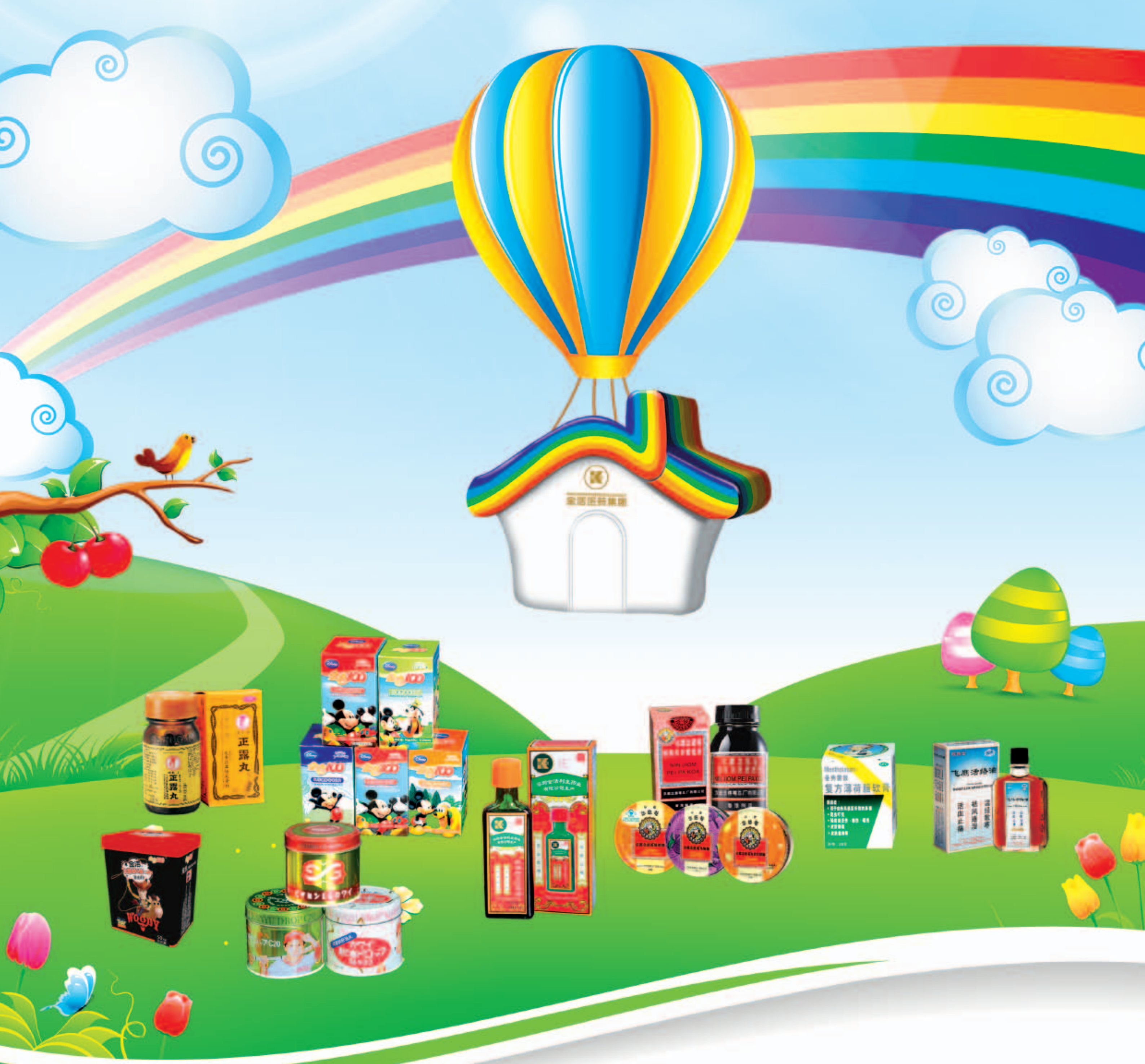
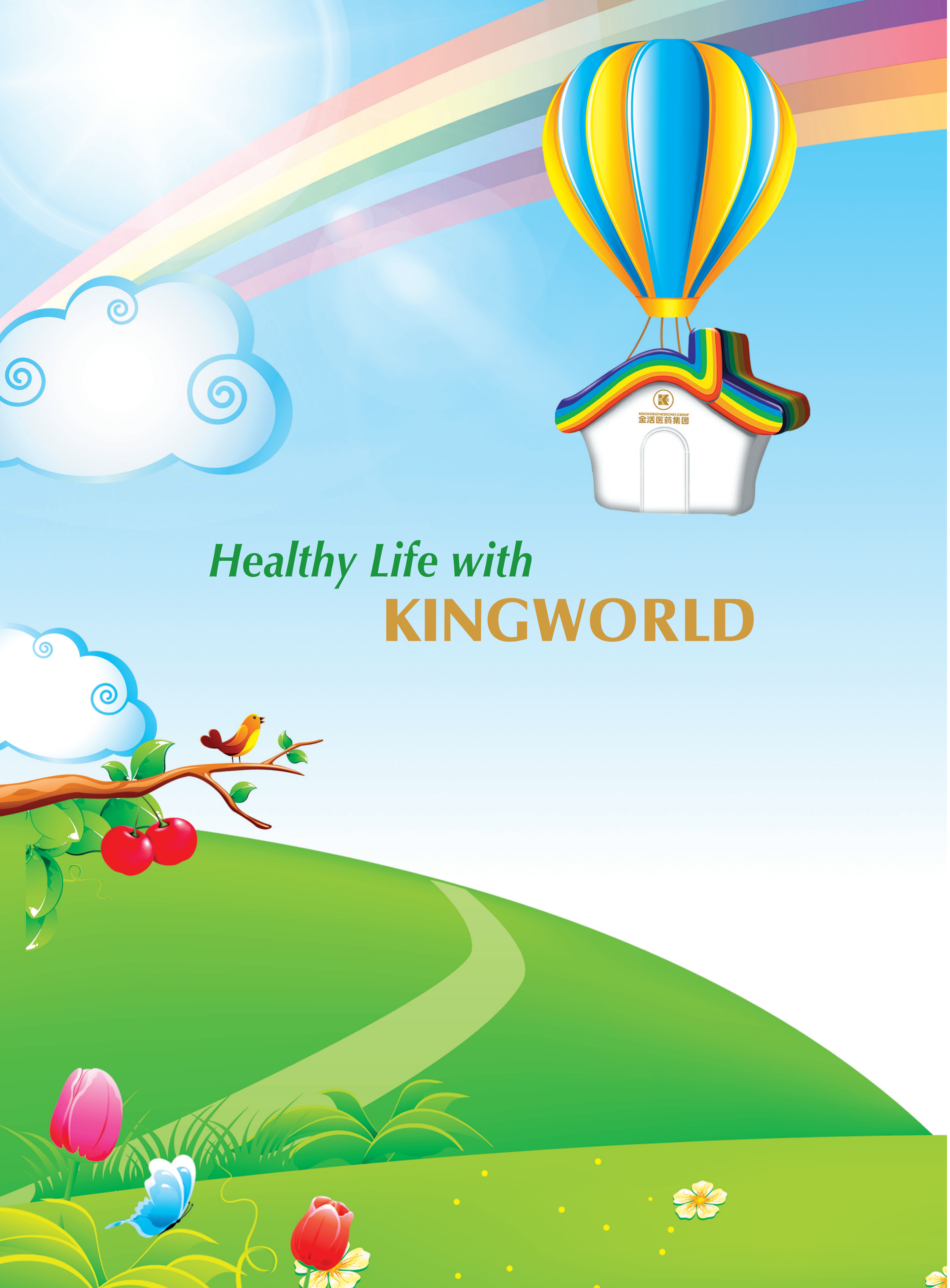
KINGWORLD MEDICINES GROUP LIMITED
金活醫藥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code：01110



ANNUAL REPORT 2013


金活医药集团
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. Duan Jidong
Mr. Wong Cheuk Lam
Mr. Zhang Jianqi *(resigned on 1 August 2013)*
Mr. Zhang Jianbin *(appointed on 1 August 2013)*

COMPANY SECRETARY

Mr. Chan Hon Wan

LEGAL ADVISORS TO THE COMPANY

King & Wood Mallesons
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Central
Hong Kong

AUDITOR

Crowe Horwath (HK) CPA Limited
9th Floor
Leighton Centre
77 Leighton Road
Causeway Bay
Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Lin Yusheng
Mr. Chan Hon Wan

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

10th Floor , Block A
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Renminnan Road
Luohu District, Shenzhen
Guangdong Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 1906-1907, 19th Floor
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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

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

PRINCIPAL BANKERS

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

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

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

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

AUDIT COMMITTEE

Mr. Wong Cheuk Lam *(Chairman)*
Mr. Duan Jidong
Mr. Zhang Jianqi *(resigned on 1 August 2013)*
Mr. Zhang Jianbin *(appointed on 1 August 2013)*

REMUNERATION COMMITTEE

Mr. Zhang Jianqi *(Chairman) (resigned on 1 August 2013)*
Mr. Zhang Jianbin *(Chairman) (appointed on 1 August 2013)*
Mr. Duan Jidong
Mr. Wong Cheuk Lam

NOMINATION COMMITTEE

Mr. Duan Jidong *(Chairman)*
Mr. Wong Cheuk Lam
Mr. Zhang Jianqi *(resigned on 1 August 2013)*
Mr. Zhang Jianbin *(appointed on 1 August 2013)*

STOCK CODE

01110

WEBSITE ADDRESS

www.kingworld.com.cn

Financial Highlights

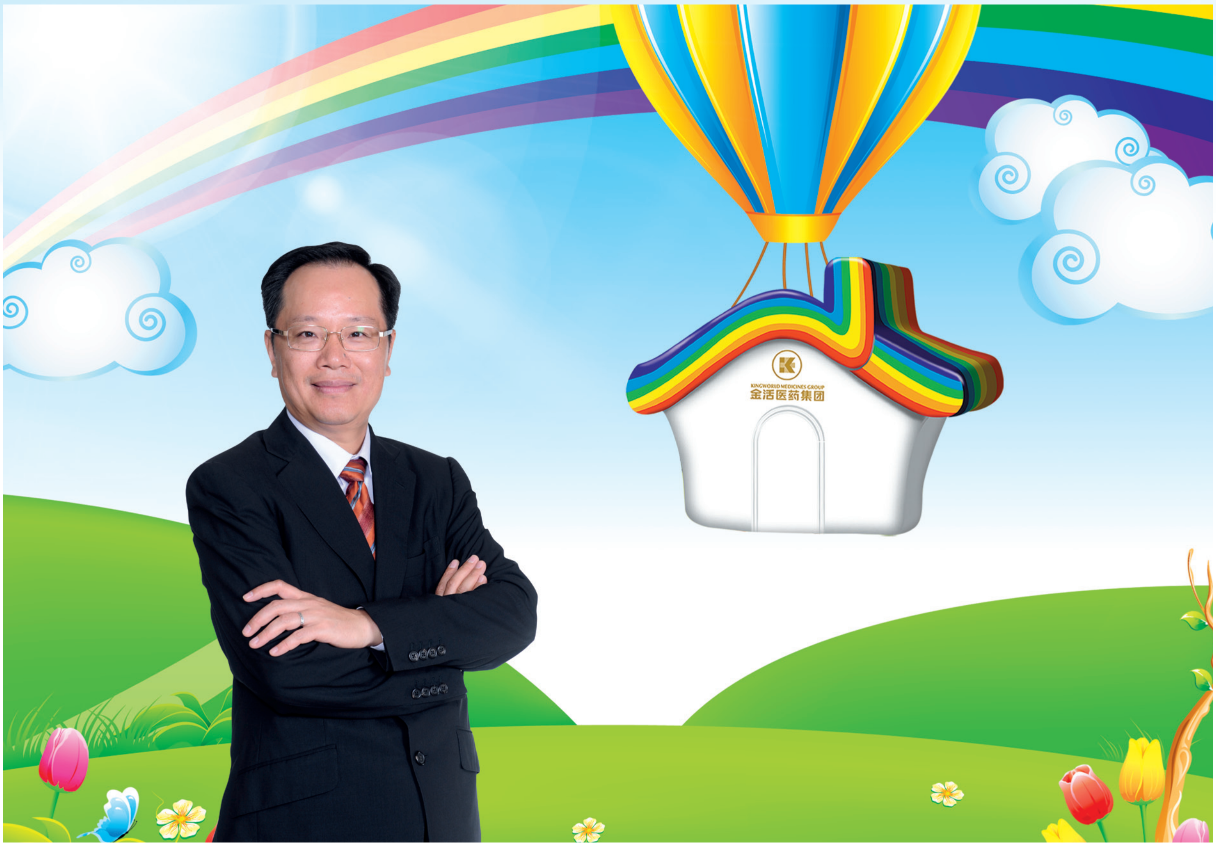
	For the year ended 31 December		Changes in %
	2013	2012	Increase/
	RMB '000	RMB '000	(Decrease)
		(restated)	
Financial Highlights			
Turnover	554,763	626,840	(11.5)%
Cost of sales	(423,584)	(479,770)	(11.7)%
Gross profit	131,179	147,070	(10.8)%
Profit before taxation	63,214	61,191	3.3%
Profit attributable to owners of the Company	47,177	48,535	(2.8)%
Basic earnings per share (RMB cents)	7.58	7.80	(2.8)%
Proposed final dividends per share (HK cents)	3.86	2.90	33.1%
Liquidity and Asset-liability Ratio			
Current ratio (1)	2.0	2.2	(9.1)%
Quick ratio (2)	1.8	2.1	(14.3)%
Asset-liability ratio (3)	13.5%	9.4%	43.6%

Notes:

(1) Current ratio is calculated as current assets divided by current liabilities.

(2) Quick ratio is calculated as current assets less inventories divided by current liabilities.

(3) Asset-liability ratio is calculated as total bank borrowings divided by total assets and multiplied 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 2013 (the "Year Under Review") for all shareholders (the "Shareholders").

YEAR UNDER REVIEW

In 2013, the pharmaceutical market in China was filled with opportunities but also faced greater challenges. The Third Plenary Session of the 18th Central Committee of the Communist Party of China further deepened the reform of the medical and healthcare system. At the same time, during the "Twelveth Five-Year Period", the PRC State Council required that all pharmaceutical retail stores and other medical institutions must be equipped with and use essential drugs. The reimbursement rate of essential drugs would then be apparently higher than non-essential drugs. As the urbanization process became more in-depth and well developed, income per capital continued to increase. The public became increasingly concerned about health and safety and there were rising demands for imported health products of high quality by consumers at large. Pursuant to the "Analysis report on six major terminal markets in the pharmaceutical industry of China 2013", the total size of the pharmaceutical retail terminal market in China amounted to RMB975.5 billion in 2012. It is expected that the total amount would reach RMB1,145.8 billion in 2013, representing an increase of 18% as compared with last year. Judging from the classification of drugs, the Chinese medicine market nowadays is the second largest segment in the pharmaceutical market in China. The pharmaceutical industry in China is still in its early stage of a long-term bull market. It is expected that by 2020, the health cost in the Mainland China to the gross domestic products (GDP) may reach 7%, equivalent to a double of that of 2012. The above favorable macro environment and huge market demand will bring powerful driving force for the development of the Group.

1. *Face challenges, maintain sales and market share of competitive products*

Under the leadership of the Board, together with the joint efforts from all staffs, the Group was exposed to the unique environment of an expanding pharmaceutical market and a slowed down growth of sales of the terminal pharmaceutical stores and the Group actively responded to the opportunities and challenges brought about by the policy environment through seizing the demand of consumers for high quality overseas products and the brand influence of the Group's products. During the Year Under Review, in addition to proactively maintaining the market share of products traditionally leading in the industry, the Group strategically enhanced the sales of medicines for external use and proactively introduced new products to explore new channels. By placing emphasis on the advantages of end-user terminals and "Kingworld Health Family"(金活健康之家) product display booths, the Group vigorously implemented accurate marketing strategies with coverage throughout China, and expanded the market share of its key products. Hence, the turnover and profit of the Group remained generally steady. For the year ended 31 December 2013, the turnover of the Group reached approximately RMB554,763,000, representing a year-on-year decrease of 11.5%. The profit for the year of the Group was approximately RMB47,177,000, representing a slight decrease of 2.8% compared to approximately RMB48,535,000 of last year. Basic earnings per share was RMB7.58 cents, representing a slight decrease of RMB0.22 cents when compared to RMB7.80 cents of last year. The Board recommends a distribution of final dividend of HK$3.86 cents per share for the year of 2013, to express its gratitude for the trust and support from the Shareholders. Total dividend payout ratio is 40% of the profit for the year or the distributable profit of the Company.

2. *Strengthen the cooperation with leading pharmaceutical groups and top 100 pharmaceutical chain enterprises to expand and deepen the Group's 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 optimized, with priority resources being concentrated at quality customers to strengthen the relationship with quality customers, enhance the sales of the Group's products to such customers and expand the sales district. 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 2013, there were 203 primary distributors in the Group's network, and such distributors had a total of approximately 479 sub-distributors and 256 pharmaceutical chain store customers.

The top 100 pharmaceutical chain enterprises had standardised the services provided to mid-to-high-end consumers, with extensive coverage due to a large number of outlets and established the brand image among the customers at large with constant consumers groups. In particular, these top 100 chain enterprises had their own group of loyal customers through enhancing the quality of customer care services. These features had been meaningful in the Group's distribution business of medicines and healthcare products and in communicating the product branding. Hence, the Group kicked off numerous promotion activities and sales events in cooperation with these top 100 pharmaceutical chain enterprises during the Year Under Review, from which certain results were achieved.

In order to strengthen the promotion of the Group's branded products, and further enhance its corporate and brand images, the Group adjusted and optimized the "Kingworld Health Family" product display booths. By targeting top 100 pharmaceutical chain enterprises as major cooperation partners, the number of chain stores with product display booths increased and their quality was better assured during the Year Under Review. On the one hand, the Group removed or realigned product display booths with store location, sales and display that were not meeting the expectations. On the other hand, the Group focused on the expansion and development of chain stores with competitive edge and gradually enhanced cooperation with existing end-user stores that have substantial flow and promising single-store sale. The Group also enhanced the quality of promotion activities in order to increase the product sales of these chain store display booths. In addition, the Group also required sales representatives to conduct daily maintenance for the "Kingworld Health Family" product display booths and had taken into consideration of such work and the net sales of the product display booths when examining the performance of the sales representatives. The Group's various marketing activities were focused around the "Kingworld Health Family" product display booths, so as to attract more consumer groups, enhance the brand awareness of the "Kingworld Health Family" product display booths, and promote the sales of the Group's products. As of 31 December 2013, there were a total of 2,500 "Kingworld Health Family" product display booths, the number of which slightly decreased by 2.6% as compared with last year, whilst input-output ratio for these product display booths improved.

3. *Emphasize on compliance management of product categories and continuously optimize the product category structure*

During the Year Under Review, the Group has implemented the strategy of administration of product categories at the beginning of the year, and formed categories administration in cough relieving medication category, diarrhea medication category and medication for external use category. Focusing on these different product categories, the Group has adopted different strategies in terms of employment of personnel, sales channel management and terminal promotion models and achieved effective results. For the cough relieving medication category, other than fostering consumption groups in large and medium-size cities in China, the Group still mainly focused on deeply developing the distribution market in the first-tier and second-tier cities to increase the market rate of cough relieving medication and exploring new consumer groups who demand for sore throat soothing products, and will target seasonal climate changes, smog and haze, and the youth consumer groups as new growth point.

Taiko Seirogan (喇叭牌正露丸) is one of the main products of the Group with three specifications of 50, 100 and 200 tablets, sub-categorizing into "portable size, regular size and family size". In Fujian and Guangdong, the Group adopted the strategy of targeting 50 tablets of Taiko Seirogan at business travelers, 100 tablets regular size at traditional customers and 200 tablets of family packages serving loyal existing customers, deeply exploring second-tier and third-tier cities and maintaining the terminal display and price in major cities. The Group also vigorously explored markets such as Beijing, Shanghai, Hainan, Kunming, Zhejiang, Jiangsu and Wuhan and more investments were made to the promotion of these markets and channel development. As at 31 December 2013, the sales of Taiko Seirogan in these markets recorded some successes already.

The third major category of the Group's products is the medication for external use category, which includes Imada Red Flower Oil (金活依馬打正紅花油), Flying Eagle Wood Lok Medicated Oil (飛鷹活絡油) and Mentholatum menthol cream (曼秀雷敦薄荷膏). During the Year Under Review, the Group adopted integrated marketing strategies for Flying Eagle Wood Lok Medicated Oil and Imada Red Flower Oil, conducted an impactful marketing campaign and hence this product category maintained continuous steady development. In the second half of the Year Under Review, Flying Eagle Wood Lok Medicated Oil received one-off import approval, which was a significant favourable factor bringing tremendous impetus to integrated marketing of the Group's medication for external use category.

As a result of enhanced channel management, Imada Red Flower Oil established management model from first-tier to second-tier, third-tier distributors. A small number of first-tier distribution channels were set up in major provinces and cities, whilst vigorously developing the second-tier and third-tier distribution channels. The implementation of this strategy greatly enhanced the coverage and sales efforts of Imada Red Flower Oil.

4. Attach importance on strategies and internal control management over talents, procure the improvement of the standard of corporate governance

We sincerely believe 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 Group's development. During the Year Under Review, the Group accelerated the introduction of external high quality talents whilst at the same time endeavoured to improve the competency and standard of the existing management team. Through extensive cooperation with certain reputable universities and pharmaceutical and food schools in China, "Kingworld Executives Training Course" (金活委培班) and "Kingworld EMBA Programme" (金活EMBA班) continued to be held, so that most of the key management officers were given 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.

Other than the above, the uphold of a high standard of internal governance capability is particularly essential to the long-term development of the Group. During the Year Under Review, apart from continuously improving the establishment of various mechanisms, the Group established its crisis response mechanisms, and defined the goal on the implementation of informationization in the office on a gradual basis. During the Year Under Review, the Group has formulated a plan for the BI project and will implement and apply the BI project based on the scheduled content and the project schedule in order to solve the current problems such as information isolated islands and data separation. We believe that the implementation of the BI project will bring positive impact on the scientific decision-making and unification of information technology platform of the Group.

5. *Organise different kinds of social and charitable activities so as to further enhance the brand value of the Group*

The enhancement of the Group's brand awareness will assist the Group in entering into in-depth cooperation with more outstanding enterprises in the world. This will further help to boost the sales of the Group's distributed products, and the competitiveness of the Group.

During the Year Under Review, in addition to continuing to conduct brand promotion in the well-known media such as "Phoenix Satellite Television Chinese Channel" and "Hong Kong Commercial Daily", the Group was extraordinarily honoured to be invited to participate in the International Health Forum which is a high-level dialogue platform in the world, being held on a continuous basis with a theme on health and organized by International Health and Environmental Organizations (國際健康與環境組織). The forum was held on 8 November 2013 at The Great Hall of the People in Beijing, and was the first important international health conference convened and held in China by the 67th United Nation General Assembly President's Office (67屆聯合國大會主席辦公室) and International Health and Environmental Organizations. During the conference, the State Administration of Traditional Chinese Medicine and International Health and Environmental Organizations jointly organized the "Traditional Chinese Medicine Culture Exhibition (中華傳統醫藥文化展)". The conference was international, with high standard and significant impact. Only 11 national Chinese medicine models were selected, such as Tong Ren Tang (the more than 300 years China Time-honored Brand) and Da Ren Tang (also a China Time-honored Brand with 300 years of history), Dong-E E-Jiao (one of the first national intangible cultural heritage), Nin Jiom (the top brand in Hong Kong representing quality traditional cough relieving Chinese medicine), Kingworld Medicines (a rising star of the reform and opening-up policy, well-known for brand distribution). This event fully demonstrated that the Group has a very high reputation in the pharmaceutical industry in China.

The Group has always taken the initiative to take up social responsibilities and actively participated in social and charitable activities, including participating in the charity sale for the Ya'an earthquake, sponsoring the Jiu San Chao Qing charity gala (九三•潮青慈善晚會) and sponsoring the Shenzhen International Marathon, etc. The success of the above activities had proven that "Kingworld" is a well-known distributor of imported pharmaceutical and healthcare products in China, and that it received extensive recognition and support from the mass market.

Further, during the Year Under Review, the Group had received numerous honors. Among them, the Group was elected a second time in a row as "Top 100 Import Enterprises of 2012 Chinese Medicines and Healthcare Products", and the trademark "Kingworld" was awarded the title of "National famous brand in Guangdong" and "Shenzhen's Time Honoured Enterprise".

FUTURE OUTLOOK

The pharmaceutical industry in China had shown new changes and new trends in 2013. The Third Plenary Session of the 18th Central Committee of the Communist Party of China deepened the reform of the medical and health system. Factors such as the heightened threshold of pharmaceutical certification and the expansion of the adjustment to the pharmaceutical industry will create more opportunities for branded pharmaceutical enterprises (including the Group). Under the guidance of the "Development Plan in the Third Phase", the Group will take full advantage of its own brand to build new marketing models by consolidating the multi-level brands of healthcare products. The pace of the acquisition of upstream and downstream quality enterprises will be accelerated in order to fully utilize the development opportunity of the industry to speed up the growth of the Group's businesses.

1. ***Optimize the product categories management of the Group's health products***

Nin Jiom Chuan Bei Pei Pa Koa (京都念慈菴蜜煉川貝枇杷膏) continues to be the leading product, whereas Nin Jiom Chuan Bei Pei Pa Candies (京都念慈菴川貝枇杷糖) is the key promotion product. The Group will adopt a joint promotion strategy of "cough relieving medication + cough relieving pharmaceutical products + cough relieving health food" to satisfy the needs of different consumer groups. The Group will continue to enhance the management of the cough relieving medication category and strengthen the sales and market share of products of the cough relieving medication category.

In terms of the management of medication for external use category, the promotion 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, which will optimize the management of the medication for external use category, and will capture the opportunities arising from the growing trend in the use of medication for external use upon changes in existing living habits.

On the other hand, the Group will utilise the advantages provided by Taiko Seirogan in offering its products in different specifications to develop broad consumer groups. At the same time, the Group will deepen the exploration into potential markets, such as Beijing, Shanghai, Hainan, Kunming, Zhejiang, Jiangsu, Wuhan, aiming to maintain the terminal displays and prices in major cities.

2. ***Solidify network foundation, with terminals penetrating into lower tiers, improve the sales of pillars product and fill in the gaps in the market***

The Group will continue to strengthen its cooperation with leading corporate groups and top 100 chain enterprises, to enhance the structure of the distribution network, to expand the districts covered by the distribution network in order to lay a foundation for the Group's products to reach all kinds of pharmaceutical terminals and increase the coverage of its products. The Group will continue to expand the depth of its distribution networks, to increase the volume and coverage at the second-tier distributors and penetrate into the third-tier and fourth-tier terminal. Greater market potential will be explored to fill in the gaps in the market about existing main products. Attention will also be drawn to the deployment of sales staffs, who will be evaluated and adjusted on commercial basis. With the further vertical expansion of the business networks and the enhancement of the human resources management, the sales of the Group's various pillar products will be greatly improved.

3. *Increase the number of "Kingworld Health Family" product display booths and improve their quality*

The "Kingworld Health Family" product display booths have always been the foremost and important platform for the Group to display its products, raise brand awareness, enhance consumer communications and gauge consumer needs. The Group will continue to seek chain stores as main targets of cooperation, so that the proportion of chain stores with product display booths will increase and the quality of the chain stores can be guaranteed. It is expected that the total number of product display booths will increase from 2,500 at present to 3,000. The Group will improve the quality and design of the product display booths, with a focus to conduct various forms of promotional activities at the product display booths, and extend the influence of the famous brands to other second-tier brands. At the same time, some well-known products will be introduced to enrich the product line of the product display booths. In future, the Group will select some influential large-scale community events and activities that can link up to the product display booths, which will enhance the influence of the product display booths and increase sales. In addition, the Group will select those "Kingworld Health Family" product display booths with more customers and larger sales amount as its flagship product display booths to distribute various kinds of products according to the phrasal changes in the sales strategy.

4. *Establish organization structure suitable for business development, and build a team of talents with high caliber*

In order to finalise the work regarding the Group's "Development plan in the Third Phrase", the Group will further divide certain key markets into smaller segments to solidify the distribution network foundation and to increase sales. As such, the Group further divides the original sales regions into seven major regions and the Henan Province region. Such organization structure will be able to captialise the capabilities of sales managers at the middle level, and concentrate its endeavours to penetrate the market in depth and width.

At the same time, in order to accommodate the increasing human resource needs, the Group will continue to recruit high caliber candidates from the pharmaceutical industry in future. On the one hand, the Group will recruit talented professionals in the field of sales and marketing or e-Commerce to bring new concepts and visions in operations to the marketing team for the development of new businesses and new channels. On the other hand, the Group will introduce experts in brand management to enhance the sustained and rapid growth of the Group's products and corporate brands. At the same time, the Group will continue to enter into in-depth cooperation with the tertiary institutions in China, so as to provide training opportunities for the Group's existing management and key staff members on improving work efficiency. The Group has established business school and will develop in-depth cooperation with tertiary institutions, IT companies and professional consultants, so as to provide training opportunities for the Company's existing management and key members of staff on improving work efficiency.

5. Accelerate the operation of e-Commerce business

With the rapid development of pharmaceutical e-Commerce, the Group will try to develop e-Commerce platform for mainstream products through cooperating with third-party e-Commerce platforms, and will establish a "Kingworld Health Family" official website service platform in Hong Kong and Mainland China respectively to strengthen its brand image and explore new business channels. The Group will establish brand distribution area in well-known corporate e-Commerce platforms such as Tmall, QQ.com, Suning and Egou. It is believed that this will create a great driving force for the rapid development of the Group's over-the-counter medicines, pharmaceutical products and health food.

6. Accelerate the introduction of new products

It is crucial for the Group's future development to possess more new products. Therefore, the Group will continue to place emphasis on meeting the changes in demand of the domestic consumers in China by exploiting the Group's own advantages and introducing more quality products from abroad to meet the needs of the market. The Group intends to take advantage of the opportunities offered by the "milk powder sold in pharmacies" policy to procure products such as milk powder and infant and pregnant line of healthcare products. Together with the up-stream and down-stream combination, the Group will strive to advance its sales of these healthcare products.

7. Speed up the process of mergers and acquisitions

The Group underwent selection and segmentation on its target enterprises in the pharmaceutical industry of China and implemented a schedule on mergers and acquisitions and a detailed plan on the acquisition of these target enterprises. A set of files essential to implement such mergers and acquisitions, including due diligence checklists, confidentiality agreements and letters of intent were prepared. We aim to enhance the acquisition program, from planning, screening, investigation, reporting, research, decision-making, negotiation, signing and post-acquisition arrangements, each of which will be responsible by designated individuals. The Group will strive to explore potential upstream industrial enterprises, whose products will create a synergy effect with the Group's existing network. The Group aims to expand the Group's product categories and will search among the retail chains in second-tier and third-tier cities, in order to deepen the Group's network development through mergers and acquisitions.

8. Accelerate the construction of "Kingworld National Distribution Centre"

Although the Group had signed a letter of intent with the Shenzhen Qianhai Development Authority to establish the "Kingworld National Distribution Centre" in the economic zone, and that the project had already received the authorizations from relevant departments, this project is still pending for execution due to policy reasons. In the future, the Group will continue to put effort in communicating with the government to accelerate the implementation of the project.

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 2014

Management Discussion and Analysis

INDUSTRY REVIEW

1. *The Third Plenary Session of the 18th Central Committee of the Communist Party of China deepened the reform of the medical and health system*

The "Decision of the Central Committee of the Communist Party of China on Certain Issues for Comprehensively Deepening Reform" coordinated the promotion of comprehensive reform of medicare, medical services, public health, medicine supplies and the regulatory system. It deepened the comprehensive reform of primary medical and healthcare institutions and improved the operation mechanism of urban and rural network for primary medical and healthcare services. It accelerated the reform of public hospitals, implementation of government responsibilities, establishment of scientific medical evaluation mechanism and personnel training and remuneration system tailored to specific industry. It improved and reasonably classified treatment model and established service contract relations between community doctors and the residents. Information technology will be fully utilised so as to promote the vertical flow of quality medical resources. The reorganization of the resources for district public health services will be enhanced. The practice of using "medicine to fund medical service" will be abolished, for which the price of medicine will be rationalized and scientific compensation mechanisms will be set up. The payment method of medical insurance system will be reformed so to strengthen the "full-covered medical insurance" system. The strengthening of medical insurance and relief mechanism on chronic diseases will be accelerated. Policies and mechanisms relating to the development of traditional Chinese medicine industry will be enhanced.

2. *Further upgrade and enhancement of the national medical insurance policy*

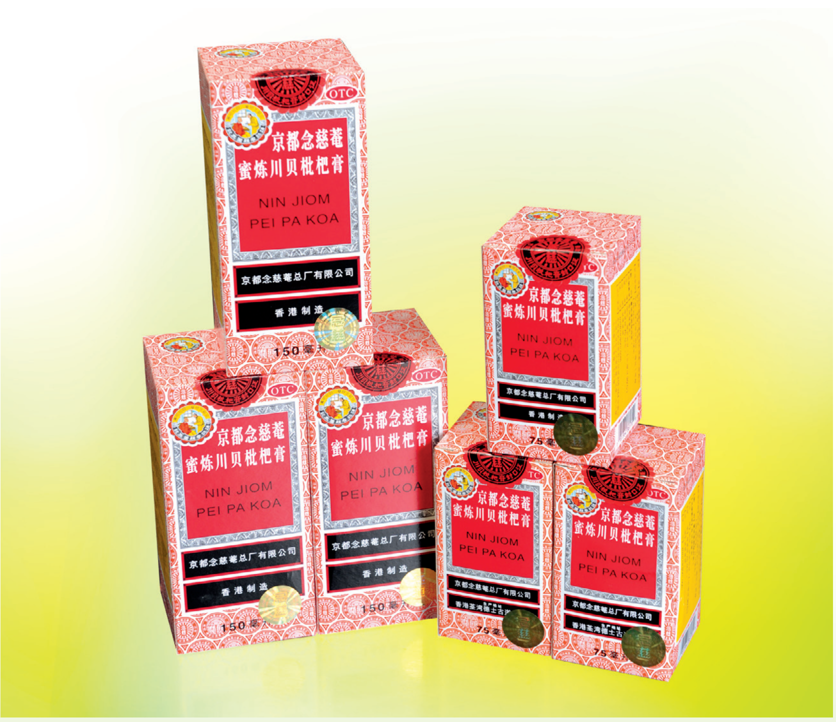
From "full-covered medical insurance" to "upgrading medical insurance", ensuring the continuous service upgrades will be the main policy objective for the next ten years, on the basis that universal coverage over medical insurance has been achieved.

Outside the medical insurance coverage, pharmaceutical consumption will extend and upgrade into broader areas, which will become a golden growth point for the pharmaceutical industry. High-end innovative drugs with high price still remain marketable in the absence of medical insurance as a result of increased incidence of major diseases and new technology breakthroughs in major therapeutic areas. "Healthcare consumer products" will continue to achieve great development for the next ten years driven by the heightened consumption of high-end drugs and the enhancement of spending consciousness in the healthcare area by the public. Some pillar products of the Group are mid to high-end consumer products and have already established their brand position, the general development trend of consumer products will benefit the sales of the Group's products.

3. Pharmaceutical retail market showed signs of stable growth and intensive competition

As of December 2013, there were 423,723 pharmaceutical retail stores in China, of which 271,143 were stand-alone drug stores, accounting for 64% of total pharmaceutical stores, dropping slightly from 2012. The China Food and Drug Administration officially implemented the revised Good Supply Practice for Pharmaceutical Products ("GSP") on 1 June 2013, and stand-alone drug stores will face problems such as increasing quality management cost, insufficient management capability and purchasing price disadvantage. Hence the reorganization and advancement of the industry were imperative with intensive competition.

There is an insufficiency of licensed pharmacists, and there is room for improvement of their professional standards. As of December 2013, there were 231,488 licensed pharmacists in China and close to 200,000 job vacancies. The revised GSP requires all pharmaceutical retail stores to have a licensed pharmacist, which also intensifies the mergers and acquisitions within the pharmaceutical industry.



BUSINESS REVIEW

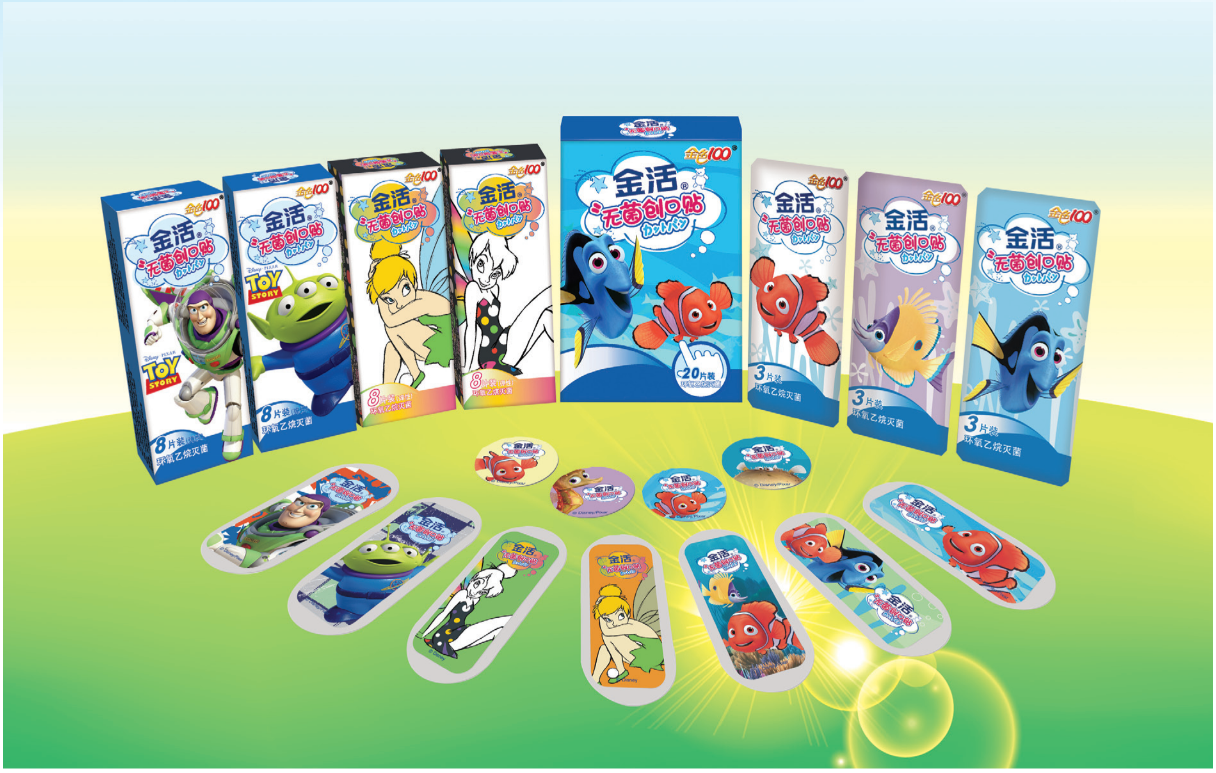
1. *Administration of product categories was impressively effective with trends of stable growth*

During the Year Under Review, the Group has implemented the strategy of administration of product categories at the beginning of the year, and formed categories administration in cough relieving medication category, diarrhea medication category and medication for external use category. Focusing on these different product catagories, the Group has adopted different strategies in terms of employment of personnel, sales channel management and terminal promotion models and achieved effective results. For the cough relieving medication category, other than fostering consumption groups in large and medium-size cities in China, the Group still mainly focused on deeply developing the distribution market in the first-tier and second-tier cities and exploring new consumer groups who demand for sore throat soothing products, and will target seasonal climate changes, smog and haze, and the youth consumer groups as new growth point.

However, as the implementation of the essential drugs policy diverted some of the clientele of the terminal pharmaceutical stores and affected the price in the terminal market, the sales and profit of Nin Jiom Chuan Bei Pei Pa Koa contracted. Comparing to that of 2012, the sales of Nin Jiom Chuan Bei Pei Pa Koa dropped 9.8% and the sales of Nin Jiom Chuan Bei Pei Pa Candies dropped 47.5%.

Taiko Seirogan is one of the main products of the Group, with three specifications of 50, 100 and 200 tablets, sub-categorizing into "portable size, regular size and family size". During the Year Under Review, other than deeply exploring second-tier and third-tier cities in Fujian and Guangdong, which are the major markets, and maintaining the terminal display and price in major cities, the Group also vigorously explored markets such as Beijing, Shanghai, Hainan, Kunming, Zhejiang, Jiangsu and Wuhan and more investments were made to the terminal promotion of these markets and channel development. During the Year Under Review, the sales of Taiko Seirogan amounted to RMB43,339,000, representing a decrease of 23.4% as compared with the same period in 2012.

The third major category of the Group's products is the medication for external use category, which includes Imada Red Flower Oil, Flying Eagle Wood Lok Medicated Oil and Mentholatum menthol cream. During the Year Under Review, the Group adopted integrated marketing strategies for Flying Eagle Wood Lok Medicated Oil and Imada Red Flower Oil, conducted an impactful marketing campaign and hence this product category maintained continuous steady development. In the second half of the Year Under Review, Flying Eagle Wood Lok Medicated Oil received one-off import approval, which was a significant favourable factor bringing tremendous impetus to integrated marketing of the Group's medication for external use category. That product attracted huge attention from both new consumers and loyal consumers, achieving sales of RMB29,397,000, representing an increase of 71.8% as compared with the same period in 2012.



As a result of enhanced channel management, Imada Red Flower Oil established management model from first-tier to second-tier, third-tier distributors. A small number of first-tier channels were set up in major provinces and cities, whilst vigorously developing those in second-tier and third-tier. The implementation of this strategy greatly enhanced the coverage and sales efforts of Imada Red Flower Oil. For the year ended 31 December 2013, Imada Red Flower Oil recorded a sales of RMB23,410,000, representing an increase of 14.2% as compared with the same period in 2012.

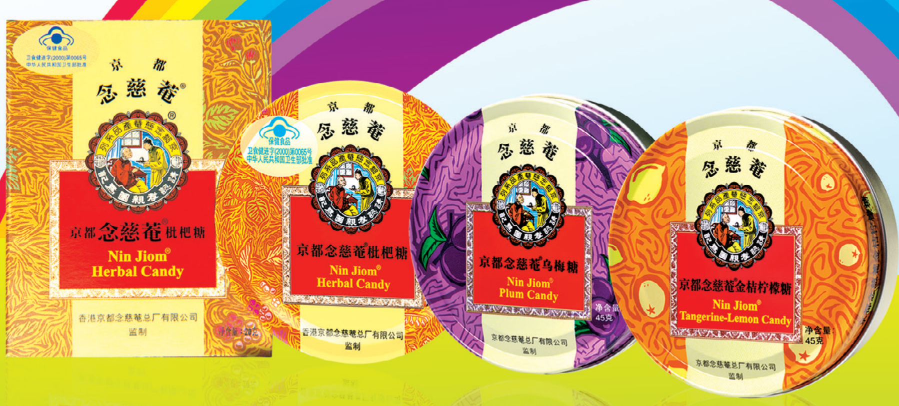
Since August, the Mentholatum Product Series (曼秀雷敦系列產品) could not be procured normally due to warehouse GSP inspections reason. Although there were inventories in second-tier distributors and chain stores, as sales channel contributions were lowered, product sales being driven purely by retail sales remained sluggish. For the year ended 31 December 2013, the Mentholatum Product Series recorded a sales of RMB22,579,000, representing a decrease of 13.6% as compared with the same period in 2012.

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

In order to empower the promotion and marketing of the branded products of the Group, and to further enhance our corporate and brand image, the Group exercised stricter control over the selection of premises for the "Kingworld Health Family" product display booths, and conducted refinement and optimisation over the product display booths at different provinces and cities in China. Due to intensive competition and mismanagement of a number of pharmaceutical chain stores, the Group restructured some of the product display booths that were not meeting the expectations. Further, some of the product display booths which franchise were due to expire during the Year Under Review were terminated during the contract period because their input-output ratio failed to meet the Group's average sales standard. As at 31 December 2013, there were a total of 2,500 "Kingworld Health Family" product display booths, representing a slight decrease of 2.6% as compared to the same period of last year. The percentage of input-output ratio of "Kingworld Health Family" product display booths increased, reflecting that their operation quality was greatly elevated.

3. *Expedite the introduction of quality new products*

During the Year Under Review, the Group procured from an American company, i-Health Inc., two leading probiotic supplement products series, being Culturelle and DHA product Brainstrong, so as to penetrate into the probiotic and health supplement product market. Furthermore, the Group has signed an agreement in relation to the distribution of Kingworld version cooling pads with Jiangsu Daya Biotech Pharmaceutical Company Limited (江蘇達亞生技醫藥有限公司). The Group will take advantage of the favourable terms offered by China's "milk powder sold in pharmacies" policy by exploring opportunities in distribution of imported milk powder from overseas milk powder manufacturers.



MANAGEMENT REVIEW

1. *Formulate management system suitable for business development*

During the Year Under Review, the Group continued to deepen its distribution network, strengthen sales staff training and assessments, and restructure its sales regions in China by rearranging the existing four main sales regions into five sales regions. This allowed the sales force to provide better sales service and support for distributors, thereby further expanding the market in third-tier cities. At the same time, the Group strengthened the administration of product categories and reallocated the market centers functions and duties by dividing into market I, market II and market III divisions by product categories, along with the establishment of an e-Commerce department that is responsible for on-line marketing. Hence by fully utilising the channel resources, promotion resources and human resources between similar products, it created combined marketing of product categories and enhanced market competition of product categories.

2. *Strengthen informationization construction to provide sufficient and reliable data support for decision making*

As the future is an era of Big Data, in order to adapt to such technological development, during the Year Under Review, the Group had decided to implement informationization upgrades and will establish an SAP information system in the future, which will be implemented step-by-step based on its overall planning. During the Year Under Review, the Group was in the process of implementing the BI system in the SAP information system to uniform the analysis on various types of sales statements in order to provide a faster and more comprehensive data analysis for decision making. Currently, the blueprint design for the installation of the BI system has been completed.

3. *Strengthen the introduction of talents and enhance the staff's skills and comprehensive quality through holding various types of training*

The Group fully recognizes the importance of talents for the Group's development, and always emphasizes on creating a well-established platform for attracting all kinds of talents. On one hand, the Group accelerated the introduction of various external talents required for the development of the Group. On the other hand, the Group accelerated cultivation and construction of its internal talents. During the Year Under Review, the Group and Lingnan (University) College of Sun Yat-Sen University cooperated to hold "Kingworld EMBA" class. Further, the Group and Guangdong Food and Drug Vocational College (廣東食品藥品職業學院) continued to cooperate and hold the "Kingworld Class", the graduates of which may apply to be recruited by Kingworld.

Higher education internship base was founded. The Group is currently collaborating with Shenzhen University, Shenzhen Polytechnic (深圳職業技術學院) and Guangdong Food and Drug Vocational College as a designated internship programme provider. The Company admits up to 30 interns per year from tertiary institutions.

Corporate training base was developed. The Group collaborated with the Guangdong Food and Drug Vocational College and set up corporate training base at the college where the college students would have the opportunity to "apply knowledge into action". At the Group's request, the college would select a certain number of students in certain years and disciplines to Kingworld to complete part of their studies via internship. The internship programme has so far commenced for the classes of 2010 and 2011.

Such programme is an innovative form of collaboration between corporations and institutions, it allows students to receive tailor-made education from teachers at the college and from the industry. Depending on the Group's development situation, for areas of expertise with fixed or stable demand for talents, the Group would cooperate with Guangdong Food and Drug Vocational College in determining the direction and targets of vocational training, so to use "tailor-made training" method to cultivate talents. During the course of studies, not only would students take mandatory courses as required by the State, Province and the college, the Group would also provide teaching advice on corporate courses and appoint the Group's senior management members and corporate speakers to give lectures. Such training has commenced for the class of 2012 (a three-year training) and training for the class of 2013 is currently in progress.

Other than the above, the Group also entered into cooperation from time to time with tertiary institutions to organize various professional or core training programmes. For example, Peking University CRM training programme, the Peking University strategic management and innovative business model advanced programme, EMBA programme at the Chinese University of Hong Kong, annual conference training, mid-year conference training programme, quarterly conference training programme, regional intensive training camp programme, internal coach training camp, secretarial training programme, Kingworld course (金活班項目), internship training programme, development training camp, GSP accreditation programme (GSP認證項目), workflow optimization training programme and information technology BI System programme etc.

During the Year Under Review, a total of 3,065 persons participated in the training, with an average of 30 hours of courses per person and a training coverage of 7 times per person.

4. Speed up the process of mergers and acquisitions

In accordance with the Group's guidelines implemented for mergers and acquisitions, the Group had carried out a number of studies on several enterprises during the Year Under Review. The Group had signed a memorandum of understanding in relation to a proposed acquisition of Chang De Shi Min Kang Pharmaceutical Chain Stores Limited Company (常德市民康藥號連鎖有限公司), but the negotiation of the deal was finally terminated due to internal problems amongst the shareholders of Chang De Shi Min Kang Pharmaceutical Chain Stores Limited Company. However, the Group's pace of mergers and acquisitions has not faltered, and the Group will continue to search for potential up-stream industrial corporates whose products would create a synergy effect with the Group's existing network. The Group aims to expand its product categories through mergers and acquisitions and will search among the retail chains in second-tier and third-tier cities, in order to deepen the Group's network development through mergers and acquisitions.

HONOR

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

– in January 2013, Shenzhen Kingworld Medicines Co. Ltd. was awarded the 3rd Shenzhen's Time-Honoured Enterprise;

– in February 2013, Shenzhen Kingworld Medicines Co. Ltd. was elected for the second time in a row as Top 100 Import Enterprises of 2012 Chinese Medicines and Healthcare Products (No. 94);

– in May 2013, the Group's chairman, Mr. Zhao Li Sheng, was awarded the title of "Overseas Chinese Charitable Figure";

- in June 2013, "Kingworld Medicines" was awarded the title of "National Famous Brand in Guangdong";
- in June 2013, Shenzhen Kingworld Medicines Co. Ltd. was awarded the title of 2012 "Enterprise with Credibility in Guangdong Province";
- in August 2013, Shenzhen Kingworld Medicines Co. Ltd. was awarded the title of "Major Taxpaying Enterprise in 2012" by the Government of Luohu District of Shenzhen City;
- in October 2013, the Group's internal newsletter "Kingworld Element (《金活人》)" won the "China Excellent Enterprise Newsletter Award" in the 8th Internal Newspaper Press Conference;
- in November 2013, Shenzhen Kingworld Medicines Co. Ltd. participated in the 1st International Health Forum;
- in November 2013, the Group's executive Director, Ms Chan Lok San, was awarded the title of Leadership and Leaders (《領軍人才》) "Leadership Contribution Award";
- in November 2013, Flying Eagle Wood Lok Medicated Oil and Imada Red Flower Oil were authroized as the designated medicated oil for external use of the 2013 Shenzhen International Marathon.

FINANCIAL REVIEW

1. Turnover

Turnover of the Group for the Year Under Review was approximately RMB554,763,000, representing a decrease of approximately RMB72,077,000, or 11.5% compared to approximately RMB626,840,000 for the year ended 31 December 2012. The decrease was mainly because of a drop in sales of Nin Jiom Chuan Bei Pei Pa Koa. The year-on-year drop for this product was 9.8%.

2. Cost of sales

For the Year Under Review, cost of sales for the Group amounted to approximately RMB423,584,000, representing a decrease of approximately RMB56,186,000 or 11.7% when compared to approximately RMB479,770,000 for the year ended 31 December 2012. The decrease in cost of sales was consistent with the decrease in turnover. As at 31 December 2013, gross profit margin was approximately 23.6% which was closed to 23.5% for the year ended 31 December 2012.

3. Other revenue

Other revenue mainly included rental income, commission income and interest income. For the Year Under Review, other revenue amounted to approximately RMB14,526,000, representing an increase of approximately RMB5,456,000 or 60.2% when compared to approximately RMB9,070,000 for the year ended 31 December 2012. This increase was mainly due to the increase in interest income of approximately RMB3,287,000 and rental income of approximately RMB1,573,000 respectively.

4. Other net income/(loss)

Other net income was mainly comprised of net foreign exchange gain. For the Year Under Review, other net income amounted to approximately RMB10,767,000 while there was a net loss of approximately RMB242,000 for the year ended 31 December 2012. This increase in other net income was mainly due to the increase in foreign exchange gain as a result of the appreciation of Renminbi during the Year Under Review.

5. Selling and distribution costs

For the Year Under Review, selling and distribution costs amounted to approximately RMB70,286,000, which had decreased by approximately RMB368,000 or 0.5% when compared to approximately RMB70,654,000 for the year ended 31 December 2012. This decrease was primarily attributable to a decrease in commission to customers by approximately RMB3,136,000, which was partly net-off by an increase in staff costs of approximately RMB2,485,000.

6. Administrative expenses

For the Year Under Review, administrative expenses amounted to approximately RMB41,512,000, which had increased by approximately RMB5,829,000 or 16.3% when compared to approximately RMB35,683,000 for the year ended 31 December 2012. For the Year Under Review, rental expenses was approximately RMB2,158,000, administrative staff costs was approximately RMB7,322,000 and legal and professional fees was approximately RMB2,411,000, which comprised mainly of financial reporting costs of the Company and legal advisory and consultancy fees (2012 : rental expenses was approximately RMB2,150,000, administrative staff costs was approximately RMB6,026,000 and legal and professional fees was approximately RMB2,463,000).

7. Profit from operations

For the Year Under Review, profit from operations for the Group amounted to approximately RMB56,734,000, which had decreased by approximately RMB977,000 or 1.7% when compared to approximately RMB57,711,000 for the year ended 31 December 2012. Decrease in profit from operations was mainly due to a decrease in gross profit, which was partly net-off by the increase in other net income and other net revenue for the Year Under Review.

8. Finance costs

For the Year Under Review, finance costs amounted to approximately RMB3,330,000, representing an increase in approximately RMB747,000 or 28.9% when compared to approximately RMB2,583,000 for the year ended 31 December 2012. The increase was mainly due to the increase in bank loan interest.

9. Profit before taxation

For the Year Under Review, profit before taxation for the Group amounted to approximately RMB63,214,000, which had increased by approximately RMB2,023,000 or 3.3% when compared to approximately RMB61,191,000 for the year ended 31 December 2012. Increase in profit before taxation was mainly due to an increase in other net income and other net revenue, which was partly net-off by the decrease in gross profit for the Year Under Review.

10. Profit tax expenses

For the Year Under Review, profit tax expenses for the Group amounted to approximately RMB16,037,000, which had increased by approximately RMB3,381,000 or 26.7% when compared to approximately RMB12,656,000 for the year ended 31 December 2012. This increase was mainly due to the fact that in 2012 there was a reversal of provision for withholding tax in previous years of approximately RMB4,445,000. The effective tax rate for the Year Under Review was 25.6% when compared to 20.7% (excluding the reversal of provision for withholding tax) for the year ended 31 December 2012.

11. Profit for the year

For the Year Under Review, profit for the year of the Group amounted to approximately RMB47,177,000, which decreased slightly by approximately RMB1,358,000 or 2.8% when compared to approximately RMB48,535,000 for the year ended 31 December 2012. Decrease in profit for the year was mainly due to a decrease in gross profit and increase in profit tax expenses, which was partly net-off by the increase in other net income and other net revenue 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 2013 amounted to RMB373,156,000, which had increased by RMB73,145,000 when compared to trade and other receivables as at 31 December 2012 which amounted to approximately RMB300,011,000. As at 31 December 2013, trade receivables and bills receivables of the Group amounted to approximately RMB147,215,000 and RMB195,442,000 respectively, representing an increase of RMB31,526,000 and RMB39,635,000 respectively when compared to trade receivables and bills receivables of approximately RMB115,689,000 and RMB155,807,000 as at 31 December 2012 respectively.

2. Inventories

As at 31 December 2013, inventories owned by the Group amounted to approximately RMB39,917,000, representing an increase of RMB18,592,000 when compared to RMB21,325,000 as at 31 December 2012. The main reason of increase in inventories was the increase in inventories turnover cycle from 16 days in 2012 to 34 days in 2013 by the Group.

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 2013, the book value of properties, plants and equipment owned by the Group amounted to approximately RMB4,888,000, showing an increase of RMB248,000 when compared to that of approximately RMB4,640,000 as at 31 December 2012. Increase in properties, plants and equipment was mainly due to the addition of fixed assets of approximately RMB1,866,000, which was partly net-off by the depreciation of approximately RMB1,520,000 during the Year Under Review.

4. *Trade and other payables*

Trade and other payables of the Group mainly include trade and bill payables, prepayments from customers, other payables and accrued expenses. As at 31 December 2013, trade and other payables owned by the Group amounted to approximately RMB154,370,000, showing an increase of RMB12,744,000 when compared to that of approximately RMB141,626,000 as at 31 December 2012 as a result of an increase in trade payable of approximately RMB10,800,000.

CASH FLOW

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

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

The Group's cash inflow from operations primarily derives from receipts for the sale of the Group's products. For the Year Under Review, the Group's net cash outflow used in operating activities amounted to approximately RMB54,334,000, while the net cash inflow generated from operating activities for the year ended 31 December 2012 was approximately RMB68,380,000. The decrease in cash inflow was primarily due to an increase in inventories, trade and other receivables.

2. *Net cash used in investing activities*

The Group's net cash outflow used in investing activities amounted to approximately RMB11,896,000 for the Year Under Review, while the net cash outflow used in investing activities was approximately RMB88,926,000 for the year ended 31 December 2012. The decrease in net cash outflow was mainly due to a decrease in deposit for fixed assets during the Year Under Review which amounted to approximately RMB35,000,000.

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

The Group's net cash inflow generated from financing activities amounted to approximately RMB32,526,000 for the Year Under Review, while the net cash outflow used in financing activities was approximately RMB30,262,000 for the year ended 31 December 2012. The increase in net cash inflow was mainly due to the increase in proceeds from new bank loans during the Year Under Review.

CAPITAL STRUCTURE

1. *Indebtedness*

The total indebtedness of the Group as at 31 December 2013 was approximately RMB98,378,000 (31 December 2012 : approximately RMB59,880,000), which will be due within one year. During the Year Under Review, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

2. *Gearing ratio*

As at 31 December 2013, the Group's gearing ratio was approximately 13.5% (31 December 2012: 9.4%), calculated as the total bank borrowings divided by total assets multiplied by 100%. The increase was mainly due to an increase in bank borrowings.

3. *Pledge of assets*

As at 31 December 2013, the Group had pledged investment property, bank deposits and bills receivable to the bank in the total amount of approximately RMB116,047,000. As at 31 December 2012, the Group had pledged investment property and bank deposits in total amount of approximately RMB95,842,000.

4. *Capital expenditures*

The capital expenditures of the Group primarily included purchases of plant and equipment and leasehold improvements. The Group's capital expenditures amounted to approximately RMB1,866,000 and RMB598,000 for the year ended 31 December 2013 and 2012 respectively.

5. *Foreign exchange risk*

The principal business of the Group has used RMB and HK$ as the functional and operational currencies. The Group faces foreign exchange risk arising from RMB and HK$. 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 rate for fixed rate loans was from 3.9% to 7.2%. 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 2013, the Group had cash and cash equivalents of RMB91,416,000 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 2013, other than sharing the capital commitment of the jointly controlled entity, Zhuhai City Jinming Medicine Company Limited, which amounted to approximately RMB3,267,000 (31 December 2012: RMB7,383,000), the Group had nil capital commitment (31 December 2012: RMB15,000,000).

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

For the year ended 31 December 2013, the Group had not made any material acquisition or disposal.

FUTURE OUTLOOK

1. *Enhance channel management, solidify network foundation and improve sales of the pillar products*

The Group will continue to place emphasis on conducting commercial alignment and business planning for the existing channel comprising tier 1 distributors, tier 2 distributors and tier 3 distributors and will request sales staffs and work to be adjusted and arranged in accordance with the commercial alignment of those tier 2 and tier 3 distributors. The Group will continue to expand the depth of our distribution network, aiming to penetrate into the third-tier and fourth-tier market to explore further market potential. The sales of our various pillar products will be greatly improved as our business network is deepened and our human resources management is strengthened.

2. *Speed up the overall informationization construction and enhance the information technology for management decisions*

The Group has formulated a plan for the BI project and will implement and apply the BI project based on the scheduled content and the project schedule in order to solve the current problems such as information isolated islands and data separation. At the same time, the Group also plans to introduce the SAP ERP system in the future to implement overall informationization upgrade, improving the work flow to enhance system performance.

In the future, the Group will strive for the opportunity to obtain GSP accreditation, in order to re-organize and enhance management system of the Group, particularly the application of information technology in management, with an aim to make full use of information technology to enhance the operation management process.

Furthermore, the Group will also conduct comprehensive upgrade of the existing working OA system to increase work efficiency. This work is expected to greatly enhance the communication efficiency between the sales staff and the headquarter, thereby boosting sales performance.

3. *Improve the incentive and assessment system of sales staffs*

According to the business adjustment in the commercial alignment and in order to promote the sales increase of second-tier and third-tier distributors, the Group will further refine the incentive plans and evaluation elements for the performance review of its sales staffs motivate sales to work hard and stimulate their work enthusiasm so that all the sales staffs will do their best on their sales and distribution work.

4. *Establish a "Kingworld Health Family" e-Commerce platform and develop e-Commerce business*

After having conducted an initial planning, the Group will launch the "Kingworld Health Family" e-Commerce platform in Hong Kong and Shenzhen Qianhai Bay, as well as establishing brand distribution area in well-known corporate e-Commerce platforms such as TMall, QQ.com, Suning and Egou in order to develop our e-Commerce business. The Group believes that this will create a great driving force for the promotion of the Group's brand, and rapidly develop over-the-counter medicines, pharmaceutical products and health food.

5. Accelerate the introduction of new products

The Group will take advantage of the opportunities offered by the "milk powder sold in pharmacies" policy and strive to procure products such as milk powder and infant and pregnant line of healthcare products. Together with the up-stream and down-stream combination, the Group will strive to advance its sales of healthcare products.

Besides, as the domestic consumption standards in China has elevated, customer demands for imported healthcare food and healthcare products has also increased. By utilising the good relationship network of the overseas suppliers, the Group will introduce more quality products to be sold in Hong Kong and China simultaneously.

6. Speed up the process of mergers and acquisitions

During the Year Under Review, in accordance with the Group's guidelines implemented for mergers and acquisitions, the Group had carried out a number of studies on several enterprises. The Group will accelerate the pace of mergers and acquisitions and explore potential up-stream industrial enterprises, whose products will create a synergy effect with the Group's existing network. Through mergers and acquisitions, the Group aims to expand the Group's product categories and will search among the retail chains in second-tier and third-tier cities, in order to deepen the Group's network development through mergers and acquisitions.

HUMAN RESOURCES AND TRAINING

As of 31 December 2013, the Group had a total of 483 employees, of which 113 worked at the Group's headquarter in Shenzhen, and 370 stationed in 34 regions with main responsibility of sales and marketing. Total staff cost for the Year Under Review amounted to approximately RMB30,815,000 (2012 : RMB25,575,000). 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 adopted a number of incentive mechanisms to enhance the productivity of its employees. The Group conducts periodic performance review on its employees, and revises their salaries and bonuses accordingly. In addition, the Group has established business college and has cooperated with higher education institutions, for introducing teachers from EMBA and EDP courses in higher education institutions. Training plan on "high-end sophisticated talent" was kicked off, so as to improve the overall standard of business management of the mid-level to senior management executives currently under employment. Theoretical knowledge of the mid-level to senior management executives were enriched, which in turn enhanced the leadership and competency of these mid-level to senior management executives. There were further cooperation between corporations and institutions to conduct tailor-made "Kingworld" class from teachers at the college and from the industry, with an aim to cultivate mid-level to senior management executives. The development of training materials will be accelerated. Staffs at each level are motivated to learn on a continuing basis so that efficient operation can be achieved.

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

DIVIDENDS

To extend the Company's gratitude for the support of our shareholders, the Board has recommended the distribution of a final dividend for the Year Under Review of HK3.86 cents per share to shareholders whose names appear on the register of members of the Company on Tuesday, 10 June 2014, amounting to approximately HK$24,028,000, subject to approval in the Company's forthcoming annual general meeting to be held on Friday, 30 May 2014. Total dividend payout ratio is 40% of the profit for the year or the distributable profit of the Company. The above-mentioned final dividend is expected to be paid on or before Monday, 30 June 2014.

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Zhao Li Sheng (趙利生), aged 55, 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 18 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 50, 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 18 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 Li Sheng.

Mr. Zhou Xuhua (周旭華), aged 47, 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 16 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 48, was appointed as an executive Director of the Company on 3 August 2009. Currently, he is also the authorised representative of the Company. He is primarily responsible for the operations, investment and capital management of the Group. He has approximately 13 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 an executive 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). He was the deputy general manager of SZ Kingworld from June 2006 to December 2013. 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 48, was appointed as an independent non-executive Director of the Company on 5 November 2010. He has approximately 23 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 57, 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 24 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. Zhang resigned as an independent non-executive Director of the Company on 1 August 2013.

Mr. Wong Cheuk Lam (黃焯琳), aged 45, was appointed as an independent non-executive Director of the Company on 5 November 2010. He has over 18 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, a member of CPA Australia and a member of Certified Taxpay Strategist (PRC). 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.

Mr. Zhang Jianbin (張建斌), aged 53, was appointed as an independent non-executive Director of the Company on 1 August 2013. He has over 21 years of experience of teaching and researching in the management aspect of marketing, services marketing and brand marketing, and in project consultation work. Mr. Zhang obtained a bachelor degree in engineering (industrial management engineering profession) from Wuhan University of Technology (formerly known as Wuhan Institute of Technology) in June 1982. He completed a USA MBA program (organized by the graduate school of Columbia University and other universities) of Beijing Information Science & Technology University (formerly known as Beijing Institute of Machinery) in September 1986, and obtained a doctor's degree of economics (industrial economics profession) from the College of Economics, Jinan University in July 1999. Mr. Zhang worked in the Management Engineering Faculty of Wuhan University of Technology (formerly known as Wuhan Institute of Technology) as a teaching assistant and a lecturer from July 1982 to March 1989. He worked in the Management Engineering Faculty of Guangdong University of Technology (formerly known as Guangdong Institute of Technology) as a teaching assistant, lecturer, associate professor and served as deputy director, director and deputy head of the Teaching and Research Department from March 1989 to June 1998. Mr. Zhang has been teaching at Jinan University since July 1998 and is an associate professor and a tutor to master's degree research students at the Management School of Jinan University. He was also the director of the MBA Department and deputy director of the MBA education centre from 2003 to 2005.

Mr. Zhang was a chief marketing consultant of the Fourth Shoe Factory (第四皮鞋廠) in Wuhan city from 1987 to 1989. He was a factory director of Zhongshan Precision Instrument Factory (中山先能精密儀器廠) from 1991 to 1992 and a manager of the Planning Department of Guangdong International Mass Advertising Media Company (廣東國際大眾廣告傳播公司) from 1992 to 1993. From 1993-1995, Mr. Zhang was a general manager of Guangdong Design and Planning Company (廣東創世紀設計策劃公司) and was a marketing consultant of Guangdong Construction Real Estate Company (廣東建業房地產公司) from 1995 to 1996. He was a marketing consultant of Guangdong Yihe Real Estate (Group) (廣東頤和地產(集團)有限公司) from 1997 to 2002 and a consultant of Guangdong Persian Technology Company Limited (廣東波斯科技股份有限公司) from 2002 to 2012.

SENIOR MANAGEMENT

Mr. Chan Hon Wan (陳漢雲), aged 53, 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 28 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 48, 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 23 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.

Mr. Liu Yibing (劉亦兵), aged 55, 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 11 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 (曾澴), aged 43, is the sales controller (commerce) of SZ Kingworld. He is primarily responsible for the customer and sales management. He has approximately 15 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 45, 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 23 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 49, 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 14 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 51, 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 20 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 51, is the corporate finance controller of SZ Kingworld and is responsible for managing the matters relating to the Listing. He has 18 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 Board strives to uphold the principles of corporate governance set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and adopted various measures to enhance the internal control system, the Directors' continuing professional training and other areas of practice of the Company. While the Board strives to maintain a high level of corporate governance, it also works hard to create value and achieve maximum return for its shareholders. The Board will continue to conduct review and improve the quality of corporate governance practices with reference to local and international standards.

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

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. Duan Jidong, Mr. Zhang Jianbin 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/Committee Meetings and Individual Attendance" of this report.

All members of the Board fully understand their collective and individual responsibility for the 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. Zhou Xuhua, Mr. Lin Yusheng and Mr. Duan Jidong 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 Jianbin and Mr. Wong Cheuk Lam, who are Independent Non-executive Directors. Mr. Wong has been appointed as the chairman of the Audit Committee.

The 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 Under Review included reviewing the audited consolidated financial statements of the Group for the year ended 31 December 2012, the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2013 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 2013, 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 Jianbin and Mr. Wong Cheuk Lam, who are Independent Non-executive Directors. Mr. Zhang 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 two meetings and all the members attended the meeting. The work performed by the Remuneration Committee during the Year Under Review 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 was amended and adopted by the Board on 26 August 2013 and the contents of which are in compliance with the provisions of the CG Code. The Nomination Committee has three members, namely Mr. Duan Jidong, Mr. Zhang Jianbin 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) review the structure, size and diversity of the Board, to make recommendations to the Board on appointment of Directors and succession planning for Directors and assess the independence of Independent Non-executive Directors.

To comply with the new provisions in the CG Code on board diversity which became effective on 1 September 2013, the Nomination Committee has adopted a policy concerning diversity of Board members (the "Board Diversity Policy"), which is achieved through consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, industry experience, skills, knowledge and length of service in related business areas of the Board members and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy. The Nomination Committee will review the Policy on a regular basis and discuss any revisions that may be required, and recommended any such revisions to the Board for consideration and approval.

During the Year Under Review, the Nomination Committee had held two meetings and all the members attended the meetings. The work performed by the Nomination Committee during the Year Under Review included reviewing the established policy and procedure for the nomination and appointment of new Directors, reviewing the Board Diversity Policy and the measurable objectives that the Board has set for implementing such policy and assessing the independence of the Independent Non-executive Directors. The Nomination Committee, having reviewed the structure, size, composition and diversity of the Board including the gender, age, culture and educational background, professional experience and industry experience of each Director vis-a-vis the Group's business strategy as well as the structure for the rotation of Directors, considered that the existing arrangements were appropriate.

The work performed by the Nomination Committee during the Year Under Review also included the selection and recommendation of Mr. Zhang Jianbin as an Independent Non-executive Director of the Company.

BOARD/COMMITTEE 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 2013 are as follows:

Name of Directors	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Executive Directors					
Mr. Zhao Li Sheng *(Chairman)*	4/4	—	—	—	1/1
Ms. Chan Lok San	4/4	—	—	—	1/1
Mr. Zhou Xuhua	4/4	—	—	—	1/1
Mr. Lin Yusheng	4/4	—	—	—	1/1
Independent Non-executive Directors					
Mr. Duan Jidong	4/4	2/2	2/2	2/2	1/1
Mr. Zhang Jianqi *(resigned on 1 August 2013)*	2/2	1/1	1/1	1/1	1/1
Mr. Wong Cheuk Lam	4/4	2/2	2/2	2/2	1/1
Mr. Zhang Jianbin *(appointed on 1 August 2013)*	2/2	1/1	1/1	1/1	N/A

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 Code Provision A.6.5 of the CG Code 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 *(resigned on 1 August 2013)*	— 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
Mr. Zhang Jianbin *(appointed on 1 August 2013)*	— 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, Crowe Horwath (HK) 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 2013, the remuneration paid to the external auditors in Hong Kong and the PRC, for audit services totaled approximately RMB662,000 (equivalent to approximately HK$829,000).

For the year ended 31 December 2013, the total remuneration for the permissible non-audit services provided by the external auditors amounted to RMB286,000 (equivalent to approximately HK$358,000).

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 2013, 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, 19th 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 2014

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 2013.

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 2013, 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 Chuan Bei 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 Chuan Bei 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 2013 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 60 to 64.

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 2013 of HK$3.86 cents per share to Shareholders whose names appear on the register of members of the Company on Tuesday, 10 June 2014, amounting to approximately HK$24,028,000, subject to the approval from the Company's forthcoming annual general meeting to be held on Friday, 30 May 2014. Total dividend payout ratio is 40% of the profit for the year or the distributable profit of the Company. The above-mentioned final dividend is expected to be paid on or before Monday, 30 June 2014.

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 Wednesday, 28 May 2014 to Friday, 30 May 2014 (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 Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration on or before 4:30 p.m. on Tuesday, 27 May 2014.

To qualify for the proposed final dividends

The register of members of the Company will be closed from Friday, 6 June 2014 to Tuesday, 10 June 2014 (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 Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration on or before 4:30 p.m. on Thursday, 5 June 2014.

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2013, 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 of Hong Kong Limited (the "Stock Exchange") on 25 November 2010, after deduction of related expenses, was approximately HK$241,862,000 (equivalent to approximately RMB206,167,000). As at 31 December 2013, the Group had used net proceeds of approximately RMB35,000,000, of which RMB14,400,000 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, and shareholder of any member of the Group or associated company or any of their respective associates, who contributed to the success of the Group. The Share Option Scheme was conditionally approved by a written resolution of the shareholders of the Company dated 5 November 2010. Details of the Share Option Scheme are set out in the Prospectus.

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

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

As at the date of this 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 2013, 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 2013, 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 25 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 65 of the Consolidated Statement of Changes in Equity and Note 25 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 2013, the aggregate amount of reserves available for distribution to owners of the Company was RMB253,758,000 (2012: RMB255,877,000). After the end of the Year Under Review, the Directors proposed a final dividend of HK$3.86 cents (equivalent to RMB3.03 cents) (2012: HK$2.90 cents, equivalent to RMB2.34 cents) per share amounting to RMB18,862,000 (2012: RMB14,567,000). 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 RMB3,325,000 (2012: RMB2,460,000).

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 2013. Increase in fair value of investment properties due to revaluation amounted to approximately RMB12,060,000, 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 2013 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 2013 are set out in Note 16 to the Financial Statements.

DIRECTORS

The Directors of the Company during the year ended 31 December 2013 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 *(resigned on 1 August 2013)*
Mr. Duan Jidong
Mr. Wong Cheuk Lam
Mr. Zhang Jianbin *(appointed on 1 August 2013)*

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 29 to 33 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 (2012 : 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. Subject to the retirement and re-election at the annual general meeting of the Company in accordance with (inter alia) the Memorandum and Articles, the service contract had been renewed until being terminated pursuant to the terms of the service contract. 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. Subject to the retirement and re-election at the annual general meeting of the Company in accordance with (inter alia) the Memorandum and Articles, the service contract had been renewed until being terminated pursuant to the terms of the service contract.

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

	RMB'000
Mr. Zhao Li Sheng	1,105
Ms. Chan Lok San	918
Mr. Zhou Xuhua	791
Mr. Lin Yusheng	824

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 (other than Mr. Zhang Jianbin) 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. Subject to the retirement and re-election at the annual general meeting of the Company in accordance with (inter alia) the Memorandum and Articles, the letter of appointment had been renewed until being terminated pursuant to the terms of the letter of appointment. Mr. Zhang Jianbin has signed a letter of appointment with the Company for a term of three years commencing from 1 August 2013, which may be terminated by giving three months' notice in writing by either party to the other. Subject to the retirement and re-election at the annual general meeting of the Company in accordance with (inter alia) the Memorandum and Articles, the letter of appointment had been renewed until being terminated pursuant to the terms of the letter of appointment.

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

	RMB'000
Mr. Zhang Jianqi *(resigned on 1 August 2013)*	93
Mr. Duan Jidong	139
Mr. Wong Cheuk Lam	137
Mr. Zhang Jianbin *(appointed on 1 August 2013)*	47

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 2013, 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 2013, 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	3,228,000 shares	0.52%

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 3,228,000 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 2013, 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 2013, 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 2013, 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 2013, 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 2013 and during any time for the year ended 31 December 2013, 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 2013 and during any time for the year ended 31 December 2013, 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 2013 and during any time for the year ended 31 December 2013, 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 2013, 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 30 to the Financial Statements.

The recurring related party transactions set out in Note 30 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 30 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.

As disclosed in the 2012 Annual Report, on 16 November 2012, the Company entered into two new master distribution agreements with Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited (深圳市金活利生藥業有限公司) ("SZ Kingworld Lifeshine") and Yuen Tai Pharmaceuticals Limited (遠大製藥廠有限公司) ("Yuen Tai") respectively (collectively, the "New Master Distribution Agreements").

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 Company's circular dated 7 December 2012 (the "Circular").

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

Transaction	Member of the Group	Connected person	Actual transaction amounts for 2013 RMB'000	Approximate annual cap for 2013 RMB'000
Purchase and distribution of Pharmaceutical and Healthcare Products from SZ Kingworld Lifeshine	SZ Kingworld	SZ Kingworld Lifeshine	7,227	56,440
Purchase and distribution of Pharmaceutical and Healthcare Products from Yuen Tai	SZ Kingworld	Yuen Tai	1,358	17,390

Principal terms of the New Master Distribution Agreements are as follows:

SZ Kingworld Lifeshine Master Distribution Agreement

SZ Kingworld Lifeshine is a wholly-owned subsidiary of Morning Gold Medicine Company Limited, which is owned as to 51% by Mr. Zhao Li Sheng and 49% by Ms. Chan Lok San.

The SZ Kingworld Lifeshine Master Distribution Agreement was entered into between the Company and SZ Kingworld Lifeshine on 16 November 2012, 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 commencing 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

Yuen Tai is a wholly-owned subsidiary of Morning Gold Medicine Company Limited, which is owned as to 51% by Mr. Zhao Li Sheng and 49% by Ms. Chan Lok San.

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 commencing 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 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:

(i) have received the approval of the Board;

(ii) did not involve the provision of goods or services by the Group;

(iii) have been entered into in accordance with the relevant agreements governing the transactions; and

(iv) did not exceed the respective annual caps as disclosed in the Circular.

PLEDGE OF ASSETS

As at 31 December 2013, the Group had pledged investment property, bank deposits and bills receivable to the bank in the total amount of approximately RMB116,047,000. As at 31 December 2012, the Group had pledged investment property and bank deposits in total amount of approximately RMB95,842,000.

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 borrowings. For the Year Under Review, the effective interest rate for fixed rate loans was from 3.9% to 7.2%. 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 2013, the Group had cash and cash equivalents of RMB91,416,000 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 86.5% of the Group's total purchase, in which purchase from the largest supplier of the Group accounted for approximately 66.4% 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 2013 are set out in Note 2(v) to the Financial Statements. No forfeited contributions (by the Group on behalf of employees who leave the defined contribution plans prior to vesting fully in such contributions) can be used by the Group to reduce the existing level of contributions.

CHANGE OF AUDITOR

The auditor of the Company was changed from CCIF CPA Limited to Crowe Horwath (HK) CPA Limited on 16 May 2013. Details of the change are set out in the Company's announcement dated 10 April 2013.

Save as the above, the Company did not change its auditor in any of the preceding three years.

AUDITOR

The Financial Statements for the year ended 31 December 2013 have been audited by Crowe Horwath (HK) CPA Limited.

On behalf of the Board

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

Hong Kong, 25 March, 2014

Independent Auditor's Report

Crowe Horwath™

國富浩華(香港)會計師事務所有限公司
Crowe Horwath (HK) CPA Limited
Member Crowe Horwath International

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 60 to 129, which comprise the consolidated and company statements of financial position as at 31 December 2013, 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.

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 2013, 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.

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong, 25 March 2014

Leung Chun Wa
Practising Certificate Number P04963

Consolidated Income Statement

For the year ended 31 December 2013
(Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000 (restated)
Turnover	4	**554,763**	626,840
Cost of sales		**(423,584)**	(479,770)
Gross profit		**131,179**	147,070
Valuation gain on investment properties	14	**12,060**	8,150
Other revenue	5 (a)	**14,526**	9,070
Other net income/(loss)	5 (b)	**10,767**	(242)
Selling and distribution costs		**(70,286)**	(70,654)
Administrative expenses		**(41,512)**	(35,683)
Profit from operations		**56,734**	57,711
Finance costs	6 (a)	**(3,330)**	(2,583)
Share of profit of a joint venture		**9,810**	6,063
Profit before taxation	6	**63,214**	61,191
Income tax	7	**(16,037)**	(12,656)
Profit for the year		**47,177**	48,535
Attributable to:			
Owners of the Company	8	**47,177**	48,535
Earnings per share	10		
Basic (RMB cents)		**7.58**	7.80
Diluted (RMB cents)		**7.58**	7.79

The notes on pages 68 to 129 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013
(Expressed in Renminbi)

	Note	**2013** **RMB'000**	2012 RMB'000 (restated)
Profit for the year		**47,177**	48,535
Other comprehensive income/(loss) for the year			
Items that will not be reclassified to profit or loss:			
Share of other comprehensive income of a joint venture (net of tax: RMB1,495,000)		**4,486**	—
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements		**(2,688)**	244
Change in tax rate on deferred tax liabilities relating to property valuation reserve	24(b)	**—**	(7)
		1,798	237
Total comprehensive income for the year (net of tax)		**48,975**	48,772
Attributable to:			
Owners of the Company		**48,975**	48,772

The notes on pages 68 to 129 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2013
(Expressed in Renminbi)

	Note	At 31 December 2013 RMB'000	At 31 December 2012 RMB'000 (restated)	At 1 January 2012 RMB'000 (restated)
Non-current assets				
Property, plant and equipment	13	**4,888**	4,640	5,548
Investment properties	14	**88,810**	76,750	68,600
Interest in a joint venture	17	**38,793**	24,497	18,434
Deposit paid for property, plant and equipment	15	**75,000**	60,000	10,000
		207,491	165,887	102,582
Current assets				
Inventories	18	**39,917**	21,325	40,952
Trade and other receivables	19	**373,156**	300,011	319,394
Pledged bank deposits	20	**18,103**	29,842	9,890
Cash and bank balances	21	**91,416**	123,262	133,833
		522,592	474,440	504,069
Current liabilities				
Trade and other payables	22	**154,370**	141,626	144,315
Bank loans	23	**98,378**	59,880	47,168
Current taxation	24(a)	**10,509**	9,604	12,051
		263,257	211,110	203,534
Net current assets		**259,335**	263,330	300,535
Total assets less current liabilities		**466,826**	429,217	403,117
Non-current liabilities				
Deferred tax liabilities	24(b)	**9,402**	6,387	8,620
NET ASSETS		**457,424**	422,830	394,497

The notes on pages 68 to 129 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2013
(Expressed in Renminbi)

	Note	At 31 December 2013 RMB'000	At 31 December 2012 RMB'000 (restated)	At 1 January 2012 RMB'000 (restated)
CAPITAL AND RESERVES	25			
Share capital		**53,468**	53,468	53,468
Reserves		**403,956**	369,362	341,029
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**457,424**	422,830	394,497

Approved and authorised for issue by the board of directors on 25 March 2014.

Mr. Zhao Li Sheng
Director

Ms. Chan Lok San
Director

The notes on pages 68 to 129 form part of these financial statements.

Statement of Financial Position

At 31 December 2013
(Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000
Non-current assets			
Investments in subsidiaries	16	**216,223**	222,994
Current assets			
Amount due from a subsidiary	19	**25,416**	28,972
Cash and bank balances	21	**43,247**	44,744
		68,663	73,716
Current liabilities			
Other payables	22	**737**	1,437
Amounts due to subsidiaries	22	**5,907**	5,826
		6,644	7,263
Net current assets		**62,019**	66,453
NET ASSETS		**278,242**	289,447
CAPITAL AND RESERVES	25		
Share capital		**53,468**	53,468
Reserves		**224,774**	235,979
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**278,242**	289,447

Approved and authorised for issue by the board of directors on 25 March 2014.

Mr. Zhao Li Sheng
Director

Ms. Chan Lok San
Director

The notes on pages 68 to 129 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013
(Expressed in Renminbi)

	Share capital RMB'000 (note 25(a))	Share premium RMB'000 (note 25(b))	Statutory and discretionary reserves RMB'000 (note 25(c))	Contributed surplus RMB'000 (note 25(d))	Property revaluation reserve RMB'000 (note 25(e))	Warrant reserve RMB'000 (note 25(f))	Exchange reserve RMB'000 (note 25(g))	Retained profits RMB'000	Total RMB'000
At 1 January 2013	**53,468**	**152,700**	**30,558**	**29,068**	**517**	**300**	**(10,995)**	**167,214**	**422,830**
Changes in equity:									
Profit for the year	—	—	—	—	—	—	—	**47,177**	**47,177**
Other comprehensive income/(loss) for the year	—	—	—	—	**4,486**	—	**(2,688)**	—	**1,798**
Total comprehensive income/(loss) for the year	—	—	—	—	**4,486**	—	**(2,688)**	**47,177**	**48,975**
Expiry of warrants	—	—	—	—	—	**(300)**	—	**300**	—
Appropriation of statutory and discretionary reserves	—	—	**2,123**	—	—	—	—	**(2,123)**	—
Dividends (note 9(b))	—	—	—	—	—	—	—	**(14,381)**	**(14,381)**
At 31 December 2013	**53,468**	**152,700**	**32,681**	**29,068**	**5,003**	—	**(13,683)**	**198,187**	**457,424**
At 1 January 2012 (restated)	53,468	152,700	25,872	59,068	524	300	(11,239)	113,804	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 (restated)	53,468	152,700	30,558	29,068	517	300	(10,995)	167,214	422,830

The notes on pages 68 to 129 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2013
(Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000 (restated)
Operating activities			
Profit before taxation		**63,214**	61,191
Adjustments for:			
Depreciation	6(c)	**1,519**	1,487
Finance costs	6(a)	**3,330**	2,583
Interest income	5(a)	**(4,958)**	(1,671)
Loss on disposal of property, plant and equipment	6(c)	**26**	18
Impairment loss of trade receivables	6(c)	**775**	—
Write-off of other receivables	6(c)	**233**	14
Reversal of impairment loss on trade receivables	6(c)	**—**	(21)
Share of profit of a joint venture		**(9,810)**	(6,063)
Valuation gain on investment properties	14	**(12,060)**	(8,150)
Write-down of inventories	18	**3,475**	4,866
Changes in working capital			
(Increase)/decrease in inventories		**(22,067)**	14,761
(Increase)/decrease in trade and other receivables		**(74,153)**	19,390
Increase/(decrease) in trade and other payables		**12,744**	(2,689)
Cash (used in)/generated from operations		**(37,732)**	85,716
PRC income tax paid		**(12,117)**	(17,336)
Net cash (used in)/generated from operating activities		**(49,849)**	68,380

The notes on pages 68 to 129 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2013
(Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000 (restated)
Investing activities			
Payment for the purchase of property, plant and equipment		**(1,866)**	(597)
Proceeds from sale of property, plant and equipment		**12**	—
Deposit paid for property, plant and equipment		**(15,000)**	(50,000)
Decrease/(increase) in bank deposits with maturity over three months	21	**40,000**	(40,000)
Interest received		**4,958**	1,671
Net cash generated from/(used in) investing activities		**28,104**	(88,926)
Financing activities			
Decrease/(increase) in pledged bank deposits		**11,739**	(19,952)
Proceeds from new bank loans		**38,498**	12,712
Finance costs paid		**(3,330)**	(2,583)
Dividend paid		**(14,381)**	(20,439)
Net cash generated from/(used in) financing activities		**32,526**	(30,262)
Net increase/(decrease) in cash and cash equivalents		**10,781**	(50,808)
Cash and cash equivalents at beginning of year		**83,262**	133,833
Effect of foreign exchange rate changes		**(2,627)**	237
Cash and cash equivalents at end of year	21	**91,416**	83,262

The notes on pages 68 to 129 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 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 2013 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in a joint venture.

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

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

— investment properties (see note 2(f)); 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 27.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

c) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

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 cash flows 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) Joint ventures

A joint venture is an arrangement whereby the Group or the Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(j)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the joint venture.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

d) *Joint ventures (Continued)*

Unrealised profits and losses resulting from transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in a joint venture becomes an investment in an associate or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

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.

Investment in equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Any attributable transaction costs are recognized in profit or loss as incurred.

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 measured 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:

—	leasehold improvements	5 years or over the remaining term of the lease, if shorter
—	furniture, fixtures and office equipment	5 to 10 years
—	motor vehicles	5 years

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:

(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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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 the 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)); and

— 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.

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 interest in a joint venture accounted for under the equity method in the consolidated financial statements (see note 2(d)), 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, the 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 these financial assets 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) *Impairment of assets* (Continued)

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

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

ii) *Impairment of other assets*

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

— property, plant and equipment;

— deposit paid for property, plant and equipment; and

— investments in subsidiaries in the Company's statement of financial position.

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

Recognition of impairment losses

An impairment loss is recognised in 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 of disposal (if measurable), or value in use (if determinable).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) *Impairment of assets (Continued)*

ii) *Impairment of other assets (Continued)*

Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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.

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 (see notes 2(j)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available for-sale equity securities and unquoted 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

o) *Income tax* *(Continued)*

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

p) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company 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 capitalised as part of the cost of that asset. Other borrowing costs are expensed 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 ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

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 measured.

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 closing 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

r) *Translation of foreign currencies* *(Continued)*

On the disposal of an operation outside Mainland China, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

s) *Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable. Provided 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.

iii) *Promotional service income*

Promotional service income is 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

t) *Segment reporting (Continued)*

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) *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.

v) *Employee benefits*

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

Salaries, annual bonuses, paid annual leave, contribution to defined contribution retirement plans and the cost of non-monetary benefits are accrued in 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 at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

w) 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).

(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.

(Expressed in Renminbi unless otherwise indicated)

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

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures

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

Annual Improvement to HKFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, HKAS 1 has been amended to clarify that an opening statement of financial position is required only when a retrospective application of an accounting policy, a retrospective restatement or a reclassification has a material effect on the information presented in the opening statement of financial position. The amendments also remove the requirement to present related notes to the opening statement of financial position when such statement is presented.

Since the Group considers that the restatement resulting from the adoption of HKFRS 11 has a material impact on the opening financial position, an additional statement of financial position as at 1 January 2012 has been presented in these financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of comprehensive income in these financial statements has been modified accordingly.

HKFRS 10 Consolidated Financial Statements

HKFRS 10 replaces the requirements in HKAS 27 Consolidated and Separate Financial Statements relating to the preparation of consolidated financial statements and HK-SIC 12 Consolidation – Special purpose entities. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

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

HKFRS 11 Joint Arrangements

HKFRS 11, which replaces HKAS 31 Interests in Joint Ventures, divides joint arrangements into joint operations and joint ventures. Entities are required to determine the type of an arrangement by considering the structure, legal form, contractual terms and other facts and circumstances relevant to their rights and obligations under the arrangement. Joint arrangements which are classified as joint operations under HKFRS 11 are recognised on a line-by-line basis to the extent of the joint operator's interest in the joint operation. All other joint arrangements are classified as joint ventures under HKFRS 11 and are required to be accounted for using the equity method in the Group's consolidated financial statements. Proportionate consolidation is no longer allowed as an accounting policy choice.

The adoption of HKFRS 11 has changed the Group's accounting policy for its joint venture which was previously accounted for using proportionate consolidation. The financial effects on the Group's consolidated statement of financial position as at 1 January 2012 and 31 December 2012 and its consolidated income statement for the year ended as restated comparatives of the Group's consolidated financial results for the year ended 31 December 2013, are as follows:

	Impact on financial position as at 1 January 2012		
	As previously reported RMB'000	Retrospective effects of adoption of HKFRS 11 RMB'000	As restated RMB'000
Non-current assets			
Property, plant and equipment	8,943	(3,395)	5,548
Investment property	68,600	—	68,600
Deposit paid for property, plant and equipment	10,000	—	10,000
Interest in a joint venture	—	18,434	18,434
Prepaid lease payments	3,804	(3,804)	—
	91,347	11,235	102,582
Current assets			
Inventories	49,140	(8,188)	40,952
Trade and other receivables	329,032	(9,638)	319,394
Pledged bank deposits	9,890	—	9,890
Cash and bank balance	141,041	(7,208)	133,833
	529,103	(25,034)	504,069
Current liabilities			
Trade and other payables	157,324	(13,009)	144,315
Bank loans	47,168	—	47,168
Current taxation	12,841	(790)	12,051
	217,333	(13,799)	203,534
Non-current liabilities			
Deferred tax liabilities	8,620	—	8,620
Net assets	394,497	—	394,497

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

	Impact on financial position as at 31 December 2012		
	As previously reported RMB'000	Retrospective effects of adoption of HKFRS 11 RMB'000	As restated RMB'000
Non-current assets			
Property, plant and equipment	18,938	(14,298)	4,640
Investment property	76,750	—	76,750
Deposit paid for property, plant and equipment	60,000	—	60,000
Interest in a joint venture	—	24,497	24,497
Prepaid lease payments	3,721	(3,721)	—
	159,409	6,478	165,887
Current assets			
Inventories	32,948	(11,623)	21,325
Trade and other receivables	309,774	(9,763)	300,011
Pledged bank deposits	29,842	—	29,842
Cash and bank balance	125,539	(2,277)	123,262
	498,103	(23,663)	474,440
Current liabilities			
Trade and other payables	156,973	(15,347)	141,626
Bank loans	61,120	(1,240)	59,880
Current taxation	10,202	(598)	9,604
	228,295	(17,185)	211,110
Non-current liabilities			
Deferred tax liabilities	6,387	—	6,387
Net assets	422,830	—	422,830

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

	Impact on results for the year ended 31 December 2012		
	As previously reported RMB'000	Retrospective effects of adoption of HKFRS 11 RMB'000	As restated RMB'000
Turnover	705,519	(78,679)	626,840
Cost of sales	(541,674)	61,904	(479,770)
Gross profit	163,845	(16,775)	147,070
Valuation gain on investment properties	8,150	—	8,150
Other revenue	9,111	(41)	9,070
Other net loss	(21)	(221)	(242)
Selling and distribution costs	(78,377)	7,723	(70,654)
Administration expenses	(36,832)	1,149	(35,683)
Finance costs	(2,619)	36	(2,583)
Share of profit of a joint venture	—	6,063	6,063
Income tax	(14,722)	2,066	(12,656)
Profit for the year	48,535	—	48,535

This change in accounting policy did not have a material impact on current or deferred taxation, and earnings per share.

HKFRS 12 Disclosure of Interests in Other Entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in notes 16 and 17.

HKFRS 13 Fair Value Measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in notes 14 and 26.

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.

	2013 RMB'000	2012 RMB'000 (restated)
Sales of		
– pharmaceutical products	**532,690**	588,053
– healthcare products	**22,073**	38,787
	554,763	626,840

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

a) *Other revenue*

	2013 RMB'000	2012 RMB'000 (restated)
Total interest income on financial assets not at fair value through profit or loss:		
Bank interest income	**4,958**	1,671
Gross rental income from investment properties	**2,610**	1,037
Promotional service income	**4,673**	3,604
Others	**2,285**	2,758
	14,526	9,070

b) *Other net income/(loss)*

	2013 RMB'000	2012 RMB'000 (restated)
Net gain on financial assets at fair value through profit or loss	**—**	308
Net foreign exchange gain/ (loss)	**10,767**	(550)
	10,767	(242)

6. PROFIT BEFORE TAXATION

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

		2013 RMB'000	2012 RMB'000 (restated)
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	**3,330**	2,583
b)	**Staff costs (including directors' and chief executive's remuneration)**		
	Salaries and other benefits	**24,987**	20,803
	Contributions to defined contribution retirement plan	**5,828**	4,772
		30,815	25,575
c)	**Other items**		
	Auditors' remuneration		
	– audit service	**662**	671
	– non-audit service	**286**	312
	Cost of inventories (note 18)	**423,584**	479,770
	Depreciation	**1,519**	1,487
	Impairment losses on trade receivables (note 19(c))	**775**	—
	Reversal of impairment loss on trade receivables (note 19(c))	**—**	(21)
	Write-off of other receivables	**233**	14
	Loss on disposal of property, plant and equipment	**26**	18
	Operating lease charges in respect of land and buildings	**5,090**	4,598
	Rental income from investment properties less direct outgoings of RMB431,000 (2012: RMB356,000)	**(2,179)**	(681)

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

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

	2013 RMB'000	2012 RMB'000 (restated)
PRC Income tax		
– Current year	**13,051**	14,920
– Over-provision in respect of prior years	**(29)**	(24)
	13,022	14,896
Deferred tax (note 24(b))		
– Origination and reversal of temporary differences	**3,015**	(2,408)
– Attributable to a change in tax rate	**—**	168
	3,015	(2,240)
	16,037	12,656

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 2013 and 2012.

iii) The PRC income tax charge of the Group during the years ended 31 December 2013 and 2012 represented mainly the PRC income tax charge from the Group's subsidiary, Shenzhen Kingworld Medicine Company Limited ("SZ Kingworld") and is based on a statutory rate of 25% (2012: 25%).

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

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

	2013 RMB'000	2012 RMB'000 (restated)
Profit before taxation	**63,214**	61,191
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned	**16,196**	14,537
Tax effect of non-deductible expenses	**1,905**	1,993
Tax effect of non-taxable income	**(2,035)**	(245)
Tax effect of unused tax losses not recognised	—	586
Unrecognised temporary differences	—	86
Effect on opening deferred tax balance resulting from a change in tax rate	—	168
Over-provision in previous years	**(29)**	(24)
Reversal of withholding tax (note (c))	—	(4,445)
Actual tax expense	**16,037**	12,656

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 in 2012. As at 31 December 2013, temporary differences relating to the undistributed profits of these subsidiaries amounted to RMB189,943,000 (2012: RMB137,196,000) and deferred tax liabilities of RMB9,497,000 (2012: RMB6,860,000) 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 profit of RMB11,962,000 (2012: loss of RMB5,066,000) which has been dealt with in the financial statements of the Company (note 25).

9. DIVIDENDS

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

	2013 RMB'000	2012 RMB'000
Final dividend proposed after the end of the reporting period of HK3.86 cents (equivalent to RMB3.03 cents) (2012: HK2.90 cents (equivalent to RMB2.34 cents)) per ordinary share	**18,862**	14,567
	18,862	14,567

The final dividend for 2013 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*

	2013 RMB'000	2012 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK2.90 cents (equivalent to approximately RMB2.31 cents) (2012: HK4.04 cents (equivalent to approximately RMB3.28 cents))	**14,381**	20,439

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 RMB47,177,000 (2012: RMB48,535,000) and the weighted average number of 622,500,000 (2012: 622,500,000) ordinary shares in share.

10. EARNINGS PER SHARE *(Continued)*

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 RMB47,177,000 (2012: RMB48,535,000) and on the weighted average number of 622,500,000 (2012: 623,040,000) ordinary shares in issue.

Weighted average number of ordinary shares (diluted):

	Number of shares	
	2013	2012
	'000	'000
Weighted average number of ordinary shares at 31 December	**622,500**	622,500
Adjustment for warrants	**—**	540
Weighted average number of ordinary shares (diluted) at 31 December	**622,500**	623,040

All the Company's warrants expired and lapsed on 21 March 2013. During the period from 1 January 2013 to 21 March 2013, the Company's warrants had anti-dilutive effect as the exercise price was above the weighted average market price of the Company's shares. Therefore, the diluted earnings per share for the current year is the same as the basic earnings per share (2012: RMB7.79 cents).

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
2013					
Executive directors:					
Zhao Li Sheng					
(chief executive officer)	**—**	**1,105**	**—**	**24**	**1,129**
Chan Lok San	**—**	**918**	**—**	**24**	**942**
Lin Yusheng	**—**	**820**	**—**	**4**	**824**
Zhou Xuhua	**—**	**740**	**—**	**51**	**791**
Independent non-executive directors:					
Duan Jidong	**139**	**—**	**—**	**—**	**139**
Wong Cheuk Lam	**137**	**—**	**—**	**—**	**137**
Zhang Jianqi (resigned on 1 Aug 2013)	**93**	**—**	**—**	**—**	**93**
Zhang Jianbin (appointed on 1 Aug 2013)	**47**	**—**	**—**	**—**	**47**
	416	**3,583**	**—**	**103**	**4,102**
2012					
Executive directors:					
Zhao Li Sheng					
(chief executive officer)	—	1,082	—	22	1,104
Chan Lok San	—	901	—	22	923
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	—	92	3,850

During the years ended 31 December 2013 and 2012, 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 (2012: 4) directors during the year, whose emoluments are disclosed in note 11. The emoluments in respect of the remaining individual are as follows:

	2013 **RMB'000**	2012 RMB'000
Salaries, allowance and other benefits	**538**	522
Discretionary bonuses	**—**	—
Retirement scheme contributions	**—**	—
	538	522

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

	2013	2012
HK$nil to HK$1,000,000	**1**	1

13. PROPERTY, PLANT AND EQUIPMENT

The Group

	Leasehold improvements RMB'000	Furniture, fixtures and office equipment RMB'000 (restated)	Motor vehicles RMB'000 (restated)	Construction in progress RMB'000 (restated)	Total RMB'000 (restated)
Cost					
At 1 January 2012 (previously reported)	536	4,734	7,662	2,902	15,834
Retrospective effect of adoption of HKFRS11	—	(742)	(293)	(2,902)	(3,937)
At 1 January 2012 (restated)	536	3,992	7,369	—	11,897
Additions	131	466	—	—	597
Disposals	—	(181)	—	—	(181)
At 31 December 2012 (restated)	667	4,277	7,369	—	12,313
At 1 January 2013	667	4,277	7,369	—	12,313
Exchange adjustments	(3)	(3)	(106)	—	(112)
Additions	704	779	383	—	1,866
Disposal	—	(330)	(148)	—	(478)
At 31 December 2013	**1,368**	**4,723**	**7,498**	**—**	**13,589**
Accumulated depreciation					
At 1 January 2012 (previously reported)	237	2,980	3,674	—	6,891
Retrospective effect of adoption of HKFRS11	—	(382)	(160)	—	(542)
At 1 January 2012 (restated)	237	2,598	3,514	—	6,349
Charge for the year	125	364	998	—	1,487
Disposals	—	(163)	—	—	(163)
At 31 December 2012 (restated)	362	2,799	4,512	—	7,673
At 1 January 2013	362	2,799	4,512	—	7,673
Exchange adjustments	(3)	(2)	(46)	—	(51)
Charge for the year	252	422	845	—	1,519
Disposals	—	(292)	(148)	—	(440)
At 31 December 2013	**611**	**2,927**	**5,163**	**—**	**8,701**
Carrying amount					
At 31 December 2013	**757**	**1,796**	**2,335**	**—**	**4,888**
At 31 December 2012 (restated)	305	1,478	2,857	—	4,640

14. INVESTMENT PROPERTIES

	The Group RMB'000
Fair value	
At 1 January 2012	68,600
Fair value gain	8,150
At 31 December 2012 and 1 January 2013	76,750
Fair value gain	12,060
At 31 December 2013	88,810

a) The Group's investment properties were revalued as at 31 December 2013 and 2012 respectively on an open market value basis calculated by reference to 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 2013, the Group's investment properties with a carrying amount of RMB83,610,000 (2012: RMB71,870,000) were pledged to secure bank loans and banking facilities granted to the Group (note 23(c)).

d) Fair value measurement of properties

(i) Fair value hierarchy

The following table presents the fair value of the Group's properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

14. INVESTMENT PROPERTIES *(Continued)*

d) Fair value measurement of properties *(Continued)*

(i) Fair value hierarchy *(Continued)*

	Fair value at 31 December 2013 $'000	Fair value measurements as at 31 December 2013 categorised into Level 1 $'000	Level 2 $'000	Level 3 $'000
Group				
Recurring fair value measurement				
Investment properties:				
– Commercial – Mainland China	**88,810**	—	—	**88,810**

During the year ended 31 December 2013, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All of the Group's investment properties and properties held for own use were revalued as at 31 December 2013. The valuations were carried out by an independent firm of surveyors, DTZ Debenham Tie Leung Limited, who have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The Group's property manager and the chief financial officer have discussions with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each annual reporting date.

(ii) Information about Level 3 fair value measurements

	Valuation techniques	Unobservable input	Range
Investment properties – Commercial-Mainland China	(i) Direct comparison method	Sales evidence of comparable properties (adjusted for the difference in the quality and location of the properties)	—
	(ii) Discounted cash flow	Risk-adjusted discount rate (i.e. market rental yield)	4.5%
		Expected market rental growth	3% - 5%
		Expected occupancy rate	60% - 80%

14. INVESTMENT PROPERTIES *(Continued)*

d) Fair value measurement of properties *(Continued)*

(ii) Information about Level 3 fair value measurements *(Continued)*

The fair value of investment properties located in Mainland China is determined by (i) direct comparison method with reference to the sales evidence of comparable properties (adjusted for difference in the quality and location of the properties) or where appropriate, (ii) discounting a projected cash flow forecast associated with the properties using risk-adjusted discount rate which is the market rental yield for the properties. The valuation takes into account expected market rental growth and occupancy rate of the respective properties. The discount rate used has been adjusted for the quality and location of the buildings and the tenant credit quality. The fair value measurement is positively correlated to the sales price of comparable properties, the expected market rental growth and the occupancy rate, and negatively correlated to the risk-adjusted discount rate.

e) The Group leases out investment properties under operating leases. The leases run for a period for two to three years (2012: three to seven 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:

	2013 **RMB'000**	2012 RMB'000
Within 1 year	**1,238**	2,950
After 1 year but within 5 years	**993**	12,881
After 5 years	**—**	8,363
	2,231	24,194

f) All properties held under operating lease that would otherwise meet the definition of investment property are classified as investment property.

15. 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 the end of 2014 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 2013, the Group paid an aggregate deposit of RMB75,000,000 (2012: RMB60,000,000).

16. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2013	2012
	RMB'000	RMB'000
Unlisted shares, at cost	**216,223**	222,994

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.

17. INTEREST IN A JOINT VENTURE

	2013 **RMB'000**	2012 RMB'000 (restated)
Share of net assets	**38,793**	24,497

Details of the Group's interest in a joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

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

Note 1: Zhuhai Jinming was established by a subsidiary of the Company with a pharmaceutical and healthcare products distributor in Mainland China, the other investor to this joint venture, to carry out the Group's distribution sales of pharmaceutical and healthcare products in Guangdong province in the PRC.

Zhuhai Jinming, the only joint venture in which the Group participates, is an unlisted corporate entity whose quoted market price is not available.

17. INTEREST IN A JOINT VENTURE *(Continued)*

Summarised financial information of Zhuhai Jinming and a reconciliation to the carrying amount in the consolidated financial statements, are disclosed below:

	2013 RMB'000	2012 RMB'000
Gross amounts of Zhuhai Jinming		
Current assets	**47,445**	47,326
Non-current assets	**76,269**	36,038
Current liabilities	**(39,246)**	(34,370)
Non-current liabilities	**(6,882)**	—
Equity	**77,586**	48,994
Included in the above assets and liabilities:		
Cash and cash equivalents	**2,346**	4,555
Current financial liabilities (excluding trade and other payables)	**(13,304)**	(4,166)
Non-current financial liabilities	**(6,882)**	—
Revenue	**126,902**	157,359
Profit from continuing operations	**19,620**	12,126
Other comprehensive income	**8,972**	—
Total comprehensive income	**28,592**	12,126
Included in the above profit:		
Depreciation	**(90)**	(207)
Interest income	**109**	83
Income tax expense	**(7,005)**	(4,132)
Reconciled to the Group's interest in Zhuhai Jinming		
Gross amounts of Zhuhai Jinming's net assets	**77,586**	48,994
Group's effective interest	**50%**	50%
Carrying amount in the consolidated financial statements	**38,793**	24,497

	2013 RMB'000	2012 RMB'000
Share of the joint venture's capital commitments at the end of the reporting period:		
Contracted but not provided for:		
Capital expenditure for construction of office premise and warehouse	**1,990**	7,383

17. INTEREST IN A JOINT VENTURE *(Continued)*

Net gains, after deducting the deferred taxation thereon, arising from revaluation of properties in construction of Zhuhai Jinming which was reclassified from property, plant and equipment to investment properties with effect on 31 July 2013, of RMB11,672,000 (2012: Nil) and RMB8,972,000 (2012: Nil) have been credited to Zhuhai Jinming's profit or loss and other comprehensive income, respectively.

The fair value of Zhuhai Jinming's investment properties as at 31 December 2013 and 31 July 2013 were determined on an open market value basis calculated by reference to net rental income allowing for reversionary income potential, which is categorized under Level 3 fair value measurements. The valuations at 31 December 2013 and 31 July 2013 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 properties being valued.

Information about Level 3 fair value measurements is as follows:

	Valuation techniques	Unobservable input	Range
Investment properties	Discounted cash flow	Risk-adjusted discount rate (i.e. market rental yield)	6.5%
– Commercial-Mainland China		Expected market rental growth	3% - 5%
		Expected occupancy rate	60% - 80%

The fair value of investment properties of Zhuhai Jinming is determined by discounting a projected cash flow forecast associated with the properties using risk-adjusted discount rate which is the market rental yield for the properties. The valuation takes into account expected market rental growth and occupancy rate of the respective properties. The discount rates used have been adjusted for the quality and location of the buildings and the tenant credit quality. The fair value measurement is positively correlated to the expected market rental growth and the occupancy rate, and negatively correlated to the risk-adjusted discount rate.

18. INVENTORIES

	The Group	
	2013	2012
	RMB'000	RMB'000 (restated)
Trading stocks	**39,917**	21,325

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

	2013	2012
	RMB'000	RMB'000 (restated)
Carrying amount of inventories sold	**420,109**	474,904
Write-down of inventories	**3,475**	4,866
	423,584	479,770

19. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2013 RMB'000	2012 RMB'000 (restated)	**2013 RMB'000**	2012 RMB'000
Trade and bills receivables (notes (b) to (e))	**347,293**	275,357	**—**	—
Less: Allowance for doubtful debts (note (c))	**(4,636)**	(3,861)	**—**	—
	342,657	271,496	**—**	—
Other receivables	**6,819**	8,969	**—**	—
Amount due from a subsidiary (note (f))	**—**	—	**25,416**	28,972
Loans and receivables	**349,476**	280,465	**25,416**	28,972
Prepayments	**16,098**	9,851	**—**	—
Trade and other deposits	**1,034**	916	**—**	—
Trade deposits to related parties (note 30(b))	**6,548**	8,779	**—**	—
	373,156	300,011	**25,416**	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	
	2013 RMB'000	2012 RMB'000 (restated)
0-90 days	**270,413**	235,246
91-180 days	**28,047**	25,299
181-365 days	**43,519**	10,082
More than 1 year	**678**	869
	342,657	271,496

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 26(a).

19. TRADE AND OTHER RECEIVABLES *(Continued)*

c) *Impairment of trade and bills receivables*

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

Movements in the allowance for doubtful debts:

	The Group	
	2013	2012
	RMB'000	RMB'000 (restated)
At 1 January	**3,861**	3,882
Impairment losses recognised (note 6(c))	**775**	—
Impairment losses reversed (note 6(c))	**—**	(21)
At 31 December	**4,636**	3,861

As at 31 December 2013, the Group's trade and bills receivables of RMB4,636,000 (2012 restated: RMB3,861,000) 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 RMB4,636,000 (2012 restated: RMB3,861,000) were recognised as at 31 December 2013. The Group does not hold any collateral over these balances.

d) *Trade and bills receivables that are not impaired*

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

	The Group	
	2013	2012
	RMB'000	RMB'000 (restated)
Neither past due nor impaired	**270,413**	235,246
Past due but not impaired		
– 91-180 days	**28,047**	25,299
– 181-365 days	**43,519**	10,082
– More than 1 year	**678**	869
	72,244	36,250
	342,657	271,496

19. TRADE AND OTHER RECEIVABLES *(Continued)*

d) *Trade and bills receivables that are not impaired (Continued)*

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 2013, bills receivables of RMB26,076,000 (2012: nil) were pledged for bank loans and banking facilities granted to the Group (note 23(c)).

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

20. PLEDGED BANK DEPOSITS

All bank deposits are pledged to banks as security for bank loans and banking facilities granted to the Group (see note 23(c)). Pledged banks deposits carry effective interest rate of 0.35% (2012: 4.8%) per annum as at 31 December 2013.

21. CASH AND BANK BALANCES

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000 (restated)	**RMB'000**	RMB'000
Bank balances	**91,206**	83,040	**43,247**	44,744
Cash on hand	**210**	222	**—**	—
Cash and cash equivalents in the consolidated statement of cash flows	**91,416**	83,262	**43,247**	44,744
Bank deposits with maturity over three months	**—**	40,000	**—**	—
Cash and bank balances in the consolidated and the Company's statements of financial position	**91,146**	123,262	**43,247**	44,744

Deposits with banks carry effective interest rates ranging from 0.01% to 3.0% (2012: 0.01% to 3.2%) per annum as at 31 December 2013.

22. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000 (restated)	**RMB'000**	RMB'000
Trade payables (note (b))	**122,105**	111,305	**—**	—
Accruals	**4,677**	3,759	**737**	760
Other payables	**25,339**	24,447	**—**	677
Amounts due to subsidiaries (note (c))	**—**	—	**5,907**	5,826
Financial liabilities measured at amortised cost	**152,121**	139,511	**6,644**	7,263
Trade deposits received	**2,249**	2,115	**—**	—
	154,370	141,626	**6,644**	7,263

a) All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

b) Ageing analysis

Included in trade and other payables are trade payables with the following ageing analysis 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	
	2013	2012
	RMB'000	RMB'000 (restated)
0-90 days	**109,558**	111,305
91-180 days	**12,547**	—
	122,105	111,305

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

23. BANK LOANS

The bank loans are secured and repayable as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
		(restated)
Within 1 year or on demand	**98,378**	59,880

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	
	2013	2012
		(restated)
Effective interest rates:		
Fixed rate loans	**3.9% - 7.2%**	2.4% - 4.4%
Variable rate loans	—	—

c) As at 31 December 2013, the bank loans were secured by the following assets of the Group.

	The Group	
	2013	2012
	RMB'000	RMB'000
		(restated)
Investment property (note 14(c))	**83,610**	71,870
Bills receivables (note 19(e))	**26,076**	—
Pledged bank deposits (note 20)	**18,103**	29,842
	127,789	101,712

24. CURRENT AND DEFERRED TAX

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

	The Group	
	2013	2012
	RMB'000	RMB'000 (restated)
Provision for Hong Kong Profits Tax for the year	**13,051**	14,920
Provisional Profits Tax paid	**(2,542)**	(5,316)
	10,509	9,604
Balance of Profits Tax provision relating to prior years	**—**	—
	10,509	9,604

b) *Deferred tax liabilities recognised*

The components of deferred tax 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 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
At 1 January 2013	**6,215**	**172**	**—**	**6,387**
Charged to consolidated income statement (note 7(a))	**3,015**	**—**	**—**	**3,015**
Charged to other comprehensive income	**—**	**—**	**—**	**—**
At 31 December 2013	**9,230**	**172**	**—**	**9,402**

c) *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 2013 and 2012.

25. SHARE CAPITAL AND RESERVES

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

	Share capital RMB'000 (note a)	Share premium RMB'000 (note b)	Contributed surplus RMB'000 (note d)	Warrant reserve RMB'000 (note f)	Exchange reserve RMB'000 (note g)	Retained profits RMB'000	Total RMB'000
At 1 January 2013	**53,468**	**152,700**	**95,863**	**300**	**(20,198)**	**7,314**	**289,447**
Change in equity:							
Profit for the year	**—**	**—**	**—**	**—**	**—**	**11,962**	**11,962**
Other comprehensive loss for the year	**—**	**—**	**—**	**—**	**(8,786)**	**—**	**(8,786)**
Total comprehensive (loss)/ income for the year	**—**	**—**	**—**	**—**	**(8,786)**	**11,962**	**3,176**
Expiry of warrants	**—**	**—**	**—**	**(300)**	**—**	**300**	**—**
Dividends (note 9(b))	**—**	**—**	**—**	**—**	**—**	**(14,381)**	**(14,381)**
At 31 December 2013	**53,468**	**152,700**	**95,863**	**—**	**(28,984)**	**5,195**	**278,242**
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 income/ (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

25. SHARE CAPITAL AND RESERVES *(Continued)*

a) *Share Capital*

	Number of shares '000	Amount HK$'000	Amount equivalent to RMB$'000
Authorised:			
Ordinary shares of HK$0.1			
At 1 January 2012, 31 December 2012, 1 Januany 2013 and 31 December 2013	10,000,000	1,000,000	877,900
Issued and fully paid:			
Ordinary shares of HK$0.1			
At 1 January 2012, 31 December 2012, 1 January 2013 and 31 December 2013	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.

25. 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 rationalising 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).

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 2013 and 2012, no new shares were issued upon exercise of the warrants. The entire warrants of the Company have not been exercised and were lapsed on 21 March 2013, the expiry date.

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 2013, the aggregate amount of reserves available for distribution to owners of the Company was RMB253,758,000 (2012: RMB255,877,000). After the end of the reporting period, the directors proposed a final dividend of HK3.86 cents (equivalent to RMB3.03 cents) (2012: HK2.90 cents (equivalent to RMB2.34 cents)) per share amounting to RMB18,862,000 (2012: RMB14,567,000) (note 9(a)). The proposed final dividend has not been recognised as a liability at the end of the reporting period.

25. 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 2013 and 2012 were as follows:

	2013 **RMB'000**	2012 RMB'000 (restated)
Bank loans	**98,378**	59,880
Total debt	**98,378**	59,880
Less: Pledged bank deposits	**(18,103)**	(29,842)
Cash and bank balances	**(91,416)**	(123,262)
Adjusted net debt	**—**	—
Total equity	**457,424**	422,830
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.

26. 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 2013, 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 7% (2012: 1%) of the total trade receivables due from the Group's largest customer and 25% (2012 restated: 20%) of the total trade receivables due from the Group's five largest customers as at 31 December 2013.

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

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

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

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.

26. 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
2013			
Non-derivative financial liabilities			
Trade and bills payables	**122,105**	**122,105**	**122,105**
Accruals	**4,677**	**4,677**	**4,677**
Other payables	**25,339**	**25,339**	**25,339**
Bank loans	**101,409**	**101,409**	**98,378**
	253,530	**253,530**	**250,499**
2012 (restated)			
Non-derivative financial liabilities			
Trade and bills payables	111,305	111,305	111,305
Accruals	3,759	3,759	3,759
Other payables	24,447	24,447	24,447
Bank loans	61,371	61,371	59,880
	200,882	200,882	199,391

26. 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
2013			
Non-derivative financial liabilities			
Accruals	**737**	**737**	**737**
Amounts due to subsidiaries	**5,907**	**5,907**	**5,907**
	6,644	**6,644**	**6,644**
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

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

c) *Interest rate risk*

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

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			
	2013		2012 (restated)	
	Effective interest rates %	**RMB'000**	Effective interest rates %	RMB'000
Fixed rate borrowings:				
Bank loans	**3.9-7.2**	**98,378**	2.4-4.4	59,880
Variable rate borrowings:				
Bank loans	**—**	**—**	—	—
Total borrowings		**98,378**		59,880
Net fixed rate borrowings as a percentage of total borrowings		**100%**		100%
Variable rate bank balances	**0.01-0.35**	**18,863**	0.01-0.4	43,039
Fixed rate bank balances	**3.0**	**72,343**	3.1-3.2	80,001
Fixed rate pledged bank deposits	**0.35**	**18,103**	4.8	29,842

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

c) *Interest rate risk (Continued)*

i) *Interest rate profile (Continued)*

	The Company			
	2013		2012	
	Effective interest rates		Effective interest rates	
	%	**RMB'000**	%	RMB'000
Fixed rate borrowings:				
Bank loans	**—**	**—**	—	—
Variable rate borrowings:				
Bank loans	**—**	**—**	—	—
Total borrowings		**—**		—
Net fixed rate borrowings as a percentage of total borrowings		**—**		—
Variable rate bank balances	**0.01**	**1,892**	0.01	4,744
Fixed rate bank balances	**3.0**	**41,355**	3.1	40,000
Fixed rate pledged bank deposits	**—**	**—**	—	—

26. 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 2013, 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 RMB189,000 (2012 restated: RMB430,000) and RMB19,000 (2012: RMB47,000) 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 2012.

26. 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	
	2013	2012	**2013**	2012
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Assets/(Liabilities)				
Cash and bank balances				
HK$	**78**	79	**—**	—
RMB	**73,107**	70,356	**41,952**	40,225
Trade and bills payables				
HK$	**(118,586)**	(102,784)	**—**	—
Bank loans				
HK$	**(60,378)**	(59,880)	**—**	—
Total assets				
HK$	**78**	79	**—**	—
RMB	**73,107**	70,356	**41,952**	40,225
Total liabilities				
HK$	**(178,964)**	(162,664)	**—**	—
RMB	**—**	—	**—**	—

26. 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 2013						
HK$	**5%**	**(3,655)**	**–**	**5%**	**–**	**–**
	(5%)	**3,655**	**–**	**(5%)**	**–**	**–**
RMB	**5%**	**(8,944)**	**–**	**5%**	**2,098**	**–**
	(5%)	**8,944**	**–**	**(5%)**	**(2,098)**	**–**
At 31 December 2012 (restated)						
HK$	5%	(8,129)	–	5%	–	–
	(5%)	8,129	–	(5%)	–	–
RMB	5%	3,518	–	5%	2,011	–
	(5%)	(3,518)	–	(5%)	(2,011)	–

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 2012.

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

e) *Business risk*

The Group has a certain concentration of business risk as 74% (2012 restated: 73%) of its total turnover during the year from a principal product, Nin Jiom Pei Pa Koa (京都念慈庵蜜煉川貝枇杷膏), which was purchased from a sole supplier that is the designated distributor of the manufacturer of Nin Jiom Pei Pa Koa. In April 2010, the Group entered into a three-year period distribution agreement with the manufacturer and the supplier of Nin Jiom Pei Pa Koa, pursuant to which the Group is entitled the non-exclusive distribution right to sell Nin Jiom Pei Pa Koa in certain provinces in the PRC and is granted the credit terms of 60 days. If there is any change in consumer taste and demand of the product, or the supplier does not renew the purchase agreement, the Group's turnover and profitability will be adversely affected.

f) *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.

27. 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 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 of disposal 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.

27. 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.

28. COMMITMENTS

a) *Commitments under operating lease*

As at 31 December 2013, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	2013 **RMB'000**	2012 RMB'000
Within one year	**4,171**	3,353
In the second to fifth year inclusive	**3,562**	1,996
After five years	**—**	25
	7,733	5,374

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 three years (2012: one to six years). None of the leases include contingent rentals.

b) *Capital commitments*

Save as disclosed in note 17, the Group had the following capital commitments as at 31 December 2013:

	2013 **RMB'000**	2012 RMB'000
Contracted but not provided for property, plant and equipment	**—**	15,000

c) The Company did not have any significant commitment as at 31 December 2013 and 2012.

29. 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% (2012: 10% to 22%) 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.

29. EMPLOYEE RETIREMENT BENEFITS *(Continued)*

Defined contribution retirement plan

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirment plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$25,000 (HK$20,000 prior to June 2012). Contributions to the plan vest immediately.

The total cost charged to income statement of RMB5,722,000 (2012 restated: RMB4,772,000) represents contributions payable to these schemes by the Group during the year.

30. 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.

30. RELATED PARTY TRANSACTIONS *(Continued)*

b) Related party transactions and balances

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

		The Group	
	Note	**2013 RMB'000**	2012 RMB'000
Purchases of goods			
SZ Kingworld Lifeshine	(i)	**7,227**	18,932
Yuen Tai	(i)	**1,358**	890
Pearl Shining	(i)	**—**	398
		8,585	20,220
Rental expenses			
SZ Industry	(i)	**668**	775

		The Group As at 31 December	
	Note	**2013 RMB'000**	2012 RMB'000
Yuen Tai			
Trade deposit	(ii)	**594**	162
SZ Kingworld Lifeshine			
Trade deposit	(ii)	**5,954**	8,617
Trade deposits to related parties included in trade and other receivables (note 19)		**6,548**	8,779

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.

30. 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:

	2013 **RMB'000**	2012 RMB'000
Salaries and other short-term employee benefits	**6,490**	5,671
Post employment benefits	**331**	273
	6,821	5,944

31. IMMEDIATE AND ULTIMATE HOLDING COMPANY

The Company's directors consider the immediate and ultimate holding company of the Company as at 31 December 2013 to be Golden Land International Limited, a company incorporated in the BVI.

32. EVENTS AFTER REPORTING PERIOD

In February 2014, SZ Kingworld and Kingworld (Hong Kong) Holdings Limited ("Kingworld Holdings"), both being subsidiaries of the Company, entered into a non-legally binding memorandum of understanding ("MOU") with Wu Hu ZhangHengChun Medicine Co., Limited ("Wu Hu Medicine") (蕪湖張恒春藥業有限公司), which was incorporated in the PRC with limited liability, and Mr. Wang Wei Jie (王偉杰) and Ms. Wang Yu Xia (王玉霞). Under the MOU, inter alia, SZ Kingworld proposed to acquire the entire equity interest in Wu Hu ZhangHengChun Pharmaceuticals Co., Limited ("Wu Hu Pharmaceuticals") (蕪湖張恒春醫藥有限公司) and the entire equity interest of Wu Hu ZhangHengChun Dispensary Co., Limited ("Wu Hu Dispensary") (蕪湖張恒春大藥房有限公司), which were incorporated in the PRC with limited liability. Kingworld Holdings and Wu Hu Medicine proposed to establish a joint venture company in the PRC in which Kingworld Holdings will own 55% equity interest. The registered capital of the joint venture company is intended to be RMB145 million, which will be contributed as to 55% by Kingworld Holdings in cash, and as to the other 45% by Wu Hu Medicine by way of injection of its assets. The joint venture company will then acquire the entire equity interest in Wu Hu Pharmaceuticals and Wu Hu Dispensary from SZ Kingworld. Pursuant to the MOU, SZ Kingworld has paid an earnest money in the amount of RMB5 million to Ms. Wang Yu Xia (王玉霞) on March 2014.

(Expressed in Renminbi unless otherwise indicated)

33. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATION ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2013

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 2013.

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 2010-2012 Cycle[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle[3]
HKFRS 9	Financial Instruments[4]
HKFRS 14	Regulatory Deferral Accounts[5]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[4]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[1]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[3]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKAS 36	Recoverable Amount Disclosure for Non-Financial Assets[1]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
HK (IFRIC) - Int 21	Levies[1]

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

2 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.

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

4 Available for application - the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.

5 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.

The Group is in the process of making an assessment of what the impact of these new and revised HKFRSs 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 consolidated financial statements.

34. COMPARATIVE FIGURES

As a result of the application of HKFRS 11, certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2013. Further details of these developments are disclosed in note 3.

Financial Summary

	For the year ended 31 December				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(restated)	(restated)	(restated)	(restated)
Results					
Turnover	**554,763**	626,840	606,268	562,534	500,981
Profit before taxation	**63,214**	61,191	71,353	56,816	46,124
Income tax	**(16,037)**	(12,655)	(20,322)	(13,953)	(8,880)
Profit for the year	**47,177**	48,535	51,031	42,863	37,244
Attributable to					
Owners of the Company	**47,177**	48,535	51,031	42,863	37,244
Asset and Liabilities					
Total assets	**730,083**	640,327	606,651	733,029	610,266
Total liabilities	**272,659**	217,497	212,154	362,721	454,238
Equity attributable to owners of the Company	**457,424**	422,830	394,497	370,308	156,028

Note:

The summary of the results and assets and liabilities for the year ended 31 December 2009 was 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 year.