the Directors, as well as the support of the Company from all the Shareholders.

Mr. Zhao Li Sheng
Chairman of the Board

Hong Kong, 25 March 2013

Management Discussion and Analysis

INDUSTRY REVIEW

1. *Continued improvement of pharmaceutical market conditions in 2012*

2012 was a year of medical reform. In addition to upgrades in pharmaceutical industry, increased concentration and enhanced control in medical and food hygiene and safety, various medical related policies such as "Management Approach to the Clinical Application of Antibiotic Drugs", New GMP Standards and New GSP Standards were announced or implemented during the year. Meanwhile, relevant medical administrative departments implemented higher threshold for industrial entrance, providing a wider scope of development for pharmaceutical companies, leading in turn to positive development in the structure of pharmaceutical industry and market conditions.

2. *Size of pharmaceutical end-market sustained stable development*

The medical reform has caused medical and health institutions to reposition their functions. Accordingly, corresponding changes to the market segmentation of the pharmaceutical end-market in the South have been made; 1) Hospital Market : County-level hospitals or above, the growth rate of drug usage in 2012 was expected to drop below 20%, at approximately 18.4%, showing a marked decrease; 2) Retail Market : the forecast growth rate for 2012 was relatively stable at around 15.0%; 3) Primary Medical Market : covering health institutions in both urban and rural communities, the forecast growth rate for 2012 was expected to rise to 31.4%; with the total size of the pharmaceutical market estimated to be RMB1,074.9 billion in 2012, representing an increase of 18.4% as compared with the same period.

3. *Pharmaceutical retail market remained stable*

As at the first half of 2012, there were 425,789 pharmaceutical outlets in China, with most of the newly added outlets being stand-alone drug stores. The total size of the drug retail market increased approximately 14.7% during the first half of 2012, with the overall growth rate in line with 2011. The number of retail drug stores continued to increase. The number of retail drug stores rose by 1,992 from the end of 2011 to the first half of 2012, with the average coverage per store dropping to 3,164 persons, indicating an increasingly competitive market.

There is room for improvement for professional standards, with many openings available for licensed pharmacists. As at early September 2012, there were only 61,669 licensed retail pharmacists in China. Retail drug stores, particularly chain stores, were actively developing their own brand of pharmaceutical lines (OEM) in order to obtain higher sales profit. The top 100 drug store chains have an average of 1,210 kinds of these products, with the highest reaching 4,228. The sales of our Group's Disney-franchised Band-Aids have suffered to a certain degree due to fierce competition among OEM products during the year under Review.

4. *Respiratory and gastrointestinal drugs topped the share in retail sales*

Figures provided by Sinohealth Integrated Information Centre (中國健康產業綜合性專業信息中心) indicated the expectation that in 2012, 92% of the OTC drug market was accounted for by the 15 bestselling OTC drugs, with the 5 best-selling categories (including respiratory and gastrointestinal drugs) accounting for 55.5% of the OTC market and the 10 best-selling categories accounting for 80% of the OTC market. Among the various growth rates, the oral rheumatoid medicines and Chinese orthopedic medicines would show the most marked increase of 30%, followed by contraceptive drugs and urinary and renal medicine at growth rates of nearly 20%. Throat and mouth medicines, calcium tablets and OTC eye medicines would see a growth rate below 10%. These development trends in the pharmaceutical industry have brought to the Group favorable development opportunities in respiratory drugs, gastrointestinal drugs and orthopedic drugs (medicated oil for external use).

		2010		2011		**2012**		
Serial no.	Types	Amount	Share	Amount	Share	**Amount**	**Share**	**Change**
1	Flu drug (including antipyretic drug)	158	20.5%	169	19.8%	**193**	**19.9%**	**14.2%**
2	Gastrointestinal drug	81	10.5%	94	11.0%	**108**	**11.1%**	**14.9%**
3	Cough and sputum relieving	70	9.1%	80	9.4%	**90**	**9.3%**	**12.5%**
4	Dermatological drug	62	8.0%	70	8.2%	**80**	**8.3%**	**14.3%**
5	Drug for throat and oral cavity	53	6.9%	62	7.3%	**67**	**6.9%**	**8.1%**
6	Gynecological drug	52	6.7%	58	6.8%	**64**	**6.6%**	**10.3%**
7	Pain relieving drug for external use	43	5.6%	47	5.5%	**53**	**5.5%**	**12.8%**
8	Urinary and its system supplements	32	4.1%	36	4.2%	**43**	**4.4%**	**19.4%**
9	Rheumatoid and traumatology drug for internal use	25	3.2%	30	3.5%	**39**	**4.0%**	**30.0%**
10	Calcium supplements	35	4.5%	35	4.1%	**38**	**3.9%**	**8.6%**
11	Vitamins and mineral supplements	28	3.6%	28	3.3%	**31**	**3.2%**	**10.7%**
12	Ophthalmology drugs	22	2.8%	24	2.8%	**26**	**2.7%**	**8.3%**
13	Antipyretic and analgesic (chemical compound)	17	2.2%	19	2.2%	**21**	**2.2%**	**10.5%**
14	Drugs and devices used in contraception	13	1.7%	15	1.8%	**18**	**1.9%**	**20.0%**
15	Nutritional and wellbeing drug	15	1.9%	16	1.9%	**18**	**1.9%**	**12.5%**
	Top 15 types sub-total	704	91.2%	783	91.8%	**890**	**91.8%**	**13.7%**
	Others	68	8.8%	70	8.2%	**80**	**8.3%**	**14.3%**
	OTC total	772	100.0%	853	100.0%	**969**	**100.0%**	**13.6%**

Market size and growth rates of main OTC categories (drugs) (unit: RMB100 million)

Management Discussion and Analysis

BUSINESS REVIEW

1. *Administration of product categories impressively effective with trends of growth shown in market share*

During the Year Under Review, through administration of product categories, optimization of distribution network and terminal network of key drug store chain, as well as strict control over retail end prices, the Group stabilized the market share of Nin Jiom Chuan Bei Pei Pa Koa, its key product in the Group's "cough relieving medications category". The Group launched the slogan of "Drink a spoon of Pei Pa Koa syrup at home and take a piece of Chuan Bei Pei Pa Candy during your trip (居家喝一口念膏，出外旅行含一片念糖)" and the credentials of "Taking a piece of Chuan Bei Pei Pa Candy after smoking makes you fresh and cool (抽煙後含一片念糖讓你神清氣爽)" on cough relieving, which were recognised by the consumers at large and quickly increased the sales of cough relieving wellbeing products and health food. As at 31 December 2012, the sales of Nin Jiom Chuan Bei Pei Pa Candies increased by 65% as compared with the same period in 2011, which laid a solid foundation for the integration and growth of "cough relieving medications".

Taiko Seirogan (喇叭牌正露丸) is one of the popular products distributed by the Group. Benefitted from the integration of channels in Guangdong and Fujian last year, advertising for sales of products and coverage of third party terminals, amicable growth in sales was achieved. During the Year Under Review, due to the sudden impact of "Diaoyu Islands incident", certain new consumers became resent over Japanese products. However, Taiko Seirogan, the Group's key product under the diarrhea medication category, virtually maintained its existing market share because of the high quality of such product and the excellent brand equity accumulated in the past years, as well as the launch and promotion of family size of 200 tablets. During the Year Under Review, the sales of Taiko Seirogan was fundamentally stable, amounting to RMB56,551,000 and representing a decrease of only 0.4% as compared with the same period in 2011.

The Group's third largest product category is the "medication for external use category", which include Imada Red Flower Oil, Flying Eagle Wood Lok Medicated Oil and Mentholatum menthol cream. By leveraging on the sales and marketing strategies for the administration of product bundle comprising of medicated oil for external use that

is "muscles relieving, bruise trimming and pain relieving" and menthol cream for external use that is "skin protecting and itch relieving", integrated marketing strategies that target "high-end + low-end" consumers in oil for external use segment for muscles relieving, bruise trimming and pain relieving was formulated.

The development trend of Imada Red Flower Oil in the market remained steady upon the brand's outstanding penetration. However, as affected by the medical reform in China, the system on essential drugs was implemented in different phases. As this product falls into the category of non-essential drugs, its market share in health centers at towns and hospitals at counties in certain regions dropped. During the Year Under Review, the Group adopted proactive strategies in response to consolidate the market share of such product in retail drugstore market, through the implementation of management of medication for external use category. This brought growth as a whole in the medication for external use category. As at 31 December 2012, the sales of the Group's Imada Red Flower Oil amounted to RMB20,495,000, representing a decrease of 29% as compared with the same period in 2011.

During the Year Under Review, Flying Eagle Wood Lok Medicated Oil, another pillar product of the Group, received policy support from competent government authorities and obtained the one-off import approval in July 2012. The receipt of approval was considerably favourable to the Group and provided very strong impetus to the integrated sales and promotion of the Group's medication for external use category. The product attracted huge attention from both new consumers and traditionally loyal consumers. As at 31 December 2012, Flying Eagle Wood Lok Medicated Oil rapidly recorded sales of RMB17,109,000 within just five months, whilst there was nil sales in the same period of the previous year as the approval of such document was not received.

In addition, the import of Kawaii Liver Oil Drop (可愛的肝油丸), another product of the Group, was still temporarily suspended by the end of 2012 due to the disastrous earthquake in Japan and China banning the import of foodstuff from 12 counties and cities in Japan. As the sales of liver oil drop only accounted for about 2.0% of the Group's total sales before the suspension in 2011, the effect of suspension was minimal on the Group's sales.

2. *Vertical and horizontal expansion of channels and end-user terminals with steady optimization in the distribution network*

Upon the phrasal implementation of National Pharmaceutical Distribution and Industry Development Plan (全國藥品流通行業發展規劃綱要) for the Twelfth-Five Year Period between 2011 and 2015 by the Ministry of Commerce, the pharmaceutical distribution industry in China demonstrated a swift and progressive change. The Group followed the trend and executed a number of initiatives, such as giving guarantee in timely delivery of products to end-user terminals, formulating strategy of a comprehensive coverage of network, and having

active and extensive cooperation with national or regional leading pharmaceutical groups in China. At the same time, the Group also strengthened its cooperation with top 100 pharmaceutical wholesale enterprises in China. The area covered by the distribution network was enlarged while the structure of the distribution network was consolidated. As at 31 December 2012, there were approximately 230 primary distributors in the Group's network, which in turn had a network of approximately 668 secondary sub-distributors.

There was continuous growth in top 100 drug store chains in China, in terms of number of outlets, sales amount and concentration of distribution. Such end-user terminal model was mainly engaged in the provision of services to mid-to-high end consumers, which was comparable to the Group's operation of high quality imported medicines and health products. The Group placed a lot of emphasis in the versatile cooperation with top 100 key drug store chains in China. As at 31 December 2012, there were approximately 468 customers under the Group's key chain drug stores enterprise, and there were a total of 10,317 outlets under such key chain drug stores enterprise.

3. *Revamp and improve operation quality of product display booths*

In order to empower the promotion and marketing of the branded products under the Group, and to further enhance our corporate and brand image, the Group exercised stricter control over the selection of premises for the Product Display Booths under the name of "Kingworld Healthy Family", and conducted refinement and optimisation over the Product Display Booths at different provinces and cities in China. On the one hand, specific studies were carried out on the outlet locations, sales and interior decorations with

those Product Display Booths that were not meeting the expectation on outlet locations, sales or interior decoration being removed or relocated. On the other hand, the Group focused to develop those outlets with apparent advantages, and gradually expanded our cooperation with existing end-user terminals having high traffic flow and good sales in stand-alone stores. Quality of promotion activities was improved to raise the sales of products at such Product Display Booths. As of 31 December 2012, there were a total of 2,643 Product Display Booths set up by the Group under the name of "Kingworld Healthy Family", representing a decrease of 11% from the number as at the end of the same period of the previous year.

MANAGEMENT REVIEW

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

During the Year Under Review, the Group launched its "Strategic Development plan in the Third Phrase", and employed renowned strategy experts in the domestic pharmaceutical industry to make a five-years' strategic development plan jointly with the Board and senior management of the Group. Through the implementation of the five-years' development plan in areas including businesses, personnel, management, networks and brands, the Group believes it will reach new heights and achieve substantial growth in performance.

2. *To apply information technologies in enhancing standard of management*

During the Year Under Review, the Group successfully launched an online field-pass system. The system allowed the management officers at headquarter and the management officers at the sales department to find out the daily work routine and the execution of marketing promotion activities by the sales representatives in different regions. At the same time, the electronic map for the end-user terminals could also be tagged upon the visits by the sales representatives. This would allow scientific appraisal on the performance of the sales staff, for which guidance could be given promptly to enhance their work results.

3. To include headquarter office in the project of provision of affordable industrial premises

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

4. To expedite the establishment of "Kingworld National Distribution Center"

During the Year Under Review, the Group successfully developed the feasibility report of "Kingworld National Distribution Center", and greatly enhanced the enforcement of the project. At present, the project has been approved by the relevant departments and the Group has signed an admission contract with the Qianhai authority of Shenzhen city. It is the belief of the Group that upon the completion of this project, the logistics and transportation services will be upgraded, distribution costs will be reduced and the need of unitary distribution of the Group's products throughout China will be met and therefore enhance the Group's profitability.

5. *To reach a new stage by recruitment and training of staff*

During the Year Under Review, the Group has, on the one hand, intensified its effort to recruit high-caliber candidates externally, while on the other hand focused on improving the capability and standard of the existing management team. In 2012, by collaborating with reputable universities in China such as Peking University, Sun Yat-sen University, Shenzhen University and the Guangdong Food and Drug Vocational College to organize "Kingworld Executives Training Course" and "Kingworld EMBA Programme", substantially all of the senior management and key management officers had the opportunity to receive again a structured and systematic education to master the current effective management methods and theories, as well as their application in real life so as to improve work efficiency and corporate effectiveness.

HONOR

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

- in March 2012, Shenzhen Kingworld Medicines Co. Ltd. was reelected as Top 100 Import Enterprises of 2011 Chinese Medicines and Health Products;
- in April 2012, Shenzhen Kingworld Medicines Co. Ltd. participated in the Boao Forum for Asia as "the only designated supplier of health gifts";
- in May 2012, the Group's chairman, Mr. Zhao Li Sheng was retained as one of the first Embassadors of Shenzhen Newspaper Charity Fund;
- in July 2012, Kingworld Disney Bandage was praised as "The Most Reliable and Creative Product" by the Mannings Health & Beauty Awards;
- in September 2012, Shenzhen Kingworld Medicines Co. Ltd. was named as taxpaying enterprise by Luohu District of Shenzhen City;
- in October, 2012, "Kingworld" was nominated as "National Brand in Guangdong".

FINANCIAL REVIEW

1. *Turnover*

Turnover of the Group for the Year Under Review was approximately RMB705,519,000, representing an increase of approximately RMB19,957,000, or 2.9% compared to approximately RMB685,562,000 for the year ended 31 December 2011. The increase was mainly because of an increase in sales of Nin Jiom Pei Pa Candy product line and Flying Eagle Wood Lok Medicated Oil. The year-on-year growth for these two products were 65% and 46% respectively. This was due to reinforced promotion for these products, including the strategies to increase the sale of Nin Jiom Pei Pa Candies and to increase the product display booth for Flying Eagle Wood Lok Medicated Oil.

2. *Cost of sales*

For the Year Under Review, cost of sales for the Group amounted to approximately RMB541,674,000, representing an increase of approximately RMB16,944,000 or 3.2% when compared to approximately RMB524,730,000 for the year ended 31 December 2011. The increase in cost of sales was consistent with the increase in turnover. As at 31 December 2012, gross profit ratio was 23.2% which was closed to 23.5% for the year ended 31 December 2011.

3. *Other revenue*

Other revenue mainly included rental income, promotion service income and interest income. For the Year Under Review, other revenues amounted to approximately RMB9,111,000, representing an increase of approximately RMB3,099,000 or 51.5% when compared to approximately RMB6,012,000 for the year ended 31 December 2011. This increase was mainly due to the increase in promotion service income.

4. *Other net (loss)/income*

Other net loss was mainly comprised of net foreign exchange loss. For the Year Under Review, other net loss amounted to approximately RMB21,000 while there was a net income of approximately RMB11,257,000 for the year ended 31 December 2011. This decrease in other net income was mainly due to the decrease in foreign exchange gain as a result of the slowdown in the appreciation of Renminbi.

5. *Selling and distribution costs*

For the Year Under Review, selling and distribution costs amounted to approximately RMB78,377,000, which had increased by approximately RMB7,477,000 or 10.5% when compared to approximately RMB70,900,000 for the year ended 31 December 2011. This increase was primarily attributable to an increase in rental expenses and sales staff costs by RMB1,051,000 and RMB4,600,000 respectively. The increase in sales staff costs was mainly due to the fact that the Group had been upgrading the quality of its sales and marketing team.

6. *Administrative expenses*

For the Year Under Review, administrative expenses amounted to approximately RMB36,832,000, which had decreased slightly by approximately RMB863,000 or 2.3% when compared to approximately RMB37,695,000 for the year ended 31 December 2011. For the Year Under Review, rental expenses was approximately RMB2,286,000, administrative staff costs was approximately RMB13,900,000 and legal and professional fees was approximately RMB2,463,000, which comprised mainly of financial reporting costs of the Company and legal advisory and consultancy fees (2011 : rental expenses was approximately RMB2,053,000, administrative staff costs was approximately RMB14,430,000 and legal and professional fees was approximately RMB4,063,000).

7. *Profit from operations*

For the Year Under Review, profit from operations for the Group amounted to approximately RMB65,876,000, which had decreased by approximately RMB12,630,000 or 16.1% when compared to approximately RMB78,506,000 for the year ended 31 December 2011. Decrease in profit from operations was mainly due to a decrease in net foreign exchange gain of other net income for the Year Under Review.

8. *Finance costs*

For the Year Under Review, finance costs amounted to approximately RMB2,619,000, representing a decrease in approximately RMB2,071,000 or 44.2% when compared to approximately RMB4,690,000 for the year ended 31 December 2011. The decrease was mainly due to the decrease in bank loan interest.

9. *Profit before taxation*

For the Year Under Review, profit before taxation for the Group amounted to approximately RMB63,257,000, which had decreased by approximately RMB10,559,000 or 14.3% when compared to approximately RMB73,816,000 for the year ended 31 December 2011. Decrease in profit before taxation was mainly due to a decrease in net foreign exchange gain of other net income for the Year Under Review.

10. *Profit tax expenses*

For the Year Under Review, profit tax expenses for the Group amounted to approximately RMB14,722,000, which had decreased by approximately RMB8,063,000 or 35.4% when compared to approximately RMB22,785,000 for the year ended 31 December 2011. This decrease was mainly due to a decrease in profit before taxation and the reversal of provision for withholding tax in previous years of approximately RMB4,445,000. The effective tax rate, excluding the reversal of provision for withholding tax, for the Year Under Review was 30.3% when compared to 30.9% for the year ended 31 December 2011.

11. *Profit for the year*

For the Year Under Review, profit for the year of the Company amounted to approximately RMB48,535,000, which had decreased by approximately RMB2,496,000 or 4.9% when compared to approximately RMB51,031,000 for the year ended 31 December 2011. Decrease in profit for the year was mainly due to a decrease in net foreign exchange gain of other net income of approximately RMB12,329,000, which was partly off-set by the decrease in profit tax expenses of approximately RMB8,063,000 for the Year Under Review.

ANALYSIS OF MAJOR BALANCE SHEET ITEMS

1. *Trade and other receivables*

Trade and bills receivables of the Group include credit sales that the Group's distributors should pay for the Group's products. Other receivables of the Group include prepayments, deposits and other receivables. Trade and other receivables of the Group as at 31 December 2012 amounted

to approximately RMB309,774,000, which had decreased by RMB19,258,000 when compared to trade and other receivables as at 31 December 2011 which amounted to approximately RMB329,032,000. The decrease in trade and other receivables was mainly due to the Group's enhancement in account receivables management. As at 31 December 2012, trade receivables and bills receivables of the Group amounted to approximately RMB124,683,000 and RMB156,320,000 respectively, representing an increase of RMB38,663,000 and a decrease of RMB56,973,000 respectively when compared to trade receivables and bills receivables of approximately RMB86,020,000 and RMB213,293,000 as at 31 December 2011 respectively.

2. *Inventories*

As at 31 December 2012, inventories owned by the Group amounted to approximately RMB32,948,000, representing a decrease of RMB16,192,000 or 33.0% when compared to RMB49,140,000 as at 31 December 2011. The main reason of decrease in inventories was the reduction in inventories turnover cycle from 34 days in 2011 to 22 days in 2012 by the Group in order to improve its cash flow management.

3. *Properties, plants and equipment*

Properties, plants and equipment owned by the Group include properties, leasehold improvements, furniture and equipment, motor vehicles and construction in progress. As at 31 December 2012, the book value of properties, plants and equipment owned by the Group amounted to approximately RMB18,938,000, showing a substantial increase of RMB9,995,000 or 111.8% when compared to that of RMB8,943,000 as at 31 December 2011. Increase in properties, plants and equipment was mainly due to the increase of RMB10,979,000 in construction in progress projects during the Year Under Review.

4. *Trade and other payables*

Trade and other payables of the Group mainly include trade and bill payables, prepayments from customers, other payables and accrued expenses. As at 31 December 2012, trade and other payables owned by the Group amounted to approximately RMB156,973,000, which was close to that of RMB157,324,000 as at 31 December 2011.

CASH FLOW

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

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

The Group's cash inflow from operations primarily derives from receipts for the sale of the Group's products. For the Year Under Review, the Group's net cash inflow generated from operating activities amounted to RMB73,203,000, while the net cash outflow used in operating activities for the year ended 31 December 2011 was approximately RMB53,326,000. The increase in cash inflow was primarily due to the decrease in trade and other receivables.

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

The Group's net cash outflow used in investing activities amounted to approximately RMB99,891,000 for the Year Under Review, while the net cash outflow used in investing activities was approximately RMB14,421,000 for the year ended 31 December 2011. The increase in net cash outflow was mainly due to the payment for the purchase of and deposit for fixed assets in the Year Under Review which amounted to RMB11,603,000 and approximately RMB50,000,000 respectively. Besides, there was an increase in bank deposits with maturity over three months of RMB40,000,000.

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

The Group's net cash outflow used in financing activities amounted to approximately RMB29,058,000 for the Year Under Review, while the net cash outflow used in financing activities was approximately RMB52,291,000 for the year ended 31 December 2011. The decrease in net cash outflow was mainly due to the increase in proceeds from new bank loans in the Year Under Review.

CAPITAL STRUCTURE

1. *Indebtedness*

The total indebtedness of the Group as at 31 December 2012 was approximately RMB61,120,000 (31 December 2011 : approximately RMB47,168,000), and approximately RMB59,880,000 (31 December 2011: approximately RMB14,740,000) of which was fixed rate bank loans. All these loans will be due within one year or on demand. For the Year Under Review, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

2. *Gearing ratio*

As at 31 December 2012, the Group's gearing ratio was 9.3% (31 December 2011: 7.6%), calculated as the total bank borrowings divided by total assets multiplied by 100%. The increase was mainly due to the increase in bank borrowings.

3. *Pledge of assets*

As at 31 December 2012, the Group had pledged property, plant and equipment, investment property, leasehold land and bank deposits to the bank in the total amount of approximately RMB119,314,000. As at 31 December 2011, the Group had pledged bills receivable and bank deposits in total amount of approximately RMB78,476,000.

4. *Capital expenditure*

The capital expenditures of the Group primarily included purchases of plant and equipment, leasehold improvements and construction in progress. The Group's capital expenditures amounted to approximately RMB11,603,000 and RMB6,623,000 for the year ended 31 December 2012 and 2011 respectively.

5. *Foreign exchange risk*

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

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long and short-term bank borrowings . For the Year Under Review, the effective interest rates for (i) fixed rate loans was 2.4% - 4.4% and (ii) variable rate loans was 7.4%. Taking into account the cash flow generated from operations and the long and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 31 December 2012, the Group had cash and cash equivalents of RMB125,539,000 which was mainly generated from operations of the Group and funds raised from the listing of the shares of the Company in November 2010.

CAPITAL COMMITMENT

As at 31 December 2012, apart from sharing the capital commitment of the jointly controlled entity, Zhuhai City Jinming Medicine Company Limited, which amounted to approximately RMB7,383,000, the Group had other capital commitment of approximately RMB15,000,000 (31 December 2011: RMB65,000,000).

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

For the year ended 31 December 2012, the Group had not made any material acquisition or disposal.

FUTURE OUTLOOK

1. *Diverse operating strategies adopted by the Group to develop retail market and multi-level expansion in hospital market*

Due to the reforms in medical insurance and essential medicine directory, sales growth of prescriptive drugs covered by medical insurance and OTC drugs at retail drug stores showed signs of slowing down, thus drug store chains adopted aggressive and diversified operating strategies. Share of sales in non-drug products (including well-being products, health food, health supplies and medical devices, etc.) in retail drug stores will increase rapidly.

In addition to striving to get government approval to import the Japanese Kawaii Liver Oil range of products, the Group is also planning to enrich its medical device-focused health supplies product lines, like the Disney-franchised "Disney's Gold 100" Band-Aids range of products, and by enriching product lines such as introducing cooling gel pads and pain-relieving bandages to create more business opportunities. Moreover, the Group will continue to enter into agreements with national chains and to reinforce cooperation with them through the portfolio sales of products.

As medical reform continues in China in 2013, the medical insurance coverage and reimbursement amount will increase significantly, and the urban hospital market, county-level hospital and community health care markets will see rapid growth. Hence the Nin Jiom Chuan Bei Pei Pa Koa, Taiko Seirogan and Imada Red Flower Oil distributed by the Group will continue to reinforce the development of the urban hospital markets in Eastern and Southern China regions; to utilise the power of distributors at all levels and actively participating in bidding tenders at various locations; and to develop the hospital markets at all levels, particularly the development of third terminal such as the county-level hospital market and private clinics.

2. *Diversification in the management of product categories so as to raise the sales of several key products*

The Group has three best-selling categories in pharmaceutical products, which include: cough-reliving drugs, gastrointestinal drugs and external-use medicines; in terms of medical devices, the Group is the distributor of the Disney-franchised Band-Aids product line; whereas for well-being food products, the Group has a high-end nutrient product category from Japan (vitamins and calcium tablets).

In the cough-reliving drugs category, in addition to seeking further market opportunities for Nin Jiom Chuan Bei Pei Pa Koa, the Nin Jiom Chuan Bei Pei Pa Candies will also be marketed as a key development product. Promotional messages with the "cough-relief + sore throat soothing" health concept will be disseminated to end-user markets in order to rapidly increase market share of the cough-reliving drugs category.

In gastrointestinal drugs category, a 200-pills size was added to the Taiko Seirogan product line, completing a multi-tiered "handy + standard + family size" collection. The 50-pills handy size are targeted towards business and new customers, whereas the 100-pills standard size aims for existing traditional customers and the 200-pills family size is positioned for loyal customers.

The external-use drugs category is dominated by the development of two key products. The Flying Eagle Wood Lok Medicated Oil is positioned for the high- and mid-end external-use medicated oil market, targeting high end and middle class customers, whereas the Imada Red Flower Oil is positioned as a "value for money" brand, which is more suited for the general public. The two products combined to form a product portfolio that covers the market both in breadth and in depth.

3. *Development of new pharmaceutical e-Business sales model to combine online and offline sales coverage*

With the rapid development of the pharmaceutical e-Business platform, the Group is actively developing its online product lines and will be initiating three e-Business platforms in the future. Firstly, to create an official Kingworld Health Family e-Business platform, followed by the development of brand distribution sites with close cooperation with online drug stores websites; and lastly, to establish distribution channels on third-party e-business platforms like T-Mall and 360buy. We believe this will provide tremendous boost in the rapid development of the Group's non-prescriptive drugs, well being food and health food.

4. *Use of scientific communication method to establish staff appraisal system and incentive mechanism to encourage sales staff to continuously increase sales*

In order to enhance daily guidance and management for sales representatives distributed throughout the country, the Group has adopted the field-pass system to direct the sales force on business plans, communicate sales strategies and make timely response to market.

In 2013, the Group will focus on the aim of end market distribution and boosting sales, make scientific adjustment on the appraisal indicators of the sales force. The Group believes this will encourage the sales force to continuously work hard and strive for good results, while at the same time identify non-performing staff, thereby creating a more dynamic team.

5. *New product introduction and business expansion to create new opportunities and breakthrough in business development, exploration of two new marketing models*

The Group created a new sales model by tapping into the tourist market and collaborating with various travel agents in creating the Kingworld Healthy Family Safety Pack that meets with the sight-seeing and health requirement of travelers. Meanwhile, the introduction and mixing of product lines according to the needs of large consumers created a direct sales business model.

6. *To accelerate mergers and acquisitions of business*

In 2013, by leveraging on the State's policies and the progresses on urbanization, the Group will expand its scope of selecting targets for mergers and acquisitions to include the great wellness industry (大健康產業), including but not limited to the enterprises engaging in the research and development of Chinese and western medicines by advanced technologies, specialist medical enterprises with industry strength, enterprises engaging in the distribution of wellbeing products with high growth potentials, enterprises engaging in medical devices of high technology and high added value, enterprises with competitive advantages in distribution at regional markets, enterprises engaging in retail chain operations with geographical advantages. The Group will speed up the acquisition process and seek to complete acquisition of enterprises.

HUMAN RESOURCES AND TRAINING

As of 31 December 2012, the Group had a total of 407 employees, of which 85 worked at the Group's headquarters in Shenzhen, and 322 stationed in 34 regions with main responsibility of sales and marketing. Total staff cost for the Year Under Review amounted to approximately RMB35,573,000 (2011 : RMB31,503,000). The Group releases an annual sales guideline on a yearly basis, setting out the annual sales target and formulating quarterly sales strategies, so as to provide sales and marketing guidelines for all representative offices and their staff to observe. The Group has a management team with extensive industry experience (including the Sales Director and Product Manager). They are responsible for coordinating front-line sales and marketing teams to meet the annual sales target.

During the Year Under Review, the Group adopted a human-oriented management concept to have its staff closely involved in the management and development of the Group. The Group has implemented a strict selection process for hiring its employees and a number of initiatives to enhance the productivity of its employees. The Group conducts periodic performance review on its employees, and revises their salaries and bonuses accordingly. In addition, the Group has arranged training programs for employees in various positions.

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

DIVIDENDS

To extend the Company's gratitude for the support of our shareholders, the Board has recommended the distribution of a final dividend for the Year Under Review of HK$2.90 cents per share to Shareholders whose names appear on the register of members of the Company on Monday, 27 May 2013, amounting to approximately HK$18,053,000, subject to approval in the Company's forthcoming annual general meeting to be held on Thursday, 16 May 2013. Total dividend payout ratio is 30% of the profit for the year or 33% of the distributable profit of the Company, after deducting non-distributable statutory reserves for the year ended 31 December 2012 of RMB4,686,000. The above-mentioned final dividend is expected to be paid on or before Tuesday,18 June 2013.

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Zhao Li Sheng (趙利生), aged 54, was appointed as an executive Director of the Company 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 17 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 was 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 Fifth Council of the Pharmaceutical Profession Association (深圳市醫藥行業協會第五屆理事會). 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 Lok San.

Ms. Chan Lok San (陳樂燊), aged 49, was appointed as an executive Director of the Company 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 17 years of experience in the pharmaceutical industry as well as over 10 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 degree in business administration of senior management from Sun Yat-Sen University in 2010. In 2011, she was appointed as a committee of Shenzhen Golf Society and a vice-chairlady of Shenzhen Clothing Society. She was also a member of the Global Foundation of Distinguished Chinese (世界傑出華人基金會) in 2003. Since 25 December 2012, she has served as the chairlady of the EMBA Alumni Association of Sun Yat-Sen University. Currently, she is also the director (理事) of Sun Yat-Sen University Entrepreneur Alumni Association (Third Session) (第三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 46, was appointed as an executive Director of the Company 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 15 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.

Mr. Lin Yusheng (林玉生), aged 47, was appointed as an executive Director of the Company on 3 August 2009. Currently, he is also the authorised representative of the Company. He has been the deputy general manager of SZ Kingworld since June 2006. He is primarily responsible for the operations and capital management of the Group. He has approximately 12 years of experience in the pharmaceutical industry. In 1989, he obtained a bachelor degree in philosophy at Yanan University (延安大學). He received a master degree in business administration at the Hong Kong Polytechnic University in 2006. From 1999 to 2004, he worked as a senior management staff 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). Mr. Lin was appointed as an independent non-executive director of China Housing and Land Development Inc. (中國房屋土地開發集團) which is listed on Nasdaq, (stock code: CHLN) in October 2011.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Duan Jidong (段繼東), aged 47, was appointed as an independent non-executive Director of the Company on 5 November 2010. He has approximately 22 years of experience in the pharmaceutical industry. He received a bachelor 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. (重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. From April 2008 to April 2011, he was 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. Since February 2013, he has been appointed as an independent non-executive Director of Yan He Medicines Company Limited (仁和药業股份有限公司, stock code : 000650), a company listed on the Shenzhen Stock Exchange. Currently, he is the chairman of Beijing Strategy & Action Enterprise Management Consulting Company Limited (北京時代方略企業管理諮詢有限公司).

Mr. Zhang Jianqi (張建琦), aged 56, was appointed as an independent non-executive Director of the Company on 5 November 2010. He completed a course in industrial enterprise management at Xi'an Foundation University (西安基礎大學), which merged 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 23 years of experience in tertiary education. He was qualified as a lecturer in Corporate Management in 1987. Mr. Zhang had also been the independent non-executive director of Foshan NationstarOptoelectronics Company Limited (佛山市國星光股份有限公司, a company listed on the Shenzhen Stock Exchange, stock code: 002449), Guangdong Alpha Animation and Culture Company Limited (廣東奧飛動漫文化股份有限公司, a company listed on the Shenzhen Stock Exchange, stock code: 002292) and Zhuguang Holdings Group Company Limited (formerly known as Nam Fong International Holdings Limited, a company listed on the Stock Exchange, stock code: 01176). 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. Wong Cheuk Lam (黃焯琳), aged 44, was appointed as an independent non-executive Director of the Company on 5 November 2010. He has over 17 years of experience in accounting and finance fields. Mr. Wong obtained a bachelor degree in arts from the University of Hong Kong in 1992 and a master 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. From 2003 to January 2013, he worked as a company secretary at Zhengzhou China Resources Gas Company Limited (鄭州華潤燃氣股份有限公司), a company previously named Zhengzhou Gas Company Limited and was listed on the Stock Exchange and worked as a chief financial officer from July 2005 to January 2013 and was also a financial controller during the period from October 2007 to July 2010 of the same company.

SENIOR MANAGEMENT

Mr. Chan Hon Wan (陳漢雲), aged 52, was appointed as the financial controller and company secretary of the Company on 25 June 2009. Currently, he is also the authorised representative of the Company. He is responsible for the management of the Group's financial matters. He has over 27 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 degree in economics from Macquarie University Australia in 1986. In 2005, he received a master 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 47, has been the financial manager of SZ Kingworld since 1995. She is primarily responsible for the management of SZ Kingworld's financial policies. She has approximately 22 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.

Directors' and Senior Management's Biographies

Mr. Liu Yibing (劉亦兵), aged 54, is the assistant of the General Manager of SZ Kingworld. He is primarily responsible for the implementation of the Group's administrative policies. He has approximately 10 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 degree in Chinese literature from Hunan Normal University (湖南師範大學) in 1982. He joined SZ Kingworld in 2001.

Mr. Ceng Yun (曾澋), aged 42, is the sales controller (commerce) of SZ Kingworld. He is primarily responsible for the customer and sales management. He has approximately 14 years of experience as a sales manager in the pharmaceutical industry. He completed a master degree in industrial economics from Nanchang University (南昌大學) in 2001. He joined SZ Kingworld in 1996.

Ms. Liang Caiyun (梁彩雲), aged 44, is the 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 22 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 48, is the marketing director 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, Taiko Seirogan, Imada Red Flower Oil and Flying Eagle Wood Lok Medicated Oil. She has approximately 13 years of experience in the sales and marketing areas. She received a bachelor 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 50, 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 19 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 50, is the corporate finance controller of SZ Kingworld and is responsible for managing the matters relating to the Listing. He has 17 years of 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 21 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.

Corporate Governance Report

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

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

The Board strives to uphold the principles of corporate governance set out in the Old Code and the CG Code, and adopted various measures to enhance the internal control system, the Directors' continuing professional training and other areas of practice of the Company. While the Board strives to maintain a high level of corporate governance, it 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.

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

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

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

MODEL CODE FOR SECURITIES TRANSCATIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code governing securities transactions of the Directors. Each of the Directors has confirmed his/her compliance with the Model Code during the Year Under Review. The Company has also adopted written guidelines on no less exacting terms than the Model Code for the relevant employees. The senior management, who, because of their office in the Company, is likely to be in possession of unpublished price-sensitive information, has been requested to comply with the provisions of the Model Code and the Company's code of conduct regarding securities transactions by Directors. No incidence of non-compliance of the employees' written guidelines by the relevant employees was noted by the Company during the Year Under Review.

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. Since the day-to-day running of the Company has been delegated by the Board to the senior management, the 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 (the "Independent Non-executive Directors"). Mr. Zhao Li Sheng, Ms. Chan Lok San, Mr. Zhou Xuhua and Mr. Lin Yusheng served as executive Directors and Mr. Zhang Jianqi, Mr. Duan Jidong and Mr. Wong Cheuk Lam served as 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. Each Independent Non-executive Director has been appointed for a 3-years term of services. Biographical details of and the relationship between the Directors are set out in the paragraph headed "Directors' And Senior Management's Biographies" of this report.

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group, and to review and approve the Group's annual and interim results. During the Year Under Review, four Board meetings were held and attendance of each Director at the Board meetings is set out in the paragraph headed "Board Meetings and Individual Attendance" of this 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.

Throughout the Year Under Review and up to the date of this report, the Company has complied with the requirements under Rules 3.10(1) and (2) and 3.10A of the Listing Rules and has appointed three Independent Non-executive Directors, representing more than one-third of the number of Directors at the Board, with at least one Independent Non-Executive Director possessing the appropriate professional qualifications, or accounting or related financial management expertise.

Every Director is entitled to have access to Board papers and related materials and has access to the advice and services of the Company Secretary. The Board and each Director also have separate and independent access to the Company's senior management.

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. Wong Cheuk Lam shall retire at the forthcoming annual general meeting of the Company. The retiring Directors, all being eligible, 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.

Copies of minutes of all meetings and resolutions of the committees, which are kept by the Company Secretary, are circulated to all Board members and the committees are required to report back to the Board on their decision and recommendations where appropriate. The procedures and arrangements for a Board meeting have been adopted for the committee meetings so far as practicable.

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

AUDIT COMMITTEE

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

The primary duties of the Audit Committee are (among other things) to provide an independent review and supervision of financial reporting, and examine the effectiveness of the internal controls of the Group and to ensure the external auditor are independent and the audit process is effective. The Audit Committee examines all matters relating to the accounting principles and policies adopted by the Group, auditing functions, internal controls, risk management and financial reporting. The Audit Committee also serves as a channel of communication between the Board and the external auditor. External auditor and the Directors are invited to attend the committee meetings as and when necessary.

During the Year Under Review, the Audit Committee had held two meetings and all the members attended the meetings. The work performed by the Audit Committee during the year included reviewing the audited consolidated financial statements of the Group for the year ended 31 December 2011, the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2012 and the effectiveness of the internal control practices of the Group. The Audit Committee has also reviewed the audit plan and approach of the external auditor and monitored the progress and results of the audit regularly.

The Audit Committee also carried out corporate governance functions during the Year Under Review, including developing and reviewing the Company's policies and practices on corporate governance and other duties prescribed under code provision D.3.1 of the CG Code.

The Audit Committee has, together with the management of the Company and external independent auditors, reviewed the consolidated financial statements, accounting principles and practices adopted for the Group for the year of 2012, and agreed with the accounting treatment adopted by the Group.

REMUNERATION COMMITTEE

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

The primary duties of the Remuneration Committee are (among other things) to recommend 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.

During the Year Under Review, the Remuneration Committee had held one meeting and all the members attended the meeting. The work performed by the Remuneration Committee during the year included considering the policy for the remuneration of executive directors, the performance of executive directors, and the terms of executive directors' service contracts.

The Remuneration Committee adopted the approach under Code Provision B.1.2(c)(ii) of the CG Code to make recommendation to the Board on the remuneration packages of the individual executive Directors and senior management of the Company.

NOMINATION COMMITTEE

The Company established a Nomination Committee (the "Nomination Committee") on 5 November 2010 and has formulated its written terms of reference, which have from time to time been modified in accordance with the prevailing provisions of the CG Code. The 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 Nomination Committee.

The primary duties of the Nomination Committee are (among other things) to make recommendations to the Board on appointment of Directors and succession planning for Directors.

During the Year Under Review, the Nomination Committee had held one meeting and all the members attended the meeting. The work performed by the Nomination Committee during the year included reviewing the structure, size and composition of the Board and assessing the independence of the Independent Non-executive Directors.

The Nomination Committee did not select or recommend candidates for directorship during the Year Under Review, as the Nomination Committee did not consider it necessary to do so.

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 any Director or any of his/her associate has material interests in any resolution of the Board meeting, such Director much abstain from voting and should not be counted in the quorum of the meeting.

Details of the attendance records of Directors on Board meetings and board committee meetings for the year ended 31 December 2012 are as follows:

Name of Directors	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting	Extraordinary General Meeting
Executive Directors						
Mr. Zhao Li Sheng *(Chairman)*	4/4	—	—	—	1/1	1/1
Ms. Chan Lok San	4/4	—	—	—	1/1	1/1
Mr. Zhou Xuhua	4/4	—	—	—	1/1	1/1
Mr. Lin Yusheng	4/4	—	—	—	1/1	1/1
Independent Non-executive Directors						
Mr. Duan Jidong	4/4	2/2	1/1	1/1	0/1	1/1
Mr. Zhang Jianqi	4/4	2/2	1/1	1/1	0/1	1/1
Mr. Wong Cheuk Lam	4/4	2/2	1/1	1/1	1/1	1/1

TRAINING AND SUPPORT OF DIRECTORS

All Directors have been given relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group. All Directors have been updated on the latest developments regarding the Listing Rules and other applicable regulatory requirement to ensure compliance and enhance their awareness of good corporate governance practices. There is a procedure agreed by the Board to ensure the Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses.

The Directors confirmed that they have complied with the Code Provision A.6.5 of the CG Code effective from 1 April 2012 on Directors' training and have provided a record of the training they received to the Company. All Directors have participated in continuous professional development by the following means to develop and refresh their knowledge.

Name of Directors	Training received
Mr. Zhao Li Sheng	— Reading materials/attending external and in house seminars and programmes
Ms. Chan Lok San	— Reading materials/attending external and in house seminars and programmes
Mr. Zhou Xuhua	— Reading materials/attending external and in house seminars and programmes
Mr. Lin Yusheng	— Reading materials/attending external and in house seminars and programmes
Mr. Zhang Jianqi	— Reading materials/attending external and in house seminars and programmes
Mr. Duan Jidong	— Reading materials/attending external and in house seminars and programmes
Mr. Wong Cheuk Lam	— Reading materials/attending external and in house seminars and programmes

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 the relevant period. The Board also ensures the timely publication of the financial statements of the Group. The Board confirms that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt about the Company's ability to continue as a going concern.

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. The statement of external auditor of the Company, CCIF CPA Limited, about their reporting responsibilities on the financial statements of the Group is set out in the "Independent Auditor's Report" of this report.

REMUNERATION OF EXTERNAL AUDITORS

For the year ended 31 December 2012, the remuneration paid to the external auditors in Hong Kong and the PRC, for audit services totaled approximately RMB671,000 (equivalent to approximately HK$828,000).

For the year ended 31 December 2012, the total remuneration for the permissible non-audit services provided by the external auditors amounted to RMB312,000 (equivalent to approximately HK$385,000).

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 unauthorised 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 assigned internal audit department 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 2012, through reviews conducted by the Audit Committee and study results from internal audit department, 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 MEASURES

During the Year Under Review, since no new opportunities relating to the Restricted Activity (as defined in the Company's prospectus dated 12 November 2010, the "Prospectus") were referred to the Group, the Independent Non-executive Directors had not reviewed any decision in relation to new opportunities referred to the Group.

The Independent Non-executive Directors had, however, 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. The Independent Non-executive Directors confirmed that the terms of the Deed of Non-Competition were complied with by the Controlling Shareholders during the Year Under Review. The Independent Non-executive Directors are not aware of any breach of the terms of the Deed of Non-Competition by the Controlling Shareholders and therefore, no enforcement action was taken against the Controlling Shareholders by the Company during the Year Under Review.

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

DIRECTORS' INSURANCE

The Company has arranged appropriate insurance cover in respect of the legal action against the Directors.

COMPANY SECRETARY

Mr. Chan Hon Wan was appointed as the company secretary of the Company on 25 June 2009. He is an employee of the Company and has day-to-day knowledge of the Company's affairs. He is responsible for ensuring a good information flow within the Board and the compliance of the board policy and procedures.

During the Year Under Review, Mr. Chan has confirmed that he has duly complied with the relevant requirement under Rule 3.29 of the Listing Rules and taken no less than 15 hours of relevant professional training. His biographical details are set out in the paragraph headed "Directors' and Senior Management's Biographies" in this report.

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to convene and putting forward proposals at an extraordinary general meeting

Extraordinary general meetings shall be convened on the written requisition of any one or more Shareholder(s) holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. Such requisition shall be made in writing to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself/themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for directing Shareholders' enquiries to the Board

Shareholders may at any time send their enquires and concerns to the Board in writing through the company secretary by mail to Rooms 1906-1907, 19 th Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong, or by e-mail to kingw@kingworld.com.cn.

Shareholders may also make enquiries with the Board at the general meetings of the Company.

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, 25 March 2013

Report of the Directors

The Directors have pleasure in presenting the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2012.

PRINCIPAL BUSINESS

The Company is an investment holding company. The Group is principally engaged in distribution sale of branded imported pharmaceutical and healthcare products in the PRC. As at 31 December 2012, the Group managed a portfolio of ten categories with more than sixty products including pharmaceutical products, healthcare products, general foodstuffs and medical products from thirteen suppliers and/or manufacturers in Japan, United States, Canada, Hong Kong, Taiwan, Thailand and the PRC. 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 product 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 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 59 to 63.

To extend the Company's gratitude for the support of the Shareholders, the Board has recommended the distribution of a final dividend for the year ended 31 December 2012 of HK$2.90 cents per share to Shareholders whose names appear on the register of members of the Company on Monday, 27 May 2013, amounting to approximately HK$18,053,000, subject to the approval from the Company's forthcoming annual general meeting to be held on Thursday, 16 May 2013. Total dividend payout ratio is 30% of the profit for the year or 33% of the distributable profit of the Company, after deducting non-distributable statutory reserves for the year ended 31 December 2012 of RMB4,686,000. The above-mentioned final dividend is expected to be paid on or before Tuesday, 18 June 2013.

CLOSURE OF THE REGISTER OF MEMBERS

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

The register of members of the Company will be closed from Tuesday, 14 May 2013 to Thursday, 16 May 2013 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for attending and voting at the forthcoming annual general meeting, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Tricor Investors Services Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration on or before 4:30 p.m. on Monday, 13 May 2013.

To qualify for the proposed final dividends

The register of members of the Company will be closed from Thursday, 23 May 2013 to Monday, 27 May 2013 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for receiving the proposed final dividends, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Tricor Investors Services Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration on or before 4:30 p.m. on Wednesday, 22 May 2013.

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2012, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

USE OF PROCEEDS FROM THE LISTING OF THE COMPANY

The net proceeds from the listing of the shares of the Company on the Stock Exchange on 25 November 2010, after deduction of related expenses, was approximately HK$241,862,000 (equivalent to approximately RMB206,167,000). As at 31 December 2012, the Group had used net proceeds of approximately RMB24,100,000, of which RMB3,500,000 had been applied for expanding the product display booth scheme and RMB20,600,000 as working capital. The remaining net proceeds are intended to be applied in accordance with the proposed application set forth in the Prospectus.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants, including Directors, eligible employees, consultants, suppliers, customers, 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 summarised as follows:

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

    As at the date of this 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 2012, no share option was granted based on the Share Option Scheme.

GOING CONCERN

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

PUBLIC FLOAT

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

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

For the year ended 31 December 2012, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 26 to the Financial Statements.

WARRANTS

On 22 September 2011, the Company issued 37,000,000 unlisted warrants (the "Warrants") at the issue price of HK$0.01 per warrant to seven placees, all being independent third parties to the Group and each warrant entitles its holder to subscribe for one new ordinary share of the Company (the "Subscription Share"), subject to adjustments, at the initial subscription price of HK$1.4 per Subscription Share at any time during the period of 18 months commencing from the issue date of the Warrants.

The gross proceeds from the issue of Warrants amounted to HK$370,000 (without taking into account of the exercise of the subscription rights attaching to the Warrants). The Warrants lapsed on the expiry date of the exercise period, i.e. 21 March 2013, as at which date none of the Warrants were exercised.

RESERVES

Details of change in reserves of the Group and the Company are set out on page 64 of the Consolidated Statement of Changes in Equity and Note 26 to the Financial Statements.

DISTRIBUTABLE RESERVES

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.

As at 31 December 2012, the aggregate amount of reserves available for distribution to owners of the Company was RMB255,877,000 (2011: RMB281,382,000). After the end of the Year Under Review, the Directors proposed a final dividend of HK$2.90 cents (equivalent to RMB2.34 cents) (2011: HK$4.04 cents, equivalent to RMB3.27 cents) per share amounting to RMB14,567,000 (2011: RMB20,356,000). The proposed final dividend has not been recognised as a liability at the end of the Year Under Review.

CHARITY DONATIONS

Charity donations made by the Group during the Year Under Review was approximately RMB2,460,000 (2011: RMB1,359,000).

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 PROPERTIES

The Group's investment properties were revalued as at 31 December 2012. Increase in fair value of investment properties due to revaluation amounted to approximately RMB8,150,000, which has been included in the Consolidated Income Statement.

The Group has two investment properties. The first one is a shopping center located at Basement of Kingworld Department Store, Jiefang Road, Luohu District, Shenzhen, Guangdong Province, the PRC. The second one is an office located at Unit B on level 9 West, Yong Xing Office Building, No.22, Lane 376, Yan'an Road West, Jing'an District, Shanghai, the PRC.

Details of changes in the Group's investment properties for the year ended 31 December 2012 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.

SUBSIDIARY COMPANIES

Details of the major subsidiary companies of the Company as at 31 December 2012 are set out in Note 17 to the Financial Statements.

DIRECTORS

The Directors of the Company during the year ended 31 December 2012 and up to the date of this report have been:

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 27 to 30 under the paragraph headed "Directors' and Senior Management's Biographies" in this report.

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 Under Review include 4 (2011 : 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 (other than Mr. Lin Yusheng) 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. Mr. Lin Yusheng entered into a new service contract with the Company for the period from 1 January 2012 to 4 November 2013, which may be terminated by not less than three months' prior notice in writing served by either party on the other. Started from 1 January 2012, each executive Director's basic salary has been increased by 12%.

For the Year Under Review, the annual remuneration payable to each of the executive Directors is as follows:

	RMB'000
Mr. Zhao Li Sheng	1,082
Ms. Chan Lok San	901
Mr. Zhou Xuhua	632
Mr. Lin Yusheng	786

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. Mr. Lin Yusheng will also be entitled to an additional bonus if he can procure the completion of acquisitions by the Company during his term of service under the new service contract, the amount of which will depend on the number of acquisitions conducted and completed by the Company and/or the decision of 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. Started from 1 January 2012, each Independent Non-executive Director's basic salary has been increased by 12%.

For the Year Under Review, the annual remuneration payable to each of the Independent Non-executive Directors is as follows:

	RMB'000
Mr. Zhang Jianqi	135
Mr. Duan Jidong	135
Mr. Wong Cheuk Lam	135

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

Save as disclosed under the paragraph headed "continuing connected transactions", during the year ended 31 December 2012, 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 2012, 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
Zhao Li Sheng (Note 1)	Beneficial owner	6,108,000 shares	0.98%
	Interest of a controlled corporation, interest of spouse	450,000,000 shares	72.29%
Chan Lok San (Note 2)	Interest of a controlled corporation, interest of spouse	456,108,000 shares	73.27%
Zhou Xuhua (Note 3)	Interest of spouse	2,052,000 shares	0.33%

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 capacities:

   (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. Chan Lok San, 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 456,108,000 shares in the Company. These shares are held in the following capacities:

   (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) 6,108,000 shares are held by Zhao Li Sheng, the spouse of Ms. Chan, in his own name and 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, Ms. Chan is also deemed to be interested in the 6,108,000 shares held by Mr. Zhao and the 360,000,000 shares held by Golden Land.

3. Mr. Zhou is deemed (by virtue of the SFO) to be interested in 2,052,000 shares in the Company held by his spouse, Huang Xiaoli.

(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
Zhao Li Sheng	Golden Land	Beneficial owner	100%
Chan Lok San	Golden Morning	Beneficial owner	100%

As at 31 December 2012, 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 2012, 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 the Shares and Underlying Shares of the Company

As at 31 December 2012, 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:

Interests 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%
Zhao Li Sheng (Note 1)	Beneficial owner	6,108,000	0.98%
	Interest of a controlled corporation, interest of spouse	450,000,000	72.29%
Chan Lok San (Note 2)	Interest of a controlled corporation, interest of spouse	456,108,000	73.27%

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 capacities:

    (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. Chan Lok San, 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 456,108,000 shares in the Company. These shares are held in the following capacities:

    (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) 6,108,000 shares are held by Zhao Li Sheng, the spouse of Ms. Chan, in his own name and 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, Ms. Chan is also deemed to be interested in the 6,108,000 shares held by Mr. Zhao and 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 2012, 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.

DIRECTORS' RIGHTS IN ACQUIRING SHARES AND DEBENTURES

Save as disclosed in the paragraph headed "Share Option Scheme" in this report, at no time during the Year Under Review 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 2012 and during any time for the year ended 31 December 2012, 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 2012 and during any time for the year ended 31 December 2012, 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 2012 and during any time for the year ended 31 December 2012, 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 Under Review.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2012, 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 or obtained independent Shareholders' approval (as the case may be) in relation to the following continuing connected transactions, which expired on 31 December 2012. Unless otherwise defined herein, terms used in the following section headed "Old purchase and distribution agreements expired on 31 December 2012" shall have the same meanings as defined in the Prospectus and the Company's announcement dated 28 March 2011 (the "Announcement").

Old purchase and distribution agreements expired on 31 December 2012

Transaction	Member of the Group	Connected person	2012 RMB'000	Approximate Annual Cap for 2012 RMB'000
Purchase and distribution of Kingworld Product Range from SZ Kingworld Lifeshine	SZ Kingworld	SZ Kingworld Lifeshine	463	7,635
Purchase and distribution of Imada Red Flower Oil from SZ Kingworld Lifeshine	SZ Kingworld	SZ Kingworld Lifeshine	18,469	32,564
Purchase and distribution of Additional SZ Kingworld Lifeshine Pharmaceutical and Healthcare Products from SZ Kingworld Lifeshine	SZ Kingworld	SZ Kingworld Lifeshine	–	32,000
Purchase and distribution of Min Tong Chisionhon Granules from Pearl Shining	SZ Kingworld	Ms. Cheng Lok Yam, Ella trading as Pearl Shining	398	3,146
Purchase and distribution of Fengbao Jianfu Capsule from Yuen Tai	SZ Kingworld	Yuen Tai	890	14,494
Purchase and distribution of Additional Yuen Tai Pharmaceutical and Healthcare Products from Yuen Tai	SZ Kingworld	Yuen Tai	–	3,500

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.

On 21 October 2010, SZ Kingworld entered into the Kingworld Product Range Distribution Agreement, pursuant to which, inter alia, 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.

Under the Kingworld Product Range Distribution Agreement, the purchase prices of Kingworld Product Range payable by SZ Kingworld to SZ Kingworld Lifeshine took into account the PRC government price restrictions and were determined by reference to the prevailing market price or were no less favourable than those SZ Kingworld could obtain from independent third parties.

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

On 21 October 2010, SZ Kingworld entered into the Imada Red Flower Oil Distribution Agreement, pursuant to which, inter alia, 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.

Under the Imada Red Flower Oil Distribution Agreement, the purchase prices of Imada Red Flower Oil payable by SZ Kingworld to SZ Kingworld Lifeshine were determined by reference to the prevailing market price or were no less favourable than those SZ Kingworld can obtain from independent third parties.

Purchase and distribution of additional SZ Kingworld Lifeshine pharmaceutical and healthcare products from SZ Kingworld Lifeshine

On 28 March 2011, SZ Kingworld entered into the SZ Kingworld Lifeshine Master Pharmaceutical and Healthcare Products Distribution Agreement with SZ Kingworld Lifeshine, pursuant to which SZ Kingworld conditionally agreed to purchase Additional SZ Kingworld Lifeshine Pharmaceutical and Healthcare Products from SZ Kingworld Lifeshine and act as the exclusive distributor of SZ Kingworld Lifeshine for distribution of such pharmaceutical and healthcare products in the PRC for a term commencing from the date of approval of the independent Shareholders (i.e. 24 May 2011) and expiring on 31 December 2012.

Under the SZ Kingworld Lifeshine Master Pharmaceutical and Healthcare Products Distribution Agreement, the purchase prices of the Additional SZ Kingworld Lifeshine Pharmaceutical and Healthcare Products payable by SZ Kingworld to SZ Kingworld Lifeshine should be on normal commercial terms and no less favourable than those obtained from independent third parties by SZ Kingworld.

Purchase and distribution of Min Tong Chisionbon Granules from Pearl Shining

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 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.

Under the Min Tong Chisionhon Granules Distribution Agreement, the purchase prices of Min Tong Chisionhon Granules payable by SZ Kingworld to Pearl Shining were determined by reference to the prevailing market price.

Purchase and distribution of Fengbao Jianfu Capsule from Yuen Tai

Yuen Tai is beneficially owned by Morning Gold, which is held by Mr. Zhao and Ms. Chan as to 51% and 49% of its shareholding respectively.

On 21 October 2010, SZ Kingworld entered into 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.

Under the Fengbao Jianfu Capsule Distribution Agreement, the purchase prices of Fengbao Jianfu Capsule payable by SZ Kingworld to Yuen Tai were determined by reference to the prevailing market price or were no less favourable than those SZ Kingworld could obtain from independent third parties.

Purchase and distribution of additional Yuen Tai pharmaceutical and healthcare products from Yuen Tai

On 28 March 2011, SZ Kingworld entered into the Yuen Tai Master Pharmaceutical and Healthcare Products Distribution Agreement with Yuen Tai, pursuant to which SZ Kingworld conditionally agreed to purchase Additional Yuen Tai Pharmaceutical and Healthcare Products from Yuen Tai and act as the exclusive distributor of Yuen Tai for distribution of such pharmaceutical and healthcare products in the PRC for a term commencing from the date of approval of the independent Shareholders (i.e. 24 May 2011) and expiring on 31 December 2012.

Under the Yuen Tai Master Pharmaceutical and Healthcare Products Distribution Agreement, the purchase prices of the Yuen Tai Additional Pharmaceutical and Healthcare Products payable by SZ Kingworld to Yuen Tai should be on normal commercial terms and no less favourable than those obtained from independent third parties by SZ Kingworld.

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 as a whole.

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

1. have received the approval of the Board;
2. did not involve the provision of goods or services 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 or the Announcement.

New master distribution agreements for the three years ending 31 December 2015

Since (i) the Kingworld Product Range Distribution Agreement; (ii) the Imada Red Flower Oil Distribution Agreement; (iii) the SZ Kingworld Lifeshine Master Pharmaceutical and Healthcare Products Distribution Agreement; (iv) the Fengbao Jianfu Capsule Distribution Agreement; and (v) the Yuen Tai Master Pharmaceutical and Healthcare Products Distribution Agreement (collectively, the "Old Master Distribution Agreements") and the relevant annual caps for the continuing connected transactions contemplated thereunder would have expired on 31 December 2012, on 16 November 2012, the Company entered into two new master distribution agreements with SZ Kingworld Lifeshine and Yuen Tai, in order to renew the relevant Old Master Distribution Agreements (together with the respective annual caps for the three years ending 31 December 2015) and expand the types of products to be purchased and the parties to be involved in the transactions (collectively, the "New Master Distribution Agreements").

Details of the New Master Distribution Agreements extracted from the Company's circular dated 7 December 2012 (the "Circular") are as follows. Unless otherwise defined herein, terms used in this section headed "New master distribution agreements for the three years ending 31 December 2015" shall have the same meanings as defined in the Circular.

SZ Kingworld Lifeshine Master Distribution Agreement

The SZ Kingworld Lifeshine Master Distribution Agreement was entered into between the Company and SZ Kingworld Lifeshine, pursuant to which the Group will purchase pharmaceutical and healthcare products from SZ Kingworld Lifeshine and act as the exclusive distributor for distribution of such pharmaceutical and healthcare products in the PRC for a term of three years with effect from 1 January 2013 and ending on 31 December 2015 (both days inclusive).

The terms and conditions (including but not limited to the prices) on which the pharmaceutical and healthcare products are to be purchased by members of the Group should be on normal commercial terms and no less favourable than those obtained from independent third parties by such member of the Group.

40% of the purchase price shall be paid in advanced by the relevant member of the Group within three days after such member of the Group has placed an order for each batch of products and the remaining purchase price shall be paid upon delivery of the products and the passing of the product examination.

Yuen Tai Master Distribution Agreement

The Yuen Tai Master Distribution Agreement was entered into between the Company and Yuen Tai, pursuant to which the Group will purchase pharmaceutical and healthcare products from Yuen Tai and act as the exclusive distributor for distribution of such pharmaceutical and healthcare products in the PRC for a term of three years with effect from 1 January 2013 and ending on 31 December 2015 (both days inclusive).

The terms and conditions (including but not limited to the prices) on which the pharmaceutical and healthcare products are to be purchased by members of the Group should be on normal commercial terms and no less favourable than those obtained from independent third parties by such member of the Group.

40% of the purchase price shall be paid in advanced by the relevant member of the Group within three days after such member of the Group has placed an order for each batch of products and the remaining purchase price shall be paid upon delivery of the products and the passing of the product examination.

The transactions under each of the New Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2015 were duly approved by the Independent Shareholders at the Company's extraordinary general meeting held on 27 December 2012.

PLEDGE OF ASSETS

As at 31 December 2012, the Group had pledged property, plant and equipment, investment property, leasehold land and bank deposits to the bank in the total amount of approximately RMB119,314,000. As at 31 December 2011, the Group had pledged bills receivable and bank deposits in total amount of approximately RMB78,476,000.

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long and short-term bank borrowing. For the Year Under Review, the effective interest rates for (i) fixed rate loans was 2.4% - 4.4% and (ii) variable rate loans was 7.4%. Taking into account the cash flow generated from operations and the long and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 31 December 2012, the Group had cash and cash equivalents of RMB125,539,000 which was mainly generated from operations of the Group and funds raised from the listing of the shares of the Company in November 2010.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year Under Review, the total turnover of the Group's five largest customers accounted for approximately 18.9% of the Group's revenue, in which turnover from the largest customer of the Group accounted for approximately 4.9% of the total revenue of the Group. During the same period, total purchases of the Group's five largest suppliers accounted for approximately 97.3% of the Group's total purchase, in which purchase from the largest supplier of the Group accounted for approximately 76.8% 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.

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 2012 are set out in Note 2(w) 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.

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

The Financial Statements for the year ended 31 December 2012 were audited by CCIF CPA Limited.

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

Hong Kong, 25 March, 2013

Independent Auditor's Report

CCIF CPA LIMITED
9/F Leighton Centre
77 Leighton Road
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 59 to 123, which comprise the consolidated and Company statements of financial position as at 31 December 2012, 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 requirements 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 this 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.

Independent Auditor's Report

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 2012, 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, 25 March 2013

Leung Chun Wa
Practising Certificate Number P04963

Consolidated Income Statement

For the year ended 31 December 2012
(Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Turnover	4	**705,519**	685,562
Cost of sales		**(541,674)**	(524,730)
Gross profit		**163,845**	160,832
Valuation gain on investment properties	14	**8,150**	9,000
Other revenue	5 (a)	**9,111**	6,012
Other net (loss)/income	5 (b)	**(21)**	11,257
Selling and distribution costs		**(78,377)**	(70,900)
Administrative expenses		**(36,832)**	(37,695)
Profit from operations		**65,876**	78,506
Finance costs	6 (a)	**(2,619)**	(4,690)
Profit before taxation	6	**63,257**	73,816
Income tax	7	**(14,722)**	(22,785)
Profit for the year		**48,535**	51,031
Attributable to:			
Owners of the Company	8	**48,535**	51,031
Earnings per share	10		
Basic (RMB cents)		**7.80**	8.20
Diluted (RMB cents)		**7.79**	8.20

The notes on pages 67 to 123 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012
(Expressed in Renminbi)

	Note	**2012** **RMB'000**	2011 RMB'000
Profit for the year		**48,535**	51,031
Other comprehensive income/(loss) for the year			
Exchange differences on translation of financial statements		**244**	(8,460)
Surplus on revaluation of leasehold land and building held for own use	13 & 15	**—**	689
Tax charge	25(a)	**—**	(165)
Surplus on revaluation of leasehold land and building held for own use, net of tax		**—**	524
Change in tax rate on deferred tax liabilities relating to property valuation reserve	25(a)	**(7)**	—
		237	(7,936)
Total comprehensive income for the year (net of tax)		**48,772**	43,095
Attributable to:			
Owners of the Company		**48,772**	43,095

The notes on pages 67 to 123 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2012
(Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	13	**18,938**	8,943
Investment properties	14	**76,750**	68,600
Prepaid lease payments	15	**3,721**	3,804
Deposit paid for property, plant and equipment	16	**60,000**	10,000
		159,409	91,347
Current assets			
Inventories	19	**32,948**	49,140
Trade and other receivables	20	**309,774**	329,032
Pledged bank deposits	21	**29,842**	9,890
Cash and bank balances	22	**125,539**	141,041
		498,103	529,103
Current liabilities			
Trade and other payables	23	**156,973**	157,324
Bank loans	24	**61,120**	47,168
Current taxation		**10,202**	12,841
		228,295	217,333
Net current assets		**269,808**	311,770
Total assets less current liabilities		**429,217**	403,117
Non-current liabilities			
Deferred tax liabilities	25(a)	**6,387**	8,620
		6,387	8,620
NET ASSETS		**422,830**	394,497

The notes on pages 67 to 123 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2012
(Expressed in Renminbi)

	Note	**2012** **RMB'000**	2011 RMB'000
CAPITAL AND RESERVES	26		
Share capital		**53,468**	53,468
Reserves		**369,362**	341,029
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**422,830**	394,497

Approved and authorised for issue by the board of directors on 25 March 2013.

Mr. Zhao Li Sheng
Director

Ms. Chan Lok San
Director

The notes on pages 67 to 123 form part of these financial statements.

Statement of Financial Position

At 31 December 2012
(Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Non-current assets			
Investments in subsidiaries	17	**222,994**	222,952
Current assets			
Amount due from a subsidiary	20	**28,972**	—
Cash and bank balances	22	**44,744**	119,902
		73,716	119,902
Current liabilities			
Other payables	23	**1,437**	1,269
Amounts due to subsidiaries	23	**5,826**	26,737
		7,263	28,006
Net current assets		**66,453**	91,896
NET ASSETS		**289,447**	314,848
CAPITAL AND RESERVES	26		
Share capital		**53,468**	53,468
Reserves		**235,979**	261,380
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**289,447**	314,848

Approved and authorised for issue by the board of directors on 25 March 2013.

Mr. Zhao Li Sheng
Director

Ms. Chan Lok San
Director

The notes on pages 67 to 123 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012
(Expressed in Renminbi)

	Share capital RMB'000 (note 26(a))	Share premium RMB'000 (note 26(b))	Statutory and discretionary reserves RMB'000 (note 26(c))	Contributed surplus RMB'000 (note 26(d))	Property revaluation reserve RMB'000 (note 26(e))	Warrant reserve RMB'000 (note 26(f))	Exchange reserve RMB'000 (note 26(g))	Retained profits RMB'000	Total RMB'000
At 1 January 2012	**53,468**	**152,700**	**28,758**	**59,068**	**524**	**300**	**(11,239)**	**110,918**	**394,497**
Changes in equity:									
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**48,535**	**48,535**
Other comprehensive income/(loss) for the year	**—**	**—**	**—**	**—**	**(7)**	**—**	**244**	**—**	**237**
Total comprehensive income/(loss) for the year	**—**	**—**	**—**	**—**	**(7)**	**—**	**244**	**48,535**	**48,772**
Transfer	**—**	**—**	**—**	**(30,000)**	**—**	**—**	**—**	**30,000**	**—**
Appropriation of statutory and discretionary reserves	**—**	**—**	**4,686**	**—**	**—**	**—**	**—**	**(4,686)**	**—**
Dividends (note 9(b))	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(20,439)**	**(20,439)**
At 31 December 2012	**53,468**	**152,700**	**33,444**	**29,068**	**517**	**300**	**(10,995)**	**164,328**	**422,830**
At 1 January 2011	53,468	152,700	23,895	89,068	—	—	(2,779)	53,956	370,308
Changes in equity:									
Profit for the year	—	—	—	—	—	—	—	51,031	51,031
Other comprehensive income/(loss) for the year	—	—	—	—	524	—	(8,460)	—	(7,936)
Total comprehensive income/(loss) for the year	—	—	—	—	524	—	(8,460)	51,031	43,095
Transfer	—	—	—	(30,000)	—	—	—	30,000	—
Issue of warrants	—	—	—	—	—	300	—	—	300
Appropriation of statutory and discretionary reserves	—	—	4,863	—	—	—	—	(4,863)	—
Dividends (note 9(b))	—	—	—	—	—	—	—	(19,206)	(19,206)
At 31 December 2011	53,468	152,700	28,758	59,068	524	300	(11,239)	110,918	394,497

The notes on pages 67 to 123 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2012
(Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Operating activities			
Profit before taxation		**63,257**	73,816
Adjustments for:			
Amortisation of prepaid lease payments	6(c)	**83**	190
Depreciation	6(c)	**1,590**	1,431
Finance costs	6(a)	**2,619**	4,690
Interest income	5(a)	**(1,712)**	(2,198)
Loss on disposal of property, plant and equipment	6(c)	**18**	17
Impairment loss of trade and other receivables	6(c)	**34**	1,216
Reversal of impairment loss on trade receivables	6(c)	**(22)**	(65)
Valuation gain on investment properties	14	**(8,150)**	(9,000)
Write-down of inventories	19	**4,866**	225
Changes in working capital			
Decrease in inventories		**11,326**	9,952
Decrease/(increase) in trade and other receivables		**19,246**	(107,258)
Decrease in trade and other payables		**(351)**	(11,169)
Cash generated from/(used in) operations		**92,804**	(38,153)
PRC income tax paid		**(19,601)**	(15,173)
Net cash generated from/(used in) operating activities		**73,203**	(53,326)

The notes on pages 67 to 123 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2012
(Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Investing activities			
Payment for the purchase of property, plant and equipment		**(11,603)**	(6,623)
Proceeds from sale of property, plant and equipment		**—**	4
Deposit paid for property, plant and equipment		**(50,000)**	(10,000)
Increase in bank deposits with maturity over three months	22	**(40,000)**	—
Interest received		**1,712**	2,198
Net cash used in investing activities		**(99,891)**	(14,421)
Financing activities			
(Increase)/decrease in pledged bank deposits		**(19,952)**	121,983
Proceeds from new bank loans		**249,354**	57,873
Repayment of bank loans		**(235,402)**	(208,551)
Finance costs paid		**(2,619)**	(4,690)
Dividend paid		**(20,439)**	(19,206)
Proceeds from issue of warrants		**—**	300
Net cash used in financing activities		**(29,058)**	(52,291)
Net decrease in cash and cash equivalents		**(55,746)**	(120,038)
Cash and cash equivalents at beginning of year		**141,041**	269,526
Effect of foreign exchange rate changes		**244**	(8,447)
Cash and cash equivalents at end of year	22	**85,539**	141,041

The notes on pages 67 to 123 form part of these 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 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 (the "PRC").

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 of Hong Kong Limited ("the Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) *Basis of preparation of the financial statements*

The consolidated financial statements for the year ended 31 December 2012 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 are stated at their fair values as explained in the accounting policies set out below:

— investment properties; and

— financial assets at fair value through profit or loss

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 major sources of estimation uncertainty are discussed in note 28.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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(j)).

d) *Jointly controlled entity*

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

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 that basis; or

— it forms part of a contract containing one or more embedded derivatives, and HKAS 39 Financial Instruments: Recognition and Measurement 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

f) *Investment properties*

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(h)) 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, unless they are still in course of construction or development at the end of the reporting period and their fair value cannot be reliably determined at that time. 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(s)(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(h)), 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(h).

g) *Property, plant and equipment*

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

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:

— buildings situated on leasehold land are depreciated 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	20% per annum

Changes arising on the revaluation of properties held for own use are generally dealt with in other comprehensive income and are accumulated separately in equity in the property revaluation reserve. The only exceptions are as follows:

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(i) when a deficit arises on revaluation, it will be charged to profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and

(ii) when a surplus arises on revaluation, it will be credited to profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to profit or loss.

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.

An asset's carrying amount is written down immediately to its recoverable amount if 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.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) *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(f)).

— 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.

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 charged as expenses in 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) Leased assets *(Continued)*

iii) Leasehold land and building

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, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lumpsum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

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, except for those that are classified and accounted for as investment properties under the fair value model.

i) 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) *Impairment of assets*

i) *Impairment of investments in equity securities and trade and other receivables*

Investments in equity securities and 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.

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

— For investments in subsidiaries, the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(j)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(j)(ii).

— 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) *Impairment of assets (Continued)*

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;

— prepaid lease payments; and

— deposit paid for property, plant and equipment

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 its 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)*

j) Impairment of assets *(Continued)*

iii) Interim financial reporting and Impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition and reversal criteria as it would at the end of the financial year.

Impairment losses recognised in an interim period in respect of goodwill and available for-sale equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts, 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 (see note 2(j)(i)).

l) 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.

m) 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.

n) 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

o) *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 in other comprehensive income or directly in equity, in which case they are recognised in other comprehensive income or directly in equity, respectively.

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.

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.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(f), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

o) *Income tax (Continued)*

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

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.

p) *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.

q) *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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

r) *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 operations outside Mainland China 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.

s) *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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

s) *Revenue recognition* *(Continued)*

iii) Promotion service income and commission income

Promotion service income and commission income are recognised when the services are rendered.

iv) Interest income

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

t) *Segment reporting*

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

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

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

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

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

u) *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.

(v) *Warrants*

Warrants issued by the Company that will be settled by a fixed amount of cash for a fixed number of the Company's own equity instruments are equity instruments. The net proceeds received from the issue of warrants are recognised in equity (warrant reserve). The warrant reserve will be transferred to share capital and share premium accounts upon the exercise of the warrants. When the warrants are still not exercised at the expiry date, the amount previously recognised in the warrant reserve will be transferred to retained profits.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

w) *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.

x) *Related parties*

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

x) *Related parties* *(Continued)*

(b) An entity is related to the Group if any of the following conditions applies: *(Continued)*

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

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

The HKICPA has issued new and revised HKFRSs that are first effective for the current accounting year of the Group. Of these, the following developments are relevant to the Group's financial statements:

Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets; and
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets

The application of the amendments to HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these financial statements.

Amendments to HKFRS 7 Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 require certain disclosures to be included in the financial statements in respect of transferred financial assets that are not derecognised in their entirety and for any continuing involvement in transferred financial assets that are derecognised in their entirety, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption. The Group did not have any significant transfers of financial assets in previous years or the current year which require disclosure in the current accounting year under the amendments.

Amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets

The Group has applied for the first time the amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 Investment Property are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes unless the presumption is rebutted.

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to HKAS 12, the directors reviewed the Group's investment properties and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, the directors have determined that the sale presumption set out in the amendments to HKAS 12 is rebutted. As a result, the Group continues to measure the deferred tax relating to investment properties using the tax rate that would apply as a result recovering their value through use.

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.

	2012	2011
	RMB'000	RMB'000
Sales of		
– pharmaceutical products	**661,735**	663,327
– healthcare products	**43,784**	22,235
	705,519	685,562

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

a) *Other revenue*

	2012	2011
	RMB'000	RMB'000
Total interest income on financial assets not at fair value through profit or loss:		
Bank interest income	**1,712**	2,198
Gross rental income from investment properties	**1,037**	1,653
Promotion service income	**3,604**	—
Commission income	**—**	409
Others	**2,758**	1,752
	9,111	6,012

b) *Other net (loss)/income*

	2012	2011
	RMB'000	RMB'000
Net gain on financial assets at fair value through profit or loss	**340**	272
Net foreign exchange (loss)/gain	**(361)**	11,968
Net realised loss on forward foreign exchange contracts	**—**	(983)
	(21)	11,257

6. PROFIT BEFORE TAXATION

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

		2012 RMB'000	2011 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	**2,619**	4,690
b)	**Staff costs (including directors' and chief executive's remuneration)**		
	Salaries and other benefits	**30,656**	27,577
	Contributions to defined contribution retirement plan	**4,917**	3,926
		35,573	31,503
c)	**Other items**		
	Amortisation of prepaid lease payments	**83**	190
	Auditors' remuneration		
	– audit service	**671**	693
	– non-audit service	**312**	315
	Cost of inventories (note 19)	**541,674**	524,730
	Depreciation	**1,590**	1,431
	Impairment losses on trade receivables (note 20(c))	**20**	1,150
	Impairment losses of other receivables	**14**	66
	Loss on disposal of property, plant and equipment	**18**	17
	Operating lease charges in respect of land and buildings	**4,818**	3,535
	Rental income from investment properties less direct outgoings of RMB356,000 (2011: RMB408,000)	**(681)**	(1,245)
	Reversal of impairment loss on trade receivables (note 20(c))	**(22)**	(65)

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

a) Income tax in the consolidated income statement represents:

	2012 RMB'000	2011 RMB'000
PRC Income tax		
– Current year	**16,916**	17,663
– Underprovision in respect of prior years	**46**	141
	16,962	17,804
Deferred tax (note 25(a))		
– Origination and reversal of temporary differences	**(2,408)**	4,827
– Attributable to a change in tax rate	**168**	154
	(2,240)	4,981
	14,722	22,785

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 2012 and 2011.

iii) The PRC income tax charge of the Group during the years ended 31 December 2012 and 2011 represented mainly the PRC income tax charge from the Group's subsidiary, Shenzhen Kingworld Medicine Company Limited ("SZ Kingworld") and the Group's proportionate share of PRC income tax charge from a jointly controlled entity, Zhuhai City Jinming Medicine Company Limited ("Zhuhai Jinming").

During the year, SZ Kingworld and Zhuhai Jinming were subject to an income tax rate of 25%. Pursuant to the relevant laws and regulations in the PRC, SZ Kingworld and Zhuhai Jinming are located in an approved economic zone in the PRC and were entitled to a transitional income tax rate of 24% during the year ended 31 December 2011.

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

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

	2012 RMB'000	2011 RMB'000
Profit before taxation	**63,257**	73,816
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned	**16,570**	18,095
Tax effect of non-deductible expenses	**1,993**	2,026
Tax effect of non-taxable income	**(282)**	(998)
Tax effect of unused tax losses not recognised	**586**	972
Unrecognised temporary differences	**86**	(272)
Effect on opening deferred tax balance resulting from a change in tax rate	**168**	154
Under-provision in previous years	**46**	141
(Reversal of)/provision for withholding tax (note (c))	**(4,445)**	2,667
Actual tax expense	**14,722**	22,785

c) The Group has deferred tax liabilities balance of RMB4,445,000 as at 31 December 2011 in respect of the tax that would be payable on the distribution of the retained profits of the Group's PRC subsidiaries. In the opinion of the Company's directors, the Group controls the dividend policy of these subsidiaries and it has been determined that it is not probable that these subsidiaries will distribute profits in the foreseeable future. Accordingly, the deferred tax liabilities balance of RMB4,445,000 has been written back to consolidated income statement during the year. As at 31 December 2012, temporary differences relating to the undistributed profits of these subsidiaries amounted to RMB137,196,000 (2011: RMB nil) and deferred tax liabilities of RMB6,860,000 (2011: RMB nil) have not been recognised in these financial statements.

8. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company includes a loss of RMB5,066,000 (2011: RMB159,000) which has been dealt with in the financial statements of the Company (note 26).

9. DIVIDENDS

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

	2012 RMB'000	2011 RMB'000
Final dividend proposed after the end of the reporting period of HK2.90 cents (equivalent to RMB2.34 cents) (2011: HK4.04 cents (equivalent to RMB3.27 cents)) per ordinary share	**14,567**	20,356
	14,567	20,356

The final dividend for 2012 proposed after the end of the reporting period is subject to approval by the Company's shareholders in the forthcoming annual general meeting. It has not been recognised as a liability at the end of the reporting period.

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

	2012 RMB'000	2011 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK4.04 cents (equivalent to approximately RMB3.28 cents) (2011: HK3.71 cents (equivalent to approximately RMB3.08 cents))	**20,439**	19,206

10. EARNINGS PER SHARE

a) Basic 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 RMB48,535,000 (2011: RMB51,031,000) and the weighted average number of 622,500,000 (2011: 622,500,000) ordinary shares.

b) Diluted earnings per share

During the year, the calculation of diluted earnings per share is based on the profit attributable to owners of the Company of RMB48,535,000 (2011: RMB51,031,000) and on the weighted average number of 623,040,000 (2011: 622,500,000) ordinary shares in issue.

Weighted average number of ordinary shares (diluted):

	Number of shares	
	2012	2011
	'000	'000
Weighted average number of ordinary shares at 1 January	**622,500**	622,500
Adjustment for warrants	**540**	—
Weighted average number of ordinary shares (diluted) at 31 December	**623,040**	622,500

During the year ended 31 December 2011, as there were no potential dilutive ordinary shares in issue, the diluted earnings per share was same as the basic earnings per share.

11. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
2012					
Executive directors:					
Zhao Li Sheng (chief executive officer)	**—**	**1,082**	**—**	**—**	**1,082**
Chan Lok San	**—**	**901**	**—**	**—**	**901**
Lin Yusheng	**—**	**781**	**—**	**5**	**786**
Zhou Xuhua	**—**	**589**	**—**	**43**	**632**
Independent non-executive directors:					
Duan Jidong	**135**	**—**	**—**	**—**	**135**
Wong Cheuk Lam	**135**	**—**	**—**	**—**	**135**
Zhang Jianqi	**135**	**—**	**—**	**—**	**135**
	405	**3,353**	**—**	**48**	**3,806**
2011					
Executive directors:					
Zhao Li Sheng (chief executive officer)	—	1,025	—	—	1,025
Chan Lok San	—	876	—	—	876
Lin Yusheng	—	593	—	11	604
Zhou Xuhua	—	840	—	40	880
Independent non-executive directors:					
Duan Jidong	128	—	—	—	128
Wong Cheuk Lam	128	—	—	—	128
Zhang Jianqi	128	—	—	—	128
	384	3,334	—	51	3,769

During the years ended 31 December 2012 and 2011, no amount was paid or payable to the directors or chief executive 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 or chief executive waived or agreed to waive any remuneration during both years.

12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group include 4 (2011: 4) directors during the year, whose emoluments are disclosed in note 11. The emoluments in respect of the remaining individual are as follows:

	2012	2011
	RMB'000	RMB'000
Salaries, allowance and other benefits	**522**	388
Discretionary bonuses	**—**	—
Retirement scheme contributions	**—**	—
	522	388

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

	2012	2011
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 2011	707	292	4,334	4,287	509	10,129
Exchange adjustments	—	—	—	(32)	—	(32)
Additions	—	244	579	3,407	2,393	6,623
Disposal	—	—	(179)	—	—	(179)
Surplus on revaluation (note 13(c))	84	—	—	—	—	84
Less: elimination of accumulated depreciation	(61)	—	—	—	—	(61)
Reclassification to investment properties (note 13(c))	(730)	—	—	—	—	(730)
At 31 December 2011	—	536	4,734	7,662	2,902	15,834
At 1 January 2012	—	536	4,734	7,662	2,902	15,834
Additions	—	131	493	—	10,979	11,603
Disposal	—	—	(183)	—	—	(183)
At 31 December 2012	**—**	**667**	**5,044**	**7,662**	**13,881**	**27,254**
Accumulated depreciation						
At 1 January 2011	40	139	2,631	2,888	—	5,698
Exchange adjustments	—	—	—	(19)	—	(19)
Charge for the year	21	98	507	805	—	1,431
Disposal	—	—	(158)	—	—	(158)
Eliminated on revaluation	(61)	—	—	—	—	(61)
At 31 December 2011	—	237	2,980	3,674	—	6,891
At 1 January 2012	—	237	2,980	3,674	—	6,891
Charge for the year	—	125	438	1,027	—	1,590
Disposal	—	—	(165)	—	—	(165)
At 31 December 2012	**—**	**362**	**3,253**	**4,701**	**—**	**8,316**
Carrying amount						
At 31 December 2012	**—**	**305**	**1,791**	**2,961**	**13,881**	**18,938**
At 31 December 2011	—	299	1,754	3,988	2,902	8,943

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group *(Continued)*

a) The building is held under a medium term lease in the PRC.

b) The construction in progress at 31 December 2012 and 2011 primarily relates to the construction of the Group's office and warehouses located on its leasehold land in the PRC. The construction in progress with a carry amount of RMB13,881,000 (2011: RMB nil) was pledged to secure bank loans and banking facilities granted to the Group at 31 December 2012 (note 24 (c)).

c) During the year ended 31 December 2011, the building of the Group held for own use was leased out to two independent third parties under operating leases. Upon the change of use, the building was revalued at fair value with a surplus on revaluation of RMB84,000 recognised in the Group's property revaluation reserve, and the carrying value of the building of RMB730,000 was reclassified to investment property (note 14). The fair value was arrived at on the basis of the valuation carried out by an independent firm of valuers, DTZ Debenham Tie Leung Limited, who amongst their staff have members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The valuation was arrived at by reference to recent market transactions in comparable properties or net rental income allowing for reversionary income potential.

14. INVESTMENT PROPERTIES

	The Group RMB'000
Fair value	
At 1 January 2011	55,000
Fair value gain	9,000
Reclassification from leasehold land and building held for own use (note 13(c) and 15(b))	4,600
At 31 December 2011 and 1 January 2012	68,600
Fair value gain	8,150
At 31 December 2012	76,750

a) The Group's investment properties were revalued as at 31 December 2012 and 2011 respectively on an open market value basis calculated by reference to recent market transactions in comparable properties or 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 amongst their staff have members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued.

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

c) At 31 December 2012, the Group's investment properties with a carrying amount of RMB71,870,000 (2011: RMB nil) was pledged to secure bank loans and banking facilities granted to the Group (note 24(c)).

14. INVESTMENT PROPERTIES *(Continued)*

d) The Group leases out investment properties under operating leases. The leases run for a period for three to seven years (2011: one to three years). None of the leases include contingent rentals.

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

	2012 **RMB'000**	2011 RMB'000
Within 1 year	**2,950**	1,032
After 1 year but within 5 years	**12,881**	327
After 5 years	**8,363**	—
	24,194	1,359

15. PREPAID LEASE PAYMENTS

	The Group RMB'000
Cost	
1 January 2011	7,583
Surplus on revaluation (Note 15(b))	605
Less: elimination on accumulated amortisation	(308)
Reclassification to investment property (Note 15(b))	(3,870)
At 31 December 2011, 1 January 2012 and 31 December 2012	4,010
Accumulated amortisation	
At 1 January 2011	324
Amortisation for the year	190
Eliminated on revaluation	(308)
At 31 December 2011 and 1 January 2012	206
Amortisation for the year	83
At 31 December 2012	289
Carrying amount	
At 31 December 2012	3,721
At 31 December 2011	3,804

15. PREPAID LEASE PAYMENTS *(Continued)*

a) The Group's prepaid lease payments comprise a land use right held under medium term lease in the PRC. At 31 December 2012, the land was pledged to secure bank loans and banking facilities granted to the Group (2011: nil) (note 24(c)).

b) During the year ended 31 December 2011, the Group's land held for own use was leased out to two independent third parties under operating leases. Upon the change of use, the land was revalued at fair value with a surplus on revaluation of RMB605,000 and was recognised in the Group's property revaluation reserve, and the carrying value of the land of RMB3,870,000 was reclassified to investment property (note 14). The fair value was arrived at on the basis of the valuation carried out by an independent firm of valuers, DTZ Debenham Tie Leung Limited, who amongst their staff have members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The valuation was arrived at by reference to recent market transactions in comparable properties or net rental income allowing for reversionary income potential.

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

16. DEPOSIT PAID FOR PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2011, the Group and an independent third party ("the Vendor") entered into an agreement and a supplementary agreement ("the Agreements"), pursuant to which the Group agreed to acquire and the Vendor agreed to sell certain properties ("the Properties") in Shenzhen, in the PRC. The Properties are to be constructed by the Vendor and will be delivered to the Group before September 2013 and used as the Group's office. The proposed consideration is RMB75,000,000 which is subject to adjustment when the details of the Properties are fixed. As at 31 December 2012, the Group paid an aggregate deposit of RMB60,000,000 (2011: RMB10,000,000). Subsequent to the end of the reporting period, the Group paid further deposit of RMB15,000,000 (note 33(a)).

17. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2012	2011
	RMB'000	RMB'000
Unlisted shares, at cost	**222,994**	222,952

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary, except for the subsidiary which was 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
Kingworld Medicine and Healthcare Group Limited ("BVI Kingworld") (note (a))	BVI/Hong Kong	100%	USD111	Investment holding
Kingworld Medicine Healthcare Limited	Hong Kong	100%	HK$195,546,680	Investment holding and distribution sale of branded imported pharmaceutical and healthcare products in Hong Kong
深圳市金活醫藥有限公司 SZ Kingworld Medicine Company Limited (Note (b))	The PRC	100%	RMB180,900,000	Distribution sale of branded imported pharmaceutical and healthcare products in the PRC

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) The English name of the above PRC subsidiary is for identification purpose only.

18. JOINTLY CONTROLLED ENTITY

At 31 December 2012, the Group had interests in the following jointly controlled entity:

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

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

	At 31 December	
	2012	2011
	RMB'000	RMB'000
Non-current assets	**18,019**	7,199
Current assets	**23,664**	25,033
Current liabilities	**(17,185)**	(13,798)
Net assets	**24,498**	18,434

18. JOINTLY CONTROLLED ENTITY *(Continued)*

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Income	**78,942**	81,420
Expenses	**(70,812)**	(70,953)
Profit before taxation	**8,130**	10,467
Income tax	**(2,066)**	(2,463)
Profit for the year	**6,064**	8,004
Other comprehensive income	**—**	—

	2012	2011
	RMB'000	RMB'000
Share of the jointly controlled entity's capital commitments at the end of the reporting period:		
Contracted but not provided for:		
Capital expenditure for construction of office premise and warehouse	**7,383**	16,590

19. INVENTORIES

	The Group	
	2012	2011
	RMB'000	RMB'000
Trading stocks	**32,948**	49,140

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

	2012	2011
	RMB'000	RMB'000
Carrying amount of inventories sold	**536,808**	524,505
Write-down of inventories	**4,866**	225
	541,674	524,730

20. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade and bills receivables (notes (b) to (e))	**284,909**	303,221	**—**	—
Less: Allowance for doubtful debts (note (c))	**(3,906)**	(3,908)	**—**	—
	281,003	299,313	**—**	—
Other receivables	**9,187**	4,928	**—**	—
Amount due from a subsidiary (note (f))	**—**	—	**28,972**	—
Loans and receivables	**290,190**	304,241	**28,972**	—
Prepayments	**9,851**	9,199	**—**	—
Trade and other deposits	**954**	996	**—**	—
Trade deposits to related parties (note 31(b))	**8,779**	14,596	**—**	—
	309,774	329,032	**28,972**	—

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 as of the end of the reporting period:

	The Group	
	2012	2011
	RMB'000	RMB'000
0-90 days	**244,753**	274,741
91-180 days	**25,299**	21,110
181-365 days	**10,082**	1,544
More than 1 year	**869**	1,918
	281,003	299,313

The Group generally granted credit terms ranging from 30 days to 90 days to its customers. Further details on the Group's credit policy are set out in note 27(a).

20. 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 and bills receivables directly.

Movements in the allowance for doubtful debts:

	The Group	
	2012	2011
	RMB'000	RMB'000
At 1 January	**3,908**	2,840
Impairment losses recognised (note 6(c))	**20**	1,150
Uncollectible amounts written off	**—**	(17)
Impairment losses reversed (note 6(c))	**(22)**	(65)
At 31 December	**3,906**	3,908

As at 31 December 2012, the Group's trade and bills receivables of RMB3,906,000 (2011: RMB3,908,000) were individually determined to be impaired and full provision had been made. These individually impaired receivables were outstanding over a long period and management assessed that receivables are expected to be irrecoverable. Accordingly, specific allowances for doubtful debts of RMB3,906,000 (2011: RMB3,908,000) were recognised as at 31 December 2012. The Group does not hold any collateral over these balances.

20. 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	
	2012	2011
	RMB'000	RMB'000
Neither past due nor impaired	**244,753**	274,741
Past due but not impaired		
– 91-180 days	**25,299**	21,110
– 181-365 days	**10,082**	1,544
– More than 1 year	**869**	1,918
	36,250	24,572
	281,003	299,313

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

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

e) As at 31 December 2011, bills receivables of RMB68,586,000 were pledged for bank loans and banking facilities granted to the Group (note 24(c)).

f) The amount due from a subsidiary is unsecured, interest free and has no fixed terms of repayment.

21. PLEDGED BANK DEPOSITS

All bank deposits are pledged to banks as security for bank loans and banking facilities granted to the Group (see note 24(c)). Pledged banks deposits carry effective interest rate of 4.8% (2011: 0.5%) per annum as at 31 December 2012.

22. CASH AND BANK BALANCES

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank balances	**85,316**	140,704	**44,744**	119,902
Cash on hand	**223**	337	**—**	—
Cash and cash equivalents in the consolidated statement of cash flows	**85,539**	141,041	**44,744**	119,902
Bank deposits with maturity over three months	**40,000**	—	**—**	—
Cash and bank balances in the consolidated and the Company's statements of financial position	**125,539**	141,041	**44,744**	119,902

Deposits with banks carry effective interest rates ranging from 0.01% to 3.2% (2011: 0.1% to 0.5%) per annum as at 31 December 2012.

23. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade and bills payables (notes (b) and (c))	**126,304**	120,901	**—**	—
Accruals	**3,999**	3,132	**760**	592
Other payables	**24,550**	21,762	**677**	677
Amounts due to subsidiaries (note (d))	**—**	—	**5,826**	26,737
Financial liabilities measured at amortised cost	**154,853**	145,795	**7,263**	28,006
Trade deposits received	**2,120**	11,529	**—**	—
	156,973	157,324	**7,263**	28,006

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.

23. TRADE AND OTHER PAYABLES *(Continued)*

b) *Ageing analysis*

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

	The Group	
	2012	2011
	RMB'000	RMB'000
0-90 days	**126,304**	112,409
91-180 days	**—**	8,492
	126,304	120,901

c) As at 31 December 2011, bills payables of RMB8,492,000 were pledged by the Group's bank deposits (note 24(c)).

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

24. BANK LOANS

The bank loans are secured and repayable as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
Within 1 year or on demand	**61,120**	47,168

a) All of the bank loans are carried at amortised cost.

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

	The Group	
	2012	2011
Effective interest rates:		
Fixed rate loans	**2.4% - 4.4%**	6.7% - 12.9%
Variable rate loans	**7.4%**	4.9%

24. BANK LOANS *(Continued)*

c) As at 31 December 2012, the bank loans and bills payables (note 23(c)) were secured by the following assets of the Group.

	The Group	
	2012	2011
	RMB'000	RMB'000
Construction in progress (note 13(b))	**13,881**	—
Investment property (note 14(c))	**71,870**	—
Land (note 15(a))	**3,721**	—
Bills receivables (note 20(e))	**—**	68,586
Pledged bank deposits (note 21)	**29,842**	9,890
	119,314	78,476

25. DEFERRED TAX

a) 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 properties	**Revaluation of other property**	**Withholding tax**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011	1,696	—	3,327	5,023
Charged to consolidated income statement (note 7(a))	2,314	—	2,667	4,981
Charged to other comprehensive income	—	165	—	165
Paid out	—	—	(1,549)	(1,549)
At 31 December 2011	4,010	165	4,445	8,620
At 1 January 2012	**4,010**	**165**	**4,445**	**8,620**
Charged to consolidated income statement (notes 7(a) & (c))	**2,205**	**—**	**(4,445)**	**(2,240)**
Charged to other comprehensive income	**—**	**7**	**—**	**7**
At 31 December 2012	**6,215**	**172**	**—**	**6,387**

b) Deferred tax assets and liabilities not recognsied

Save as disclosed in note 7(c), there were no significant unrecognsied deferred tax assets and liabilities of the Group and the Company as at 31 December 2012 and 2011.

26. 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 d)	Warrant reserve RMB'000 (note f)	Exchange reserve RMB'000 (note g)	Accumulated profit/(losses) RMB'000	Total RMB'000
At 1 January 2012	**53,468**	**152,700**	**125,863**	**300**	**(20,302)**	**2,819**	**314,848**
Change in equity:							
Loss for the year	**—**	**—**	**—**	**—**	**—**	**(5,066)**	**(5,066)**
Other comprehensive income for the year	**—**	**—**	**—**	**—**	**104**	**—**	**104**
Total comprehensive loss for the year	**—**	**—**	**—**	**—**	**104**	**(5,066)**	**(4,962)**
Transfer	**—**	**—**	**(30,000)**	**—**	**—**	**30,000**	**—**
Dividends (note 9(b))	**—**	**—**	**—**	**—**	**—**	**(20,439)**	**(20,439)**
At 31 December 2012	**53,468**	**152,700**	**95,863**	**300**	**(20,198)**	**7,314**	**289,447**
At 1 January 2011	53,468	152,700	155,863	—	(2,388)	(7,816)	351,827
Change in equity:							
Loss for the year	—	—	—	—	—	(159)	(159)
Other comprehensive loss for the year	—	—	—	—	(17,914)	—	(17,914)
Total comprehensive loss for the year	—	—	—	—	(17,914)	(159)	(18,073)
Transfer	—	—	(30,000)	—	—	30,000	—
Dividends (note 9(b))	—	—	—	—	—	(19,206)	(19,206)
Issue of warrants	—	—	—	300	—	—	300
At 31 December 2011	53,468	152,700	125,863	300	(20,302)	2,819	314,848

26. SHARE CAPITAL AND RESERVES *(Continued)*

a) *Share Capital*

The Company

	Number of shares '000	Amount HK$'000	Amount equivalent to RMB$'000
Authorised:			
Ordinary shares of HK$0.1			
At 1 January 2011, 31 December 2011, 1 January 2012 and 31 December 2012	10,000,000	1,000,000	877,900
Issued and fully paid:			
Ordinary shares of HK$0.1			
At 1 January 2011, 31 December 2011, 1 January 2012 and 31 December 2012	622,500	62,250	53,468

b) *Share premium*

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

c) *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 shareholders in general meetings in accordance with the articles of association and the PRC regulations.

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 shareholders 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.

26. SHARE CAPITAL AND RESERVES *(Continued)*

d) 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 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's contributed surplus represents the excess of total net assets of the subsidiaries acquired, pursuant to the Reorganisation, over the nominal value of the Company's shares issued in exchange thereof.

e) Property revaluation reserve

The property revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for leasehold land and buildings held for own use in notes 2(g) and 2(h).

f) Warrant reserve

Warrant reserve represents the net proceeds received from the issue of warrants of the Company. The reserve will be transferred to share capital and share premium accounts upon the exercise of the warrants.

On 22 September 2011, the Company issued 37,000,000 unlisted warrants at the issue price of HK$0.01 per warrant. Each warrant is entitled to subscribe for one new ordinary share of the Company at an exercise price of HK$1.4 per share for a period of 18 months commencing from the issue date of the warrants. During the years ended 31 December 2012 and 2011, no new shares were issued upon exercise of the warrants.

g) Exchange reserve

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

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 2012, the aggregate amount of reserves available for distribution to owners of the Company was RMB255,877,000 (2011: RMB281,382,000). After the end of the reporting period, the directors proposed a final dividend of HK2.90 cents (equivalent to RMB2.34 cents) (2011: HK4.04 cents (equivalent to RMB3.27 cents)) per share amounting to RMB14,567,000 (2011: RMB20,356,000) (note 9(a)). The proposed final dividend has not been recognised as a liability at the end of the reporting period.

26. SHARE CAPITAL AND RESERVES *(Continued)*

i) Capital management

The Group manages its capital 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 regularly. As part of this review, the management considers 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 net debt to equity ratio. The Group defines net debt as interest-bearing bank loans less pledged bank deposits and cash and bank balances. Equity comprises all components of equity.

The Group's net debt to equity ratio at 31 December 2012 and 2011 were as follows:

	2012 **RMB'000**	2011 RMB'000
Bank loans	**61,120**	47,168
Total debt	**61,120**	47,168
Less: Pledged bank deposits	**(29,842)**	(9,890)
Cash and bank balances	**(125,539)**	(141,041)
Net debt	**—**	—
Total equity	**422,830**	394,497
Net debt to equity ratio	**0%**	0%

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements in either the current or prior years.

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 and bank loans. The Company's major financial instruments include cash and bank balances, amounts due from and to subsidiaries and other payables. 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 2012, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated and the Company's statements 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.

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 1% (2011: 8%) of the total trade receivables due from the Group's largest customer and 19% (2011: 24%) of the total trade receivables due from the Group's five largest customers as at 31 December 2012.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 20.

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.

vi) With respect to credit risk arising from amount due from a subsidiary, the Company's exposure to credit risk arising from default of the counterparty is limited as the counterparty has good history of repayment and the Company does not expect to incur a significant loss for uncollected amount due from a subsidiary.

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

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 following liquidity risk tables set out the remaining contractual maturities at the end of the reporting period of the Group's and the Company'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 and the Company is required to pay:

	The Group		
	Within 1 year or on demand RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amount RMB'000
2012			
Non-derivative financial liabilities			
Trade and bills payables	**126,304**	**126,304**	**126,304**
Accruals	**3,999**	**3,999**	**3,999**
Other payables	**24,550**	**24,550**	**24,550**
Bank loans	**61,120**	**61,120**	**61,120**
	215,973	**215,973**	**215,973**
2011			
Non-derivative financial liabilities			
Trade and bills payables	120,901	120,901	120,901
Accruals	3,132	3,132	3,132
Other payables	21,762	21,762	21,762
Bank loans	47,168	47,168	47,168
	192,963	192,963	192,963

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

b) *Liquidity risk* *(Continued)*

	The Company		
	Within 1 year or on demand RMB'000	**Total contractual undiscounted cash flow RMB'000**	**Carrying amount RMB'000**
2012			
Non-derivative financial liabilities			
Accruals	**760**	**760**	**760**
Other payables	**677**	**677**	**677**
Amounts due to subsidiaries	**5,826**	**5,826**	**5,826**
	7,263	**7,263**	**7,263**
2011			
Non-derivative financial liabilities			
Accruals	592	592	592
Other payables	677	677	677
Amounts due to subsidiaries	26,737	26,737	26,737
	28,006	28,006	28,006

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 24 and 22) and fair value interest rate risk in relation to fixed-rate bank loans, bank balances and pledged bank deposits (notes 24, 22 and 21).

Interest rate risks are managed by the Group by maintaining an appropriate mix between fixed and variable rate borrowings.

i) *Interest rate profile*

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

	The Group				The Company			
	2012		2011		**2012**		2011	
	Effective interest rates %	**RMB'000**	Effective interest rates %	RMB'000	**Effective interest rates %**	**RMB'000**	Effective interest rates %	RMB'000
Fixed rate borrowings:								
Bank loans	**2.4-4.4**	**59,880**	6.7-12.9	14,740	**–**	**–**	–	–
Variable rate borrowings:								
Bank loans	**7.4**	**1,240**	4.9	32,428	**–**	**–**	–	–
Total borrowings		**61,120**		47,168		**–**		–
Net fixed rate borrowings as a percentage of total borrowings		**98%**		31%		**–**		–
Variable rate bank balances	**0.01-0.4**	**45,315**	0.1-0.5	140,704	**0.01**	**4,744**	0.1-0.5	119,902
Fixed rate bank balances	**3.1-3.2**	**80,001**	–	–	**3.1**	**40,000**	–	–
Fixed rate pledged bank deposits	**4.8**	**29,842**	0.5	9,890	**–**	**–**	–	–

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

c) *Interest rate risk* *(Continued)*

ii) *Sensitivity analysis*

All of the bank loans, bank balances 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 2012, it is estimated that a general increase/decrease of 100 basis points in interest rates for variable rate bank loans and bank balances, with all other variables held constant, would increase/decrease the Group's and the Company's profit after tax and retained profits by approximately RMB440,000 (2011: RMB1,082,000) and RMB47,000 (2011: RMB1,199,000) respectively. Other components of consolidated and the Company's 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 end of next annual reporting period. The analysis is performed on the same basis for the 2011.

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, cash and bank balances and bank loans and the Company is exposed to currency risk primarily in bank balances. The carrying values of these financial assets and liabilities 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 HK$ and RMB to the extent that they are not the functional currency of the operations to which the transactions and balances related. The Group currently does not use any derivative contracts to hedge against its exposure to currency risk. The management monitors foreign exchange exposure by closely reviewing the movement of the foreign currency rate and consider hedging significant foreign currency exposure should the need arise.

i) Exposure to currency risk

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Assets/(Liabilities)				
Cash and bank balances				
HK$	**79**	80	**—**	—
RMB	**70,356**	111,447	**40,225**	111,477
Trade and bills payables				
HK$	**(117,783)**	(119,727)	**—**	—
Bank loans				
HK$	**(59,879)**	(32,428)	**—**	—
Total assets				
HK$	**79**	80	**—**	—
RMB	**70,356**	111,477	**40,225**	111,477
Total liabilities				
HK$	**(177,662)**	(152,155)	**—**	—
RMB	**—**	—	**—**	—

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

d) *Currency risk (Continued)*

ii) *Sensitivity analysis*

The following table indicates the approximate change in the Group's and the Company'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 and the Company has significant exposure at the end of the reporting period.

	The Group			The Company		
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000	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 2012						
HK$	**5%**	**(8,879)**	**—**	**5%**	**—**	**—**
	(5%)	**8,879**	**—**	**(5%)**	**—**	**—**
RMB	**5%**	**3,518**	**—**	**5%**	**2,011**	**—**
	(5%)	**(3,518)**	**—**	**(5%)**	**(2,011)**	**—**
At 31 December 2011						
HK$	5%	(7,604)	—	5%	—	—
	(5%)	7,604	—	(5%)	—	—
RMB	5%	5,574	—	5%	5,574	—
	(5%)	(5,574)	—	(5%)	(5,574)	—

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 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 end of next annual 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 2011.

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

e) *Business risk*

The Group has a certain concentration of business risk as 75% (2011: 76%) of its total turnover during the year from a principal product, Nin Jiom Pei Pa Koa (京都念慈菴蜜煉川貝枇杷膏), 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) *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.

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

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 and deposit paid for property, plant and equipment 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.

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

c) *Valuation of investment properties*

Investment properties are included in the consolidated statement of financial position at their 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 or the net rental income allowing for reversionary income potential.

The assumptions adopted in the property valuations 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.

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 costs of completion and the estimated costs necessary to make the sale. 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.

g) *Investments in subsidiaries*

Investments 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 2012, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	2012 **RMB'000**	2011 RMB'000
Within one year	**3,353**	2,601
In the second to fifth year inclusive	**1,996**	1,949
After five years	**25**	—
	5,374	4,550

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 six years (2011: one to four years). None of the leases include contingent rentals.

b) Capital commitments

Save as disclosed in note 18, the Group had the following capital commitments as at 31 December 2012:

	2012 **RMB'000**	2011 RMB'000
Contracted but not provided for property, plant and equipment	**15,000**	65,000

c) The Company did not have any significant commitment as at 31 December 2012 and 2011.

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 10% to 22% (2011: 10% to 19%) 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 RMB4,917,000 (2011: RMB3,926,000) 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 Li Sheng ("Mr. Zhao")	The Company's director and the ultimate controlling party of the Group. Mr. Zhao is the sole shareholder of the ultimate holding company of the Company.
Ms. Chan Lok San ("Ms. Chan")	The Company's director and the wife of Mr. Zhao
Morning Gold Medicine Company Limited ("Morning Gold")	Wholly owned by both Mr. Zhao and Ms. Chan
Yuen Tai Pharmaceuticals Limited ("Yuen Tai")	Subsidiary of Morning Gold
深圳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")	Indirectly wholly owned by both Mr. Zhao and Ms. Chan
Pearl Shining Co. ("Pearl Shining")	Note (i)

Notes:

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

ii) 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

The Group had the following related party transactions and balances during the year:

	Note	The Group **2012** **RMB'000**	 2011 RMB'000
Purchases of goods			
SZ Kingworld Lifeshine	(i)	**18,932**	19,848
Yuen Tai	(i)	**890**	392
Pearl Shining	(i)	**398**	—
		20,220	20,240
Rental expenses			
SZ Industry	(i)	**775**	723

	Note	The Group As at 31 December **2012** **RMB'000**	 2011 RMB'000
Yuen Tai			
Trade deposit	(ii)	**162**	—
SZ Kingworld Lifeshine			
Trade deposit	(ii)	**8,617**	14,596
Trade deposits included in trade and other receivables (note 20)		**8,779**	14,596

Notes:

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

ii) The amounts are unsecured and interest-free and will be set-off against the Group's purchases from the respective related parties in next twelve months after the end of the reporting period.

31. RELATED PARTY TRANSACTIONS *(Continued)*

c) Key management personnel 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:

	2012 RMB'000	2011 RMB'000
Salaries and other short-term employee benefits	**5,671**	6,371
Post employment benefits	**229**	262
Equity compensation benefits	**—**	—
	5,900	6,633

32. IMMEDIATE AND ULTIMATE HOLDING COMPANY

The Company's directors consider the immediate and ultimate holding company of the Company as at 31 December 2012 to be Golden Land International Limited, a company incorporated in the BVI.

33. EVENTS AFTER REPORTING PERIOD

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

a) As further detailed in note 16, the Group paid further deposit of RMB15,000,000 for the proposed acquisition of the Properties in January 2013.

b) As further detailed in note 26(f), the entire warrants of the Company have not exercised and lapsed at the expiry date on 21 March 2013.

(Expressed in Renminbi unless otherwise indicated)

34. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATION ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012

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 2012.

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.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle[2]
Amendments to HKFRS 1	Government loans[2]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[4]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[3]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[1]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[3]
HK (IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

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

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

3 Effective for annual periods beginning on or after 1 January 2014.

4 Effective for annual periods beginning on or after 1 January 2015.

34. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATION ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012 *(Continued)*

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 except as described below:

HKFRS 11 replaced HKAS 31 "Interests in Joint Ventures". HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK(SIC) - Int 13 Jointly Controlled Entities – Non-monetary Contributions by Venturers will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangement are classified as joint ventures or joint operations, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are different types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation method. The Group's jointly controlled entity that is currently accounted for using proportionate consolidation method will have to be accounted for using the equity method of accounting as a joint venture under HKFRS 11.

Financial Summary

	For the year ended 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results					
Turnover	**705,519**	685,562	638,046	556,417	536,021
Profit before taxation	**63,257**	73,816	58,342	46,753	45,441
Income tax	**(14,722)**	(22,785)	(15,479)	(9,509)	(11,044)
Profit for the year	**48,535**	51,031	42,863	37,244	34,397
Attributable to					
Owners of the Company	**48,535**	51,031	42,863	37,244	34,397
Asset and Liabilities					
Total assets	**657,512**	620,450	750,331	641,691	547,853
Total liabilities	**234,682**	225,953	380,023	485,663	428,918
Equity attributable to owners of the Company	**422,830**	394,497	370,308	156,028	118,935

Note:

The summary of the results and assets and liabilities for each of the two years ended 31 December 2009 and 2008 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.