Annual Report 2011

Beijing Yu Sheng Tang Pharmaceutical Group Limited
北京御生堂藥業集團有限公司 *

(Incorporated in Bermuda with limited liability)

Stock Code:1141

* For identification purpose only

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Suen Cho Hung, Paul *(Chairman)*
Mr. Sue Ka Lok *(Chief Executive Officer)*
Mr. Bai Jianjiang
Ms. Lee Chun Yeung, Catherine

Independent Non-executive Directors

Mr. Wong Kwok Tai
Mr. Weng Yixiang
Mr. Lu Xinsheng

AUDIT COMMITTEE

Mr. Wong Kwok Tai *(Chairman)*
Mr. Weng Yixiang
Mr. Lu Xinsheng

REMUNERATION COMMITTEE

Mr. Sue Ka Lok *(Chairman)*
Mr. Wong Kwok Tai
Mr. Weng Yixiang
Mr. Lu Xinsheng

COMPANY SECRETARY

Ms. Chan Yuk Yee

TRADING OF SHARES

The Stock Exchange of Hong Kong Limited
(Stock Code: 1141)

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 1501, 15th Floor
Great Eagle Centre
23 Harbour Road
Wanchai, Hong Kong

PRINCIPAL BANKERS

Bank of Communications Co., Ltd., Hong Kong Branch
Bank of China (Hong Kong) Limited
BNP Paribas Hong Kong Branch
Rabobank International Hong Kong Branch

LEGAL ADVISERS

Richards Butler
Troutman Sanders

AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

WEBSITE

www.beijingyst.com

Chairman's Statement

BUSINESS REVIEW

For the year ended 31 March 2011, I am pleased to see that the Group registered a solid growth of its revenue and gross profit as a result of the management's vigorous efforts in developing the business of the Group. The Group reported revenue of HK$1,878,475,000, representing a sharp growth of 118% from last year (2010: HK$859,758,000), and gross profit of HK$50,601,000, also showing a jump rise of 131% over the previous year (2010: HK$21,887,000). The significant increases in the Group's revenue and gross profit were largely driven by the strong growth of the Group's supply and procurement division.

During the year under review, the Group's supply and procurement division continued to focus on the sourcing, transporting and supplying of metal minerals. The division achieved remarkable business results by reporting a more-than-double increases in revenue and operating profit when compared to last year. There was a surge in volume of mineral ores traded by the division that was mainly due to the great demand from its industrial customers in Mainland China. The division posted revenue and operating profit of HK$1,857,066,000 (2010: HK$853,816,000) and HK$31,708,000 (2010: HK$14,879,000) respectively, which jumped by 118% and 113% over last year.

The Group continued to develop its pharmaceutical business that was acquired in early 2010. For the year under review, the revenue of the pharmaceutical division increased to HK$15,791,000 (2010: HK$267,000) which mainly represented the sales income of Jinhua Qinggan, being a Chinese medicine for treating patients who have been infected with Influenza A (H1N1) and other types of influenza. Currently, Jinhua Qinggan is selling as a prescription drug to designated medical institutions in Beijing. The Group is in the course of applying for a new drug certificate for Jinhua Qinggan from the relevant authorities in the Mainland whereby upon the issuance of such certificate, the Group will be able to market Jinhua Qinggan as a non-prescription drug to public. The division recorded operating loss of HK$3,404,000 (2010: HK$1,652,000) primarily due to the high start-up costs incurred in its first year of operation.

The financing division continued to contribute a stable income to the Group's results for the year. The division reported operating profit of HK$3,250,000 (2010: HK$1,830,000), increased by 78% that was mainly due to the higher average amount of loans advanced to customers over the previous year.

The Group's securities division incurred an overall operating loss of HK$119,053,000 for the year (2010: HK$9,811,000). The Group invested in Hong Kong listed equity securities and equity-linked notes and loss incurred comprised mainly unrealised loss of HK$89,162,000 (2010: HK$12,381,000) from listed equity securities holding at the financial year end.

Chairman's Statement

For the year ended 31 March 2011, the Group recorded loss attributable to owners of the Company of HK$120,373,000 (2010: HK$16,762,000) and basic loss per share of HK4.05 cents (2010: HK0.92 cent). Such loss was mainly attributed to the loss incurred by the Group's securities investment division. During the financial year, the Hong Kong stock market was volatile largely brought by the sovereign debts crises in Europe, the uncertainties of the United States economy, the financial tightening measures imposed by the People's Republic of China government on the banking and property sector and the tri-catastrophe crises in Japan. Investor confidence and market sentiments were weak for most part of the year and pressed down prices of listed equity securities invested by the Group.

PROSPECTS

Looking ahead, in light of the uncertainties and challenges face by world major economies and investment markets, the Group will continue to manage its businesses in a prudent manner. In respect of new investment opportunities, the Group will continue with its cautious approach in evaluating new projects to ensure a bright prospect to shareholders.

APPRECIATION

I would like to take this opportunity to express my sincere gratitude to all shareholders, investors, bankers, business associates and customers for their continuing support to the Group, and to my fellow directors and all staff members for their hard work and contributions during the past year.

Suen Cho Hung, Paul
Chairman

Hong Kong, 23 June 2011

Management Discussion and Analysis

OPERATIONS REVIEW

For the year ended 31 March 2011, the Group continued to engage in the businesses of supply and procurement of metal minerals, pharmaceutical products, provision of finance and securities investment.

For the year under review, the supply and procurement division remained focus on the sourcing, transporting and supplying of metal minerals to industrial customers based in Mainland China. There was significant expansion of the division's regional network of suppliers and customers that enabled the division to post a record high revenue and operating profit of HK$1,857,066,000 (2010: HK$853,816,000) and HK$31,708,000 (2010: HK$14,879,000) respectively, which showed sharp increases of 118% and 113% over last year. The surge of the division's trade volume was mainly attributed to the great demand of metal minerals from steel mill customers in Mainland China. On the Group level, the rise of the division's trade volume was the main cause that led to the 2.2 times increase in accounts and bills receivable to HK$300,542,000 (2010: HK$94,564,000) and the 2.6 times increase in accounts and bills payable to HK$218,680,000 (2010: HK$60,028,000) over the previous year. The division's results for the year included an approximately HK$5 million compensation payment paid to a customer for the deviation of minerals content of a shipment of metal minerals. The Group has initiated a corresponding arbitration claim against the supplier of that shipment. Nevertheless, owing to uncertainty of the outcome of the arbitration, the compensation recoverable from the supplier has not been recognised in the Group's income statement.

During the year, the Group continued to develop its pharmaceutical business through a group of companies that was acquired in early 2010. The major assets own by these companies include the intellectual property rights to Jinhua Qinggan, a Chinese medicine for treating patients who have been infected with Influenza A (H1N1) and other types of influenza, and a Good Manufacturing Practices (GMP) compliant medicine production plant in Beijing. The revenue of the pharmaceutical division was HK$15,791,000 (2010: HK$267,000) for the year which mainly represented sales income of Jinhua Qinggan selling as a prescription drug to designated medical institutions in Beijing. As the sales volume of Jinhua Qinggan has not yet reached a scale that can cover operating costs of the division, in particular the high start-up costs in its first year of operation, the pharmaceutical division incurred a loss of HK$3,404,000 (2010: HK$1,652,000) for the year. The Group is in the process of applying for a new drug certificate for Jinhua Qinggan from the relevant authorities in Mainland China, upon receipt of the new drug certificate, the Group will be able to market Jinhua Qinggan as a non-prescription drug to the general public. It is expected that the sales volume of Jinhua Qinggan will increase by then and that the financial performance of the pharmaceutical division will improve.

The financing division continued to contribute a stable income source to the Group for the year under review. When compared to last year, the interest income and operating profit generated by the division grew by 71% and 78% to HK$3,289,000 (2010: HK$1,920,000) and HK$3,250,000 (2010: HK$1,830,000) respectively. Such increases were mainly due to the higher average amount of loans advanced to customers over the previous year. The loan portfolio held by the Group amounted to HK$20,000,000 (2010: HK$13,000,000) at the financial year end.

Management Discussion and Analysis

The Group's securities investment division recorded revenue of HK$2,329,000, declined by 38% compared to last year (2010: HK$3,755,000). The revenue of the division represented mainly dividend income from equity share investments and interest income from equity-linked notes. As a whole, the division reported operating loss of HK$119,053,000 (2010: HK$9,811,000), primarily resulting from the loss incurred from investing in Hong Kong listed equity securities, and that loss incurred comprised mainly unrealised holding loss of HK$89,162,000 (2010: HK$12,381,000) for listed equity securities measured at fair values at the financial year end. During the year under review, the Hong Kong stock market was volatile largely brought by the sovereign debts crises in Europe, the uncertainties of the United States economy, the financial tightening measures imposed by the People's Republic of China government on the banking and property sector and the tri-catastrophe crises in Japan. Investor confidence and market sentiments were weak for most part of the year and pressed down price of equity securities invested by the Group. The Group's securities portfolio at the year end comprised mainly listed equity securities in conglomerate company, infrastructure company, property company, mining company, healthcare services company, hotel and entertainment company and financial services company. At the year end, the Group's securities portfolio was valued at HK$487,676,000 (2010: HK$176,990,000). The management expects that the division will perform better when investor confidence and positive market sentiments are restored in the stock markets.

The decrease of the Group's other income and gains by 80% to HK$2,623,000 (2010: HK$13,034,000) was mainly due to the absence of a reimbursement income from counterparties for legal and other professional costs incurred due to termination of an investment project in the previous year. The increase in the Group's administrative expenses by 43% to HK$33,230,000 (2010: HK$23,310,000) was primarily due to the operating costs incurred by the newly established pharmaceutical division.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

At 31 March 2011, the Group had current assets of HK$1,642,903,000 (2010: HK$1,136,736,000) and liquid assets comprising cash and bank balances and short-term securities investments totaled HK$997,614,000 (2010: HK$846,143,000) (excluding pledged bank deposits). The Group's current ratio, calculated based on current assets of HK$1,642,903,000 (2010: HK$1,136,736,000) over current liabilities of HK$398,749,000 (2010: HK$245,802,000), was at a strong ratio of 4.12 at the year end (2010: 4.62).

The Company issued approximately 1,563 million new shares during the year as a result of placing of new shares and exercising of share options granted. At the year end, equity attributable to owners of the Company amounted to HK$1,297,559,000, representing an increase of 37% compared to last year (2010: HK$946,679,000), and is equivalent to an attributable amount of HK$0.32 per share of the Company (2010: HK$0.37). The increase in equity attributable to owners of the Company was mainly contributed by the net proceeds raised from the issue of new shares during the year which amounted to HK$466,824,000. Such proceeds had been mainly applied as general working capital of the Group.

Management Discussion and Analysis

At 31 March 2011, the Group's total indebtedness comprised convertible notes and bank loans with aggregate amount of HK$197,019,000 (2010: HK$183,284,000). The Group's gearing ratio, calculated on the basis of total indebtedness divided by total indebtedness plus total equity, was at a low level of 13% at the year end (2010: 16%). The convertible notes were denominated in Hong Kong dollars and bore fixed interest rate at 1% per annum, whereas the bank loans were denominated in Renminbi and bore interest at floating rates. In terms of maturity, the convertible notes, if not converted into shares of the Company, would be due for repayment in January 2013 whereas all the bank loans were repayable within one year.

The Group's finance costs for the current year included an interest on convertible notes of HK$15,356,000 (2010: HK$3,277,000) calculated in accordance with the Group's accounting policy on financial instruments, yet only part of that interest of HK$1,891,000 (2010: HK$323,000) required cash settlement whereas the rest of the amount was not associated with any cash outlay.

With the amount of liquid assets on hand as well as bank credit facilities available, the management is of the view that the Group will have sufficient financial resources to meet its ongoing operational requirements.

Foreign Currency Management

The monetary assets and liabilities and business transactions of the Group are mainly carried and conducted in Hong Kong dollars, Renminbi and US dollars. The Group maintains a prudent strategy in its foreign currency risk management, to a large extent, foreign exchange risks are minimised via balancing the foreign currency monetary assets versus the corresponding currency liabilities, and foreign currency revenues versus the corresponding currency expenditures. In light of the above, it is considered that the Group's exposure to foreign exchange risks is not significant and no hedging measure has been undertaken by the Group.

Pledge Of Assets

At 31 March 2011, bank deposits of HK$248,028,000 were pledged to secure banking facilities granted to the Group. The 89% increase in pledged bank deposits compared with last year (2010: HK$131,099,000) was mainly due to the surge in trade volume of the supply and procurement division with the results that additional deposits were placed with banks to secure trade credit facilities granted to the Group.

At 31 March 2011, carrying amount of buildings and prepaid lease payments of HK$30,127,000 (2010: HK$29,832,000) and HK$33,643,000 (2010: HK$33,053,000) respectively were pledged to secure for bank loans of the Group.

Contingent Liability

At 31 March 2011, the Group had no significant contingent liability (2010: nil).

Capital Commitment

At 31 March 2011, the Group had capital commitment in respect of upgrading works of its medicine production plant in Beijing of HK$105,000 (2010: nil).

Management Discussion and Analysis

EMPLOYEES AND REMUNERATION POLICY

At 31 March 2011, the Group had about 130 (2010: 60) employees including directors. Total staff costs for the year, including directors' remuneration, was HK$12,001,000 (2010: HK$7,453,000, excluding equity settled share-based payment expenses). The increases in headcount and staff costs were mainly due to the acquisition of subsidiaries which hold the intellectual property rights to Jinhua Qinggan and the medicine production plant in Beijing. The equity settled share-based payment expenses of HK$20,958,000 in the prior year represented fair value of share options granted to directors and employees of the Group that were not associated with any cash outlays. Remuneration packages for directors and employees are structured by reference to market conditions and individual performance. Benefits plans maintained by the Group include provident fund scheme, medical insurance, share option scheme and discretionary bonuses.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Suen Cho Hung, Paul, *Chairman*

Aged 50, joined the Company as an Executive Director and the Chairman of the Company in November 2007 and is also a director of various members of the Group. Mr. Suen holds a Master of Business Administration degree from the University of South Australia. Mr. Suen has extensive experience in managing metal, minerals and raw materials, energy and property business ventures as well as in strategic planning and corporate management of business enterprises in Hong Kong and the People's Republic of China (the "PRC"). Mr. Suen is a substantial shareholder of the Company as disclosed in the section headed "Interests and short positions of shareholders discloseable under the SFO" in the Report of the Directors. Mr. Suen is also an executive director and the chairman of BEP International Holdings Limited (stock code: 2326), a listed company in Hong Kong.

Mr. Sue Ka Lok, *Chief Executive Officer and the Chairman of the Remuneration Committee*

Aged 46, joined the Company as an Executive Director in November 2007 and appointed as the Chief Executive Officer of the Company in November 2009. Mr. Sue is also a director of various members of the Group. Mr. Sue holds a Bachelor of Economics degree from the University of Sydney in Australia and a Master of Science in Finance degree from the City University of Hong Kong. Mr. Sue is a fellow member of the Hong Kong Institute of Certified Public Accountants, a certified practising accountant of the CPA Australia, a fellow member of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators and a member of the Hong Kong Securities Institute. Mr. Sue has extensive experience in corporate management, finance, accounting and company secretarial practice. Mr. Sue is also an executive director and the chief executive officer of BEP International Holdings Limited (stock code: 2326) and a non-executive director and the chairman of China Tycoon Beverage Holdings Limited ("China Tycoon") (formerly known as Sewco International Holdings Limited) (stock code: 209), both are listed companies in Hong Kong.

Mr. Bai Jianjiang

Aged 48, joined the Company as an Executive Director in February 2010 and is a director of various members of the Group. Mr. Bai graduated from Henan College of Chinese Medicine (河南中醫學院) in the PRC and is the 13th generation successor of Bai's Yu Sheng Tang (白氏御生堂第十三代傳人). Mr. Bai has been the curator of Beijing Yu Sheng Tang Chinese Medicine Museum (北京御生堂中醫藥博物館館長) since 1999. Mr. Bai is currently the deputy chairman & deputy secretary-general of Chinese Medicine Professional Committee of Beijing Association of Chinese Medicine (北京中醫學會中醫藥專業委員會副會長兼副秘書長), a part-time professor of Henan College of Chinese Medicine (河南中醫學院兼職教授), a director of Beijing Association of Chinese Medicine (北京中醫藥學會理事), a youth committee member of Chinese Medical History Association (中華醫史學會青年委員), a committee member of Museum Association of China (中國博物館協會委員), a committee member of Beijing International Forum of Chinese Medicine (北京中醫藥國際論壇委員) and a member of Beijing Museum Association (北京博物館學會會員). Mr. Bai has profound knowledge in tradition, history and culture of Chinese medicine and also has extensive management experience in modern Chinese medicine business. Mr. Bai oversees the Group's pharmaceutical operation in the PRC.

Biographical Details of Directors and Senior Management

Ms. Lee Chun Yeung, Catherine

Aged 43, joined the Group in February 2009 and was appointed as an Executive Director in October 2010. Ms. Lee is also a director of various members of the Group. Ms. Lee holds a Bachelor of Arts degree from Guangdong University of Foreign Studies (formerly known as Guangzhou Institute of Foreign Languages) and a Master in Business Administration degree from the University of South Australia. Ms. Lee has extensive experience in international trading of metal minerals and commodities and oversees the Group's operation of supply and procurement of metal minerals and recyclable metal materials. Prior to joining the Group, Ms. Lee worked as an economist in a major commercial bank and a senior executive in a state-owned trading group in the PRC.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wong Kwok Tai, *Chairman of the Audit Committee and member of the Remuneration Committee*

Aged 72, joined the Company as an Independent Non-executive Director in August 2001. Mr. Wong graduated from the Deakin University in Geelong, Australia and holds a Diploma of Commerce. Mr. Wong is a Practising Certified Public Accountant and a fellow member of the CPA Australia and the Hong Kong Institute of Certified Public Accountants. Mr. Wong is the director of W. Wong CPA Limited and has more than 45 years of financial experience. Mr. Wong is also an independent non-executive director of China Power New Energy Development Company Limited (stock code: 735), New Century Group Hong Kong Limited (stock code: 234), China Tycoon and Takson Holdings Limited (stock code: 918), all being listed companies in Hong Kong.

Mr. Weng Yixiang, *Member of the Audit Committee and the Remuneration Committee*

Aged 52, joined the Company as an Independent Non-executive Director in October 2007. Mr. Weng graduated from China Central Radio and TV University specialising in law and is also qualified as a senior economist in the PRC. Mr. Weng has over 20 years of experience in banking, investment and finance and had served as senior executive in government authorities and financial institutions in the PRC. Mr. Weng is the general manager of an investment management and consulting company in the PRC.

Mr. Lu Xinsheng, *Member of the Audit Committee and the Remuneration Committee*

Aged 44, joined the Company as an Independent Non-executive Director in October 2007. Mr. Lu graduated from Sichuan University with a Bachelor of Science degree specialising in environmental chemistry. Mr. Lu has over 20 years of experience in trading business and has held senior positions in trading and logistics companies in the PRC.

SENIOR MANAGEMENT

Ms. Chan Yuk Yee, *Company Secretary*

Aged 43, joined the Company as Company Secretary in November 2008. She holds a Master of Business Law degree from Monash University in Australia and is an associate member of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators. Ms. Chan has over 10 years of experience in company secretarial practice. Ms. Chan is also an executive director and the company secretary of China Tycoon and an executive director of New Island Printing Holdings Limited (stock code: 377), both are listed companies in Hong Kong.

Report of the Directors

The directors of the Company are pleased to present their report and the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 March 2011.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holdings and securities investment. Details of the principal activities of the principal subsidiaries are set out in note 20 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 March 2011 are set out in the consolidated statement of comprehensive income on page 25.

FINAL DIVIDEND

The Board of Directors (the "Board") of the Company does not recommend the payment of a final dividend for the year ended 31 March 2011 (2010: nil).

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements of the Company, is set out on page 108. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and of the Group during the year are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE NOTES

Details of movements in the Company's share capital, share options and convertible notes during the year are set out in notes 33, 34 and 31 to the consolidated financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the Companies Act 1981 of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

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

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

Report of the Directors

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 35(b) to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 March 2011, the Company had no reserve available for distribution and/or distribution in specie as computed in accordance with the Companies Act 1981 of Bermuda. The Company's share premium account, in the amount of HK$1,392,211,000 may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, sales to the Group's five largest customers accounted for approximately 58% of the total sales for the year and sales to the largest customer accounted for approximately 18%. Purchases from the Group's five largest suppliers accounted for approximately 67% of the total purchases for the year and purchases from the largest supplier accounted for approximately 30%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers during the year.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Suen Cho Hung, Paul	
Mr. Sue Ka Lok	
Mr. Bai Jianjiang	
Ms. Lee Chun Yeung, Catherine	*(appointed on 1 October 2010)*
Mr. Chau Chung Tak	*(resigned on 1 October 2010)*

Independent Non-executive Directors:

Mr. Wong Kwok Tai	
Mr. Weng Yixiang	
Mr. Lu Xinsheng	
Mr. Xiong Wei	*(resigned on 1 October 2010)*

DIRECTORS (continued)

In accordance with bye-law 86(2) of the Company's Bye-laws, Ms. Lee Chun Yeung, Catherine will hold office until the forthcoming annual general meeting (the "AGM") and, being eligible, offer herself for re-election at the forthcoming AGM.

In accordance with bye-law 87 of the Company's Bye-laws, Mr. Suen Cho Hung, Paul and Mr. Wong Kwok Tai will retire by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election at the forthcoming AGM.

DIRECTORS' SERVICE CONTRACTS

None of the directors being proposed for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

Details of the directors' remuneration are set out in note 10 to the consolidated financial statements.

UPDATES ON DIRECTORS' INFORMATION

The following is updated information of directors of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

1. The remuneration of Mr. Sue Ka Lok, an Executive Director and the Chief Executive Officer of the Company, has been increased to HK$715,000 per annum under his service contract with effect from 1 March 2011. The revised remuneration has been approved by the Remuneration Committee of the Company.

2. The remuneration for Ms. Lee Chun Yeung, Catherine, an Executive Director of the Company, has been increased to HK$955,500 per annum under her service contract with effect from 1 March 2011. The revised remuneration has been approved by the Remuneration Committee of the Company.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No director of the Company had a material interest, either directly or indirectly, in any contract of significance to which the Company or any of its subsidiaries was a party during the year.

Report of the Directors

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2011, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long positions in shares of the Company:

Name of director	Capacity and nature of interest	Number of shares held	Total interests	Approximate percentage of the Company's issued share capital
Mr. Suen Cho Hung, Paul	Interest held by controlled corporation	437,433,866 *(Note 1)*	–	–
	Directly beneficially owned	10,000,000	447,433,866	10.86%

Long positions in share options of the Company:

Name of director	Capacity and nature of interest	Number of underlying shares	Approximate percentage of the Company's issued share capital
Mr. Suen Cho Hung, Paul	Directly beneficially owned	16,000,000 *(Note 2)*	0.39%

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

Notes:

1. These shares were held by Global Wealthy Limited, which was a wholly owned subsidiary of Excelsior Kingdom Limited which in turn was wholly owned by Mr. Suen Cho Hung, Paul. Accordingly, Mr. Suen Cho Hung, Paul was deemed to be interested in 437,433,866 shares under the SFO.

2. This represented the interest of Mr. Suen Cho Hung, Paul in 16,000,000 underlying shares issuable under the share options granted by the Company to him on 1 September 2009 under the share option scheme of the Company adopted by the shareholders of the Company on 30 December 2002 ("Share Option Scheme"). The consideration paid by Mr. Suen on acceptance of the share options granted was HK$1.00. The exercise price of the share options is HK$0.272 per share and the exercise period is between 1 September 2009 and 31 August 2012.

Save as disclosed above, as at 31 March 2011, none of the directors or chief executive of the Company had registered an interest or short positions in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Directors' interests and short positions in shares, underlying shares and debentures" above and in the "Share Option Scheme" disclosure in note 34 to the consolidated financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

Details of the share option scheme of the Company are set out in note 34 to the consolidated financial statements.

Report of the Directors

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 March 2011, the following interests of more than 5% of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in shares and underlying shares of the Company:

Name of shareholder	Capacity and nature of interest	Number of shares held	Number of underlying shares	Total interests	Approximate percentage of the Company's issued share capital
Mr. Suen Cho Hung, Paul	Interest held by controlled corporation	437,433,866 *(Note 1)*	–	–	–
	Directly beneficially owned	10,000,000	16,000,000 *(Note 2)*	463,433,866	11.25%
Excelsior Kingdom Limited	Interest held by controlled corporation	437,433,866 *(Note 1)*	–	437,433,866	10.62%
Global Wealthy Limited	Directly beneficially owned	437,433,866 *(Note 1)*	–	437,433,866	10.62%

Notes:

1. These shares were held by Global Wealthy Limited, which was a wholly owned subsidiary of Excelsior Kingdom Limited which in turn was wholly owned by Mr. Suen Cho Hung, Paul. Accordingly, Mr. Suen Cho Hung, Paul and Excelsior Kingdom Limited were deemed to be interested in 437,433,866 shares under the SFO.

2. This represented the interest of Mr. Suen Cho Hung, Paul in 16,000,000 underlying shares issuable under the share options granted by the Company to him on 1 September 2009 under the Share Option Scheme. The consideration paid by Mr. Suen on acceptance of the share options granted was HK$1.00. The exercise price of the share options is HK$0.272 per share and the exercise period is between 1 September 2009 and 31 August 2012.

The interests of Mr. Suen Cho Hung, Paul, Excelsior Kingdom Limited and Global Wealthy Limited in 437,433,866 shares referred in note 1 above related to the same parcel of shares.

Save as disclosed above, the Company had not been notified of other relevant interests or short positions in the shares and underlying shares of the Company as at 31 March 2011 as required pursuant to section 336 of the SFO.

Report of the Directors

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in the usual course of business are set out in note 40 to the consolidated financial statements. None of these related party transactions constitutes a discloseable connected transaction as defined under the Listing Rules.

EMOLUMENT POLICY

The Group remunerates its employees based on their performance, experience and prevailing market rate. Other employee benefits included provident fund scheme, medical insurance, subsidised training programme, share option scheme as well as discretionary bonuses.

The determination of emoluments of the directors of the Company had taken into consideration of their respective responsibilities and contribution to the Company and by reference to market benchmark.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

AUDITORS

Messrs. Ernst & Young resigned as auditors of the Company with effect from 30 March 2009 and Messrs. HLB Hodgson Impey Cheng were appointed as auditors of the Company on 8 May 2009 to fill the casual vacancy so arising. There have been no other changes of auditors of the Company in the past three years.

The consolidated financial statements for the year ended 31 March 2011 have been audited by Messrs. HLB Hodgson Impey Cheng.

A resolution will be proposed at the forthcoming AGM to re-appoint Messrs. HLB Hodgson Impey Cheng as auditors of the Company.

On behalf of the Board

Suen Cho Hung, Paul
Chairman

Hong Kong, 23 June 2011

Corporate Governance Report

The Board of Directors (the "Board") of the Company is committed to maintaining high standards of corporate governance practices at all times. The Board believes that good corporate governance helps the Company to safeguard the interests of its shareholders and to enhance the performance of the Group.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the principles and complied with all the applicable provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 March 2011, except for a deviation relating to code provision A.4.1 with considered reason as explained below:

Code provision A.4.1 of the Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

Deviation

The Independent Non-executive Directors of the Company are not appointed for a specific term but shall retire from office by rotation at least once every three years as referred to in the bye-law 87 of the Company's Bye-laws which provides that at each annual general meeting one-third of the directors of the Company for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by directors of the Company. Having made specific enquiry with the directors of the Company, all of them confirmed that they have complied with the required standards set out in the Model Code during the year.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company. The Board reviews and approves the objectives, strategies, direction and policies of the Group, the annual budget, annual and interim results, the management structure of the Company as well as other significant policy and financial matters. The Board has delegated the responsibility of day-to-day operations of the Group to the management of the Company.

BOARD OF DIRECTORS (continued)

As at the date of this report, the Board comprises seven directors, four of which are Executive Directors, namely Mr. Suen Cho Hung, Paul ("Mr. Suen") (Chairman), Mr. Sue Ka Lok ("Mr. Sue") (Chief Executive Officer), Mr. Bai Jianjiang, Ms. Lee Chun Yeung, Catherine and three are Independent Non-executive Directors, namely Mr. Wong Kwok Tai, Mr. Weng Yixiang and Mr. Lu Xinsheng. The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules. The Company considers all the Independent Non-executive Directors are independent in accordance with the independence guidelines set out in the Listing Rules. Biographical details of the Directors are set out under the section headed "Biographical Details of Directors and Senior Management" on pages 9 to 10 of this annual report. As disclosed in that section, Mr. Suen and Mr. Sue are also executive directors of BEP International Holdings Limited of which Mr. Suen is the controlling shareholder, and Mr. Sue is the non-executive director and chairman and Mr. Wong Kwok Tai is an independent non-executive director of China Tycoon Beverage Holdings Limited, of which Mr. Suen is the controlling shareholder.

During the year, six regular board meetings were held and the attendance of each director is set out as follows:

Executive Directors	**Number of attendance**
Mr. Suen Cho Hung, Paul	6/6
Mr. Sue Ka Lok	6/6
Mr. Bai Jianjiang	6/6
Ms. Lee Chun Yeung, Catherine (appointed on 1 October 2010)	3/6
Mr. Chau Chung Tak (resigned on 1 October 2010)	2/6
Independent Non-executive Directors	
Mr. Wong Kwok Tai	6/6
Mr. Weng Yixiang	6/6
Mr. Lu Xinsheng	6/6
Mr. Xiong Wei (resigned on 1 October 2010)	2/6

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Group adopts a dual leadership structure in which the role of the Chairman is separated from that of the Chief Executive Officer ("CEO"). The Chairman is responsible for overseeing all Board functions, while the executive directors and senior management are under the leadership of the CEO to oversee the day-to-day operations of the Group and implementing the strategies and policies approved by the Board.

The position of the Chairman of the Board is currently held by Mr. Suen Cho Hung, Paul and the position of CEO is currently held by Mr. Sue Ka Lok.

Corporate Governance Report

REMUNERATION COMMITTEE

The Remuneration Committee was established on 13 July 2005 with specific written terms of reference as set out in the Code. As at the date of this report, the Remuneration Committee comprises five members, including one Executive Director, namely Mr. Sue Ka Lok (Chairman of the Remuneration Committee) and three Independent Non-executive Directors, namely Mr. Wong Kwok Tai, Mr. Weng Yixiang and Mr. Lu Xinsheng.

The major roles and functions of the Remuneration Committee are as follows:

1. to make recommendations to the Board on the Company's policy and structure for all remuneration of the directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration; and

2. to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

During the year, three remuneration committee meetings were held to determine the remuneration of directors and the attendance of each member is set out as follows:

Members	**Number of attendance**
Mr. Sue Ka Lok	2/3
Mr. Wong Kwok Tai	3/3
Mr. Weng Yixiang	3/3
Mr. Lu Xinsheng	3/3
Mr. Xiong Wei (resigned on 1 October 2010)	2/3

NOMINATION OF DIRECTORS

The Company has not set up a nomination committee. The Board is responsible for selecting and recommending candidates for directorship. The Board identifies individuals suitably qualified in terms of skill, knowledge and experience to become members of the Board, taking into account of the then existing composition of the Board in terms of skill, knowledge and experience and make recommendation to the Board for approval.

AUDITORS AND AUDITORS' REMUNERAITON

The statement of the external auditors of the Company about their responsibilities on the consolidated financial statements is set out in the "Independent Auditors' Report" on pages 23 to 24 of this annual report.

For the year ended 31 March 2011, remuneration payable to the Company's auditors, HLB Hodgson Impey Cheng, for the provision of audit services was HK$840,000. During the year, HK$80,000 was payable as remuneration to HLB Hodgson Impey Cheng for the provision of non-audit related services to the Group.

AUDIT COMMITTEE

As at the date of this report, the Audit Committee comprises three Independent Non-executive Directors, namely Mr. Wong Kwok Tai (Chairman of the Audit Committee), Mr. Weng Yixiang and Mr. Lu Xinsheng. One of the Independent Non-executive Directors possesses appropriate professional qualifications, or accounting or related financial management expertise as required under the Listing Rules.

The major roles and functions of the Audit Committee are:

1. to make recommendation to the Board on the appointment, re-appointment and removal of the external auditors, to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of those auditors;

2. to discuss with the external auditors before the audit commences, the nature and scope of the audit;

3. to review the interim and annual financial statements before submission to the Board;

4. to discuss problems and reservations arising from the review of interim results and audit of final results, and any matters the external auditors may wish to discuss; and

5. to review the Group's financial and accounting policies and practices.

During the year, two audit committee meetings were held and the attendance of each member is set out as follows:

Members	**Number of attendance**
Mr. Wong Kwok Tai	2/2
Mr. Weng Yixiang	2/2
Mr. Lu Xinsheng	2/2
Mr. Xiong Wei (resigned on 1 October 2010)	1/2

The following is a summary of work performed by the Audit Committee during the year:

1. reviewed with the management and auditors of the Company the accounting principles and practices adopted by the Group, discussed the audited financial statements for the year ended 31 March 2010 and recommended the same to the Board for approval; and

2. reviewed with the management and auditors of the Company the accounting principles and practices adopted by the Group, discussed the unaudited interim financial statements for the six months ended 30 September 2010 and recommended the same to the Board for approval.

Corporate Governance Report

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other financial disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 March 2011.

INTERNAL CONTROL

The Board recognises its responsibilities for maintaining an adequate system of internal control to safeguard the Group's assets and shareholders' interests. An internal control system, including a defined management structure with limits of authority, is designed to help achieving business objectives, safeguard assets against unauthorised use, maintain proper accounting records for the provision of reliable financial information for internal use and for publication. The internal control system is set up to provide reasonable, but not absolute, assurance against material mis-statement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

During the year, the Board conducted a review of the effectiveness of the internal control system of the Group.

Independent Auditors' Report

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF
BEIJING YU SHENG TANG PHARMACEUTICAL GROUP LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Beijing Yu Sheng Tang Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 25 to 107, which comprise the consolidated and company statements of financial position as at 31 March 2011, and 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 notes.

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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, 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.

Independent Auditors' Report

AUDITORS' RESPONSIBILITY (continued)

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 auditors' judgement, 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 auditors consider 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 March 2011 and of the loss and cash flows of the Group 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.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 23 June 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2011

	Notes	**2011 HK$'000**	2010 HK$'000
Revenue	7	**1,878,475**	859,758
Cost of sales		**(1,827,874)**	(837,871)
Gross profit		**50,601**	21,887
Net losses on investments at fair value through profit or loss	9	**(121,378)**	(13,561)
Other income and gains	7	**2,623**	13,034
Selling and distribution costs		**(1,803)**	(900)
Administrative expenses		**(33,230)**	(23,310)
Excess of acquirer's interest in fair value of acquiree's identifiable net assets over costs	36(a)	**–**	10,688
Finance costs	8	**(19,601)**	(3,851)
Equity settled share-based payment expenses	9 & 10	**–**	(20,958)
Loss before taxation	9	**(122,788)**	(16,971)
Taxation	12	**1,618**	224
Loss for the year		**(121,170)**	(16,747)
Other comprehensive income			
Exchange difference on translating foreign operations		**4,527**	–
Other comprehensive income for the year, net of tax		**4,527**	–
Total comprehensive expense for the year		**(116,643)**	(16,747)
Loss for the year attributable to:			
Owners of the Company		**(120,373)**	(16,762)
Non-controlling interests		**(797)**	15
		(121,170)	(16,747)
Total comprehensive expense attributable to:			
Owners of the Company		**(115,820)**	(16,762)
Non-controlling interests		**(823)**	15
		(116,643)	(16,747)
Loss per share attributable to owners of the Company	15		
Basic and diluted (HK cent(s) per share)		**(4.05)**	(0.92)

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 March 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	16	**37,354**	36,705
Prepaid lease payments	17	**32,870**	32,310
Other deposits		**2,187**	842
Intangible asset	18	**152,320**	146,286
Goodwill	19	**9,935**	9,935
Total non-current assets		**234,666**	226,078
Current assets			
Inventories	21	**14,179**	13,100
Accounts and bills receivable	22	**300,542**	94,564
Prepayments, deposits and other receivables	23	**62,540**	38,830
Loans receivable	24	**20,000**	13,000
Investments at fair value through profit or loss	25	**487,676**	176,990
Pledged bank deposits	26	**248,028**	131,099
Cash and bank balances	26	**509,938**	669,153
Total current assets		**1,642,903**	1,136,736
Current liabilities			
Accounts and bills payable	27	**218,680**	60,028
Other payables and accruals	28	**143,950**	149,872
Tax payable		**447**	199
Bank loans	29	**35,672**	35,402
Amount due to a director	30	**–**	301
Total current liabilities		**398,749**	245,802
Net current assets		**1,244,154**	890,934
Total assets less current liabilities		**1,478,820**	1,117,012

Consolidated Statement of Financial Position

As at 31 March 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current liabilities			
Convertible notes	31	**161,347**	147,882
Deferred tax liabilities	32	**20,648**	22,404
Total non-current liabilities		**181,995**	170,286
Net assets		**1,296,825**	946,726
Capital and reserves			
Share capital	33	**41,185**	25,555
Reserves	35(a)	**1,256,374**	921,124
Equity attributable to owners of the Company		**1,297,559**	946,679
Non-controlling interests		**(734)**	47
Total equity		**1,296,825**	946,726

The consolidated financial statements on pages 25 to 107 were approved and authorised for issue by the Board of Directors on 23 June 2011 and are signed on its behalf by:

Suen Cho Hung, Paul
Director

Sue Ka Lok
Director

The accompanying notes form an integral part of these consolidated financial statements.

Statement of Financial Position

As at 31 March 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	16	**99**	385
Investments in subsidiaries	20	**–**	–
Total non-current assets		**99**	385
Current assets			
Prepayments, deposits and other receivables	23	**30,464**	13,715
Amounts due from subsidiaries	20	**1,085,900**	477,869
Investments at fair value through profit or loss	25	**–**	4,752
Cash and bank balances	26	**330,301**	599,028
Total current assets		**1,446,665**	1,095,364
Current liabilities			
Amount due to a subsidiary	20	**17,671**	18,033
Other payables and accruals	28	**3,576**	6,494
Total current liabilities		**21,247**	24,527
Net current assets		**1,425,418**	1,070,837
Total assets less current liabilities		**1,425,517**	1,071,222
Non-current liabilities			
Convertible notes	31	**161,347**	147,882
Deferred tax liabilities	32	**4,579**	6,801
Total non-current liabilities		**165,926**	154,683
Net assets		**1,259,591**	916,539
Capital and reserves			
Share capital	33	**41,185**	25,555
Reserves	35(b)	**1,218,406**	890,984
Total equity		**1,259,591**	916,539

Suen Cho Hung, Paul
Director

Sue Ka Lok
Director

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2011

		Attributable to owners of the Company										
	Notes	Share capital HK$'000	Share premium (note 1) HK$'000	Contributed surplus (note 2) HK$'000	Convertible notes equity reserve (note 3) HK$'000	Translation reserve (note 4) HK$'000	Share option reserve (note 5) HK$'000	Other reserve (note 6) HK$'000	Accumulated losses HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 April 2009		13,957	244,424	3,085	4,992	1,429	2,647	–	(42,512)	228,022	11	228,033
(Loss)/profit for the year		–	–	–	–	–	–	–	(16,762)	(16,762)	15	(16,747)
Total comprehensive (expense)/ income for the year		–	–	–	–	–	–	–	(16,762)	(16,762)	15	(16,747)
Voluntary winding up of a subsidiary		–	–	–	–	(1,429)	–	–	–	(1,429)	(56)	(1,485)
Issue of convertible notes		–	–	–	53,148	–	–	–	–	53,148	–	53,148
Direct transaction costs attributable to the equity component of convertible notes		–	–	–	(834)	–	–	–	–	(834)	–	(834)
Deferred tax arising on issue of convertible notes		–	–	–	(9,266)	–	–	–	–	(9,266)	–	(9,266)
Conversion of convertible notes		2,086	89,203	–	(16,912)	–	–	–	–	74,377	–	74,377
Reversal of deferred tax due to conversion of convertible notes		–	–	–	2,110	–	–	–	–	2,110	–	2,110
Issue of shares		8,387	573,514	–	–	–	–	–	–	581,901	–	581,901
Transaction costs attributable to issue of shares		–	(11,948)	–	–	–	–	–	–	(11,948)	–	(11,948)
Acquisition of subsidiaries		–	–	–	–	–	–	–	–	–	77	77
Recognition of equity settled share-based payment expenses		–	–	–	–	–	20,958	–	–	20,958	–	20,958
Lapse of share options		–	–	–	–	–	(366)	–	366	–	–	–
Share options exercised during the year		1,125	38,085	–	–	–	(12,808)	–	–	26,402	–	26,402
At 31 March 2010 and 1 April 2010		25,555	933,278	3,085	33,238	–	10,431	–	(58,908)	946,679	47	946,726
Loss for the year		–	–	–	–	–	–	–	(120,373)	(120,373)	(797)	(121,170)
Other comprehensive income/ (expense)		–	–	–	–	4,553	–	–	–	4,553	(26)	4,527
Total comprehensive income/ (expense) for the year		–	–	–	–	4,553	–	–	(120,373)	(115,820)	(823)	(116,643)
Issue of shares	33(a) & (b)	15,170	452,175	–	–	–	–	–	–	467,345	–	467,345
Transaction costs attributable to issue of shares		–	(13,033)	–	–	–	–	–	–	(13,033)	–	(13,033)
Share options exercised during the year	34	460	19,791	–	–	–	(7,739)	–	–	12,512	–	12,512
Acquisition of additional interests in a subsidiary	36(b)	–	–	–	–	–	–	(124)	–	(124)	42	(82)
At 31 March 2011		**41,185**	**1,392,211**	**3,085**	**33,238**	**4,553**	**2,692**	**(124)**	**(179,281)**	**1,297,559**	**(734)**	**1,296,825**

Consolidated Statement of Changes in Equity

For the year ended 31 March 2011

Notes:

1. Share premium account is governed by Section 40 of the Companies Act 1981 of Bermuda.

2. Pursuant to the capital reorganisation implemented during the year ended 31 March 2006, the credits arising from the capital reduction and share premium cancellation were transferred to the contributed surplus account of the Group where they had utilised to eliminate the accumulated losses of the Group.

3. Under HKAS 32, convertible notes issued are split into their liability and equity components at initial recognition by recognising the liability component at its fair value which is determined using market interest rate for equivalent non-convertible notes and attributing to the equity component which is the difference between the proceeds from issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the convertible notes equity reserve until the convertible notes are either converted (in which case it is transferred to share premium) or the convertible notes are redeemed (in which case it is released directly to accumulated losses.)

4. Translation reserve represents exchange difference arising from the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Hong Kong dollars), which is recognised directly in other comprehensive income and accumulated in the translation reserve. Such exchange difference accumulated in the exchange reserve will be reclassified to profit or loss on the disposal of the foreign operations.

5. Share option reserve represents the fair value of services received in exchange for the grant of the relevant share options, the total of which is based on the fair value of the share options at grant date. At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

6. Other reserve represents the difference between the consideration paid to obtain additional 5% non-controlling interests in Ju Xie Chang (Beijing) Pharmaceutical Company Limited* ("Ju Xie Chang") (聚協昌(北京)藥業有限公司), formerly known as Jinhua Qinggan (Beijing) Pharmaceutical Company Limited* (金花清感(北京)藥業有限公司) and its carrying amount of the net assets on the date of the acquisition. The excess of the fair value of the consideration over the carrying amount of the net assets acquired has been debited directly to equity.

* *For identification purpose only*

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 March 2011

	Notes	2011 HK$'000	2010 HK$'000
Cash flows from operating activities			
Loss before taxation		**(122,788)**	(16,971)
Adjustments for:			
Finance costs	8	**19,601**	3,851
Bank interest income	7	**(1,697)**	(365)
Interest income from provision of finance	7	**(3,289)**	(1,920)
Impairment loss recognised in respect of other receivable	9	**–**	138
Reversal of impairment loss recognised in respect of other receivable	7	**–**	(2,040)
Unrealised loss on investment in listed equity securities	9	**89,162**	12,381
Depreciation of property, plant and equipment	9	**2,731**	880
Amortisation of prepaid lease payments	9	**754**	124
Excess of acquirer's interest in fair value of acquiree's identifiable net assets over costs	36(a)	**–**	(10,688)
Net gain on voluntary winding up of a subsidiary	7	**–**	(1,420)
Equity settled share-based payment expenses	9 & 10	**–**	20,958
Operating cash flows before movements in working capital		**(15,526)**	4,928
Increase in inventories		**(1,079)**	(12,679)
Increase in accounts and bills receivable		**(205,978)**	(74,701)
Increase in prepayments, deposits and other receivables		**(23,680)**	(21,372)
Increase in loans receivable		**(7,000)**	(2,500)
Increase in investments at fair value through profit or loss		**(399,848)**	(105,973)
Increase in accounts and bills payable		**158,652**	47,061
(Decrease)/increase in other payables and accruals		**(10,249)**	13,213
(Decrease)/increase in amount due to a director		**(301)**	301
Exchange realignment		**–**	(216)
Cash used in operations		**(505,009)**	(151,938)
Interest on loans receivable received	7	**3,289**	1,920
Interest paid for convertible notes	31	**(1,891)**	(323)
Hong Kong Profits Tax paid		**(528)**	(316)
Overseas taxes paid		**(1)**	(72)
Net cash outflow from operating activities		**(504,140)**	(150,729)

Consolidated Statement of Cash Flows

For the year ended 31 March 2011

	Notes	2011 HK$'000	2010 HK$'000
Cash flows from investing activities			
Bank interest received	7	**1,697**	365
Purchases of property, plant and equipment	16	**(1,990)**	(1,698)
Net cash outflow on acquisition of subsidiaries	36(a) & (b)	**–**	(40,201)
Increase in other deposits		**(1,345)**	(732)
Net proceeds from voluntary winding up of a subsidiary		**–**	160
Decrease in time deposits	26	**50,000**	–
Increase in pledged bank deposits	26	**(116,929)**	(93,473)
Net cash outflow from investing activities		**(68,567)**	(135,579)
Cash flows from financing activities			
Proceeds from issue of convertible notes		**–**	241,056
Proceeds from issue of shares, net of share issue expenses paid	33(a) & (b)	**454,312**	569,953
Proceeds from exercise of share options	33(c)	**12,512**	26,402
Repayment of bank loans		**(1,160)**	–
Net cash inflow from financing activities		**465,664**	837,411
Net (decrease)/increase in cash and cash equivalents		**(107,043)**	551,103
Cash and cash equivalents at beginning of year		**619,153**	68,050
Effect of foreign exchange rate changes, net		**(2,172)**	–
Cash and cash equivalents at end of year	26	**509,938**	619,153

The accompany notes from an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

Beijing Yu Sheng Tang Pharmaceutical Group Limited (the "Company") is a limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company and all values are rounded to the nearest thousand (HK$'000) except otherwise indicated.

The principal activities of the Company are investment holdings and securities investment. The activities of its principal subsidiaries are set out in note 20 to the consolidated financial statements.

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

In the current year, the Company and its subsidiaries (the "Group") have applied, for the first time, the following new and revised standards, amendments and interpretations (the "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the Group's financial year beginning 1 April 2010:

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 32 (Amendments)	Classification of Rights Issues
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRS 1 (Amendments)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (as revised in 2008)	Business Combinations
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2011

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

HKFRS 3 (as revised in 2008) "Business Combinations"

HKFRS 3 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1 April 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for business combinations in the current year.

HKAS 27 (as revised in 2008) "Consolidated and Separate Financial Statements"

The application of HKAS 27 (as revised in 2008) has resulted in changes in the Group's accounting policies for the Group's changes in ownership interests in subsidiaries of the Group. Specifically, the revised standard has affected the Group's accounting policies regarding changes in the Group's ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under HKAS 27 (as revised in 2008), all such increases or decreases are dealt within equity, with no impact on goodwill or profit or loss. When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised standard requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amounts and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss. These changes have been applied prospectively from 1 April 2010 in accordance with the relevant transitional provisions.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

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

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 January 2012.
3 Effective for annual periods beginning on or after 1 January 2011.
4 Effective for annual periods beginning on or after 1 July 2010.
5 Effective for annual periods beginning on or after 1 July 2011.
6 Effective for annual periods beginning on or after 1 January 2013.

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

HKFRS 9 "Financial Instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 "Financial Instruments" (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 April 2013 and that the application of the new standard may have a significant impact on amounts reported in respect of the Groups' financial assets. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The directors of the Company anticipate that the application of the other new and revised standards, amendments and interpretations will have no material impact on the results and financial position of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 April 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries on or after 1 April 2010

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 "Financial Instruments: Recognition and Measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Changes in the Group's ownership interests in existing subsidiaries prior to 1 April 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations

Business combinations that took place on or after 1 April 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another standard.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

Business combinations that took place on or after 1 April 2010 (continued)

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets", as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

Business combinations that took place prior to 1 April 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The non-controlling interest in the acquiree was initially measured at the minority interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognised against the cost of the acquisition.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the assets to its location and working condition for its intended use. Expenses incurred after item of property, plant and equipment have been put into operation, such as repair and maintenance, is normally charged to the consolidated statement of comprehensive income in the period in which it is incurred. In situation where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the disposal proceeds and the carrying amount of the item) is included in the consolidated statement of comprehensive income in the year in which the item is derecognized.

Prepaid lease payments

Prepayment for obtaining land use rights is accounted for as prepaid lease payments and is charged to the consolidated statement of comprehensive income on a straight-line basis over the lease terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible asset

Intangible asset acquired in a business combination

Intangible asset acquired in a business combination is identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible asset is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into on of the two categories, including financial assets at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place. The accounting policies adopted in respect of each category of financial assets are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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 derivates, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

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

Notes to the Consolidated Financial Statements

For the year ended 31 March 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Loan and receivables

Loan and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including accounts and bills receivable, loans receivable, pledged bank deposits, cash and bank balances and amounts due from subsidiaries of the Company) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impaired.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as accounts and bills receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are initially classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including accounts and bills payable, other payables, bank loans, amount due to a director, convertible notes and amount due to a subsidiary of the Company are subsequently measured at amortised cost, using the effective interest method.

Convertible notes

Convertible notes issued by the Company that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the convertible notes into equity, is included in equity (convertible notes equity reserve).

Notes to the Consolidated Financial Statements

For the year ended 31 March 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

Convertible notes (continued)

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible notes equity reserve until the conversion option is exercised (in which case the balance stated in convertible notes equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible notes equity reserve will be released to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and amortised over the period of the convertible notes using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets”; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 “Revenue”.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on weighted average basis.

Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprises cash in hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Share-based payment transactions

Equity settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share option reserve).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions (continued)

Equity settled share-based payment transactions (continued)

Share options granted to employees (continued)

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

Share options granted to other participants

For share options granted to other participants in exchange for services, they are measured at the fair value of the services received. The fair value of the services are recognised as expenses immediately unless the service qualify for recognition as assets.

Corresponding adjustments have been made to equity (share option reserve) as in the case of share options granted to employees.

Impairment

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the date of acquisition. At subsequent reporting date, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognised less cumulative amortisation (if appropriate).

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Sale of securities investments are recognised on a trade date basis.

Rental income is recognised on the straight-line basis over the lease terms.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income is recognised when the shareholders' right to receive payment has been established.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associate, and interest in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the entity intends to settle its current tax assets and liabilities on a net basis.

Foreign currencies

The consolidated financial statements are presented in Hong Kong dollars. In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in consolidated statement of comprehensive income on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging on operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in consolidated statement of comprehensive income in the period in which they are incurred.

Employee benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

The employees of the Group's subsidiaries which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The contributions are charges to the statement of comprehensive income as they become payable in accordance with the rules of the central pension scheme.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) had joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its holding companies;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

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

4. 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 circumstances.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(b) Impairment of assets

The Group tests annually whether the assets have suffered any impairment. The recoverable amount of an asset or a cash generating unit is determined based on value-in-use calculations which require the use of assumptions and estimates.

(c) Impairment loss recognised on intangible asset

The Group tests annually whether intangible assets have suffered any impairment in accordance with the accounting policy stated above. The recoverable amounts of intangible assets have been determined based on discounted cash flow method.

The carrying amount of intangible assets at the end of the reporting period was approximately HK$152,320,000 (2010: HK$146,286,000) and there was no impairment loss recognised during the year.

(d) Impairment loss recognised on goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated above. The recoverable amount of cash generating unit has been determined based on value in use calculations. These calculations require the use of estimates.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2011

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Critical accounting estimates and assumptions (continued)

(e) Estimate of fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

(f) Measurement of convertible notes

On issue of convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible note; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in the convertible notes equity reserve, net of transaction cost. The splitting of the liability and equity components requires an estimation of the market interest rate.

(g) Measurement of fair value of equity-settled share-based payment transactions

The Company operates share option schemes under with the employees (including directors) of the Group receive remuneration in the form of share-based payment transactions. The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted, using assumptions including expected volatility and risk free interest rate. Such cost is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled. The cumulative expenses recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

(a) Categories of financial instruments

Group

Financial assets

	2011			2010		
	Loan and receivables HK$'000	Held for trading HK$'000	Total HK$'000	Loan and receivables HK$'000	Held for trading HK$'000	Total HK$'000
Accounts and bills receivable	300,542	–	300,542	94,564	–	94,564
Other receivables	56,038	–	56,038	32,432	–	32,432
Loans receivable	20,000	–	20,000	13,000	–	13,000
Investments at fair value through profit or loss	–	487,676	487,676	–	176,990	176,990
Pledged bank deposits	248,028	–	248,028	131,099	–	131,099
Cash and bank balances	509,938	–	509,938	669,153	–	669,153
	1,134,546	487,676	1,622,222	940,248	176,990	1,117,238

Financial liabilities

	2011 Financial liabilities at amortised cost HK$'000	2010 Financial liabilities at amortised cost HK$'000
Accounts and bills payable	218,680	60,028
Other payables	139,401	144,952
Bank loans	35,672	35,402
Amount due to a director	–	301
Convertible notes	161,347	147,882
	555,100	388,565

Notes to the Consolidated Financial Statements

For the year ended 31 March 2011

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (continued)

(a) Categories of financial instruments (continued)

Company

Financial assets

	2011			2010		
	Loans and receivables HK$'000	**Held for trading HK$'000**	**Total HK$'000**	Loans and receivables HK$'000	Held for trading HK$'000	Total HK$'000
Other receivables	**29,980**	**–**	**29,980**	13,486	–	13,486
Amounts due from subsidiaries	**1,085,900**	**–**	**1,085,900**	477,869	–	477,869
Investments at fair value through profit or loss	**–**	**–**	**–**	–	4,752	4,752
Cash and bank balances	**330,301**	**–**	**330,301**	599,028	–	599,028
	1,446,181	**–**	**1,446,181**	1,090,383	4,752	1,095,135

Financial liabilities

	2011 Financial liabilities at amortised cost HK$'000	2010 Financial liabilities at amortised cost HK$'000
Amount due to a subsidiary	**17,671**	18,033
Other payables	**–**	4,753
Convertible notes	**161,347**	147,882
	179,018	170,668

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (continued)

(b) Financial risk management objectives and policies

The Group's major financial instruments include equity investments, accounts and bills receivable, other receivables, loans receivable, pledged bank deposits, cash and bank balances, accounts and bills payable, other payables, bank loans, amount due to a director and convertible notes. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's principal financial assets include accounts and bills receivable, other receivables, loans receivable, investments at fair value through profit or loss, pledged bank deposits and cash and bank balances. The Group's maximum exposure to credit risk in the event of counterparties' failure to perform their obligations as at 31 March 2011 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

The Group has put in place policies to ensure that sales of products are made to customers with an appropriate credit history and the Group performs period credit evaluations of its customers. In addition, the Group reviews the recoverable amount of each individual receivable at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank balances is limited because the counterparties are banks with high credit ratings. The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties.

Notes to the Consolidated Financial Statements
For the year ended 31 March 2011

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (continued)

(b) Financial risk management objectives and policies (continued)

Market risk

(i) Foreign currency risk

Certain assets and liabilities of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, management considers the foreign exchange exposure is relatively insignificant currently and will consider hedging significant foreign currency exposure should the need arises.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

Assets

	2011	2010
	HK$'000	HK$'000
Renminbi ("RMB")	**79,541**	18,398
US dollars	**325,458**	171,066

Liabilities

	2011	2010
	HK$'000	HK$'000
RMB	**174,955**	174,047
US dollars	**216,284**	54,804

Sensitivity analysis

As HK$ are pegged to US dollars, it is assumed that there would be no material currency risk exposure between these two currencies and therefore is excluded from the analysis.

The Group is mainly exposed to the effects of fluctuation in RMB.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (continued)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

(i) Foreign currency risk (continued)

Sensitivity analysis (continued)

The following table details the Group's sensitivity to a 5% (2010: 5%) increase and decrease in HK$ against RMB. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represent management's assessment of the reasonably possible change of foreign exchange rates. The sensitivity analysis includes outstanding foreign currency denominated monetary items. It also includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A negative number below indicates a decrease in profit where the HK$ weaken 5% (2010: 5%) against RMB.

Impact of RMB

	2011 **HK$'000**	2010 HK$'000
Profit or loss *(note)*	**(4,771)**	(7,782)

Note: This is mainly attributable to the exposure outstanding on receivables, payables and bank loans denominated in RMB not subject to cash flow hedge at the end of the reporting period.

The Group's sensitivity to foreign currency has decreased during the current year mainly due to the decrease in foreign currency denominated monetary net liabilities.

(ii) Price risk

The Group is exposed to equity security price risk through its investments at fair value through profit or loss. Management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk at the end of the reporting period.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (continued)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

(ii) Price risk (continued)

Sensitivity analysis (continued)

If equity prices had been 5% higher/lower:

- net loss for the year ended 31 March 2011 would decrease/increase by approximately HK$24,384,000 (2010: decrease/increase by HK$8,850,000). This is mainly due to the changes in fair value of investments at fair value through profit or loss; and

- other equity reserves would not increase/decrease.

The Group's sensitivity to equity prices has increased from prior year because the Group's has increased its investments at fair value through profit or loss.

(iii) Interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its bank saving balances and bank loans. The Group monitors the interest rate exposure on a continuous basis and adjusts the portfolio of bank saving balances and bank loans where necessary.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable rate bank saving balances and bank loans at the end of the reporting period. The analysis is prepared assuming bank balances and the amounts of liability outstanding at the end of the reporting period were held/outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 31 March 2011 would decrease/increase by approximately HK$843,000 (2010: decrease/increase by HK$560,000). This is mainly attributable to the Group's exposure to interest rates on its bank saving balances and bank loans.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (continued)

(b) Financial risk management objectives and policies (continued)

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient bank balances and cash and the availability of funding through an adequate amount of committed credit facilities. The Group also aims at maintaining flexibility in funding by arranging and keeping committed banking facilities and other external financing available.

The Group's primary cash requirements have been for business operations and repayment of debts. The Group finances its working capital requirements through a combination of funds generated from operations and cash reserve.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contracted undiscounted payments, was as follows:

Group

	Weighted average interest rate %	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount HK$'000
As at 31 March 2011							
Accounts and bills payable	**-**	**2,396**	**216,284**	**-**	**-**	**218,680**	**218,680**
Other payables	**-**	**11,947**	**5,059**	**122,395**	**-**	**139,401**	**139,401**
Bank loans	**9.53%**	**35,672**	**-**	**-**	**-**	**35,672**	**35,672**
Convertible notes	**1%**	**-**	**-**	**-**	**189,100**	**189,100**	**161,347**
		50,015	**221,343**	**122,395**	**189,100**	**582,853**	**555,100**

	Weighted average interest rate %	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount HK$'000
As at 31 March 2010							
Accounts and bills payable	–	5,224	54,804	–	–	60,028	60,028
Other payables	–	32,897	4,775	107,280	–	144,952	144,952
Bank loans	9.56%	17,143	–	18,259	–	35,402	35,402
Amount due to a director	–	301	–	–	–	301	301
Convertible notes	1%	–	–	–	189,100	189,100	147,882
		55,565	59,579	125,539	189,100	429,783	388,565

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (continued)

(b) Financial risk management objectives and policies (continued)

Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices, respectively;
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions; and
- the fair value of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded in the consolidated financial statements approximate to their fair value.

Fair value measurements recognised in the consolidated statements of financial position

The Group's financial instruments that are measured subsequent to initial recognition at fair value are grouped into Level 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market date (unobservable inputs).

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (continued)

(b) Financial risk management objectives and policies (continued)

Fair value measurements recognised in the consolidated statements of financial position (continued)

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
As at 31 March 2011				
Financial assets				
Investments at fair value through profit or loss – held for trading	**487,676**	**–**	**–**	**487,676**
As at 31 March 2010				
Financial assets				
Investments at fair value through profit or loss – held for trading	176,990	–	–	176,990

There were no transfers between Level 1 and Level 2 in both years.

(c) Capital risk management

The Group's objectives when managing capital to ensure that entities in the Group will be able to continue as a going concern while maximising the returns to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debts, which include convertible notes, bank loans and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on an annual basis. As a part of this review, the directors of the Company consider the cost of capital and other sources of funds other than issuance of shares, including issue of convertible notes. Based on the recommendation of the directors of the Company, the Group will balance its overall capital structure through raising or repayment of borrowings.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (continued)

(c) Capital risk management (continued)

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. The gearing ratio is calculated as total debt divided by capital and total debt. During the years ended 31 March 2011 and 2010, the Group's strategy was to maintain a reasonable gearing ratio. The gearing ratio at 31 March 2011 and 2010 were as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Convertible notes, the liability component	**161,347**	147,882
Bank loans	**35,672**	35,402
Total debt	**197,019**	183,284
Total equity	**1,296,825**	946,726
Capital and total debt	**1,493,844**	1,130,010
Gearing ratio	**0.13**	0.16

The decrease in gearing ratio was due to the increase in issued share capital and reserves during the year (2010: increased).

The Group overall strategy remains unchanged during the year.

6. SEGMENT INFORMATION

In a manner consistent with the way in which information is reported internally to the chief operating decision maker for the purpose of resources allocation and performance assessment, the Group is currently organised into the following operating segments:

- the supply and procurement segment represents supply and procurement activities in metal minerals and recyclable metal materials;
- the pharmaceutical segment represents production and sale of Chinese medicine;
- the provision of finance segment represents provision of short-term loan financing activities; and
- the securities investment segment represents investment activities in equity securities and equity-linked notes.

6. SEGMENT INFORMATION (continued)

The following is an analysis of the Group's revenue and results by reportable segments:

For the year ended 31 March 2011

	Supply and procurement HK$'000	Pharmaceutical HK$'000	Provision of finance HK$'000	Securities investment HK$'000	Consolidated HK$'000
Segment revenue					
Sales to external customers	1,857,066	15,791	3,289	2,329	1,878,475
Segment results	31,708	(3,404)	3,250	(119,053)	(87,499)
Interest income and unallocated revenue and gains					1,582
Unallocated expenses					(17,270)
Finance costs					(19,601)
Loss before taxation					(122,788)
Taxation					1,618
Loss for the year					(121,170)
Assets and liabilities					
Segment assets	682,599	313,105	21,315	492,663	1,509,682
Unallocated assets					367,887
Total assets					1,877,569
Segment liabilities	219,780	191,109	226	–	411,115
Unallocated liabilities					169,629
Total liabilities					580,744
Other segment information					
Depreciation of property, plant and and equipment and amortisation of prepaid lease payments					
– allocated	–	2,722	–	–	2,722
– unallocated					763
					3,485
Capital expenditure					
– allocated	–	1,866	–	–	1,866
– unallocated					124
					1,990

6. SEGMENT INFORMATION (continued)

For the year ended 31 March 2010

	Supply and procurement HK$'000	Pharmaceutical HK$'000	Provision of finance HK$'000	Securities investment HK$'000	Consolidated HK$'000
Segment revenue					
Sales to external customers	853,816	267	1,920	3,755	859,758
Segment results	14,879	(1,652)	1,830	(9,811)	5,246
Interest income and unallocated revenue and gains					12,371
Unallocated expenses					(20,467)
Excess of acquirer's interest in fair value of acquiree's identifiable net assets over costs					10,688
Finance costs					(3,851)
Equity settled share-based payment expenses					(20,958)
Loss before taxation					(16,971)
Taxation					224
Loss for the year					(16,747)
Assets and liabilities					
Segment assets	302,566	242,244	18,879	181,976	745,665
Unallocated assets					617,149
Total assets					1,362,814
Segment liabilities	63,375	189,730	188	–	253,293
Unallocated liabilities					162,795
Total liabilities					416,088
Other segment information					
Reversal of impairment loss recognised in respect of other receivable – unallocated					(2,040)
Impairment loss recognised in respect of other receivable – allocated	138	–	–	–	138
Depreciation of property, plant and equipment and amortisation of prepaid lease payments					
– allocated	–	237	–	–	237
– unallocated					767
					1,004
Capital expenditure – unallocated					1,698

6. SEGMENT INFORMATION (continued)

Reportable segment's assets are reconciled to total assets as follows:

	2011 HK$'000	2010 HK$'000
Segment assets for reportable segment	**1,509,682**	745,665
Unallocated:		
Property, plant and equipment	**1,593**	2,233
Prepayments, deposits and other receivables	**34,584**	15,034
Cash and bank balances	**331,710**	599,882
Total assets	**1,877,569**	1,362,814

Reportable segment's liabilities are reconciled to total liabilities as follows:

	2011 HK$'000	2010 HK$'000
Segment liabilities for reportable segment	**411,115**	253,293
Unallocated:		
Other payables and accruals	**3,703**	8,112
Convertible notes	**161,347**	147,882
Deferred tax liabilities	**4,579**	6,801
Total liabilities	**580,744**	416,088

6. SEGMENT INFORMATION (continued)

Geographical information

The following table presents revenue and certain assets and capital expenditure information for the Group's geographical segments for the years ended 31 March 2011 and 2010:

	Hong Kong		The People's Republic of China (the "PRC") (excluding Hong Kong)		Consolidated	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue						
Sales to external customers	**5,618**	5,675	**1,872,857**	854,083	**1,878,475**	859,758
Other segment information						
Segment assets	**1,564,464**	1,120,570	**313,105**	242,244	**1,877,569**	1,362,814
Capital expenditure	**124**	1,698	**1,866**	–	**1,990**	1,698

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2010: nil).

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment results represent results of each segment without allocation of central administration costs, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Information about major customers

Revenue from customers contributing over 10% of the total sales of the Group is mainly derived from the supply and procurement segment in both years. For the year 2011, there are two major customers contributing over 10% of the total sales amounting to approximately HK$343,394,000 and HK$189,528,000 respectively. For the year 2010, there were two major customers contributing over 10% of the total sales amounting to approximately HK$399,347,000 and HK$151,947,000 respectively.

7. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the year.

An analysis of revenue, other income and gains is as follows:

	2011 HK$'000	2010 HK$'000
Revenue		
Sale of goods	**1,872,857**	854,083
Interest income from provision of finance	**3,289**	1,920
Dividend income on investment in listed equity securities	**1,423**	1,310
Interest income on investment in equity-linked notes	**906**	2,445
	1,878,475	859,758
Other income and gains		
Bank interest income	**1,697**	365
Other interest income	**3**	115
Rental income	**180**	120
Exchange gains	**415**	181
Reversal of impairment loss recognised in respect of other receivable	**–**	2,040
Net gain on voluntary winding up of a subsidiary	**–**	1,420
Reimbursement on legal and professional fees upon termination of acquisition of subsidiaries	**–**	8,176
Compensation received	**234**	–
Sundry income	**94**	617
	2,623	13,034

8. FINANCE COSTS

	2011 HK$'000	2010 HK$'000
Interest on:		
Bank loans and other loan wholly repayable within five years	**4,245**	574
Convertible notes *(note 31)*	**15,356**	3,277
	19,601	3,851

Notes to the Consolidated Financial Statements

For the year ended 31 March 2011

9. LOSS BEFORE TAXATION

	2011 **HK$'000**	2010 HK$'000
The Group's loss before taxation is arrived at after charging:		
Staff costs (excluding directors' remuneration – *note 10*):		
Wages and salaries	**6,323**	4,639
Pension scheme contributions	**317**	150
Equity settled share-based payment expenses	**–**	15,574
Total staff cost	**6,640**	20,363
Impairment loss recognised in respect of other receivables	**–**	138
Auditors' remuneration	**854**	850
Cost of inventories sold	**1,767,444**	795,981
Depreciation of property, plant and equipment *(note 16)*	**2,731**	880
Amortisation of prepaid lease payments *(note 17)*	**754**	124
Minimum lease payments in respect of land and buildings	**3,231**	1,260
Net losses on investments at fair value through profit or loss:		
Proceeds on sales of listed equity securities investments	**(93,582)**	(15,363)
Less: cost of sales	**125,798**	16,543
Net realised loss on investment in listed equity securities	**32,216**	1,180
Unrealised loss on investment in listed equity securities	**89,162**	12,381
Net losses on investments at fair value through profit or loss	**121,378**	13,561

At 31 March 2011, the Group had no forfeited contributions available to reduce its contributions to pension schemes in future years (2010: nil).

10. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2011	2010
	HK$'000	HK$'000
Fees:		
Executive directors	**–**	–
Independent non-executive directors	**270**	300
	270	300
Other emoluments of executive directors:		
Salaries, other allowances and benefits in kind	**3,804**	1,775
Discretionary bonuses	**1,043**	500
Pension scheme contributions	**244**	89
Equity settled share-based payment expenses	**–**	5,384
	5,091	7,748
	5,361	8,048

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Mr. Wong Kwok Tai	**120**	120
Mr. Weng Yixiang	**60**	60
Mr. Lu Xinsheng	**60**	60
Mr. Xiong Wei	**30**	60
	270	300

There were no other emoluments payable to the independent non-executive directors during the year (2010: nil).

Notes to the Consolidated Financial Statements
For the year ended 31 March 2011

10. DIRECTORS' REMUNERATION (continued)

(b) Executive directors

	Salaries, other allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Pension scheme contributions HK$'000	Equity settled share-based payment expenses HK$'000	Total remuneration HK$'000
2011					
Mr. Suen Cho Hung, Paul	**1,950**	**–**	**97**	**–**	**2,047**
Mr. Sue Ka Lok	**655**	**–**	**58**	**–**	**713**
Mr. Chau Chung Tak	**240**	**–**	**12**	**–**	**252**
Ms. Lee Chun Yeung, Catherine	**494**	**1,043**	**77**	**–**	**1,614**
Mr. Bai Jianjiang	**465**	**–**	**–**	**–**	**465**
	3,804	**1,043**	**244**	**–**	**5,091**
2010					
Mr. Suen Cho Hung, Paul	917	–	46	2,692	3,655
Mr. Sue Ka Lok	226	500	11	2,692	3,429
Mr. Chau Chung Tak	176	–	9	–	185
Mr. Lo Ming Chi, Charles	456	–	23	–	479
	1,775	500	89	5,384	7,748

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees for the year included three (2010: two) directors of the Company, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining two (2010: three) non-directors, highest paid employee for the year is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Salaries, other allowances and benefits in kind	**1,443**	1,927
Pension scheme contributions	**58**	51
Equity settled share-based payment expenses	**–**	7,578
	1,501	9,556

The remuneration of all non-directors, two of the highest paid employees fell within the band of HK$nil to HK$1,000,000 for the year ended 31 March 2011. The remuneration of all non-directors, two of the highest paid employees fell within the band of HK$2,000,000 to HK$3,000,000 and one of the highest paid employees fell within the band of HK$4,000,000 to HK$5,000,000 for the year ended 31 March 2010.

During the year, discretionary bonuses of HK$1,387,000 were paid to or receivable by three of the five highest paid employees of the Group (2010: HK$1,410,000 were paid to or receivable by four of the five highest paid employees). No emoluments were paid by the Group to any of the five highest paid employees as an inducement to join, or upon joining the Group, or as compensation for loss of office (2010: nil).

Notes to the Consolidated Financial Statements

For the year ended 31 March 2011

12. TAXATION

	2011 HK$'000	2010 HK$'000
Current – Hong Kong		
Charge for the year	**778**	339
Over provision in prior years	**(1)**	(48)
Current – Elsewhere		
Over provision in prior years	**–**	(131)
	777	160
Deferred tax *(note 32)*		
Current year	**(2,395)**	(384)
	(1,618)	(224)

Hong Kong Profits Tax for the year ended 31 March 2011 was calculated at 16.5% (2010: 16.5%) of the estimated assessable profit for the year.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

12. TAXATION (continued)

The tax charge for the year can be reconciled to the loss before taxation per the consolidated statement of comprehensive income as follows:

Group – 2011

	Hong Kong HK$'000	The PRC HK$'000	Total HK$'000
Tax rate	16.5%	25.0%	
Loss before taxation	(115,216)	(7,572)	(122,788)
Tax at the applicable tax rate	(19,011)	(1,893)	(20,904)
Tax effect of income not taxable for tax purpose	(583)	(1,034)	(1,617)
Tax effect of expenses not deductible for tax purpose	164	325	489
Tax effect of tax losses not recognised	19,707	2,429	22,136
Over provision in prior years	(1)	–	(1)
Effect of utilisation of tax losses previously not recognised	(1,762)	–	(1,762)
Others	41	–	41
Taxation credit at the Group's effective rate	(1,445)	(173)	(1,618)

12. TAXATION (continued)

Group – 2010

	Hong Kong HK$'000	Singapore HK$'000	The PRC HK$'000	Total HK$'000
Tax rate	16.5%	18.0%	25.0%	
(Loss)/profit before taxation	(26,920)	1,473	8,476	(16,971)
Tax at the applicable tax rate	(4,442)	265	2,119	(2,058)
Tax effect of income not taxable for tax purpose	(1,982)	(265)	(2,835)	(5,082)
Tax effect of expenses not deductible for tax purpose	5,087	–	192	5,279
Tax effect of tax losses not recognised	2,172	–	495	2,667
Over provision in prior years	(48)	(131)	–	(179)
Effect of utilisation of tax losses previously not recognised	(852)	–	–	(852)
Others	1	–	–	1
Taxation credit at the Group's effective rate	(64)	(131)	(29)	(224)

13. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The net loss for the year dealt with in the financial statements of the Company amounted to HK$123,772,000 (2010: HK$28,364,000).

14. DIVIDEND

The directors of the Company do not recommend the payment of any dividend for the year ended 31 March 2011 (2010: nil).

15. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

	2011	2010
	HK$'000	HK$'000
Loss		
Loss attributable to owners of the Company for the purpose of basic loss per share	**120,373**	16,762

	2011	2010
	'000	'000
Number of shares		
Weighted average number of shares for the purpose of basic loss per share	**2,973,236**	1,826,341

Basic and diluted loss per share for the years ended 31 March 2011 and 2010 have been presented as equal because conversion of convertible notes and exercise of share options would decrease the loss per share, therefore, anti-dilutive.

Notes to the Consolidated Financial Statements
For the year ended 31 March 2011

16. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Buildings HK$'000	Total HK$'000
Cost					
At 1 April 2009	1,082	174	480	–	1,736
Additions	–	14	1,684	–	1,698
Acquisition of subsidiaries	1,034	3,645	–	29,906	34,585
At 31 March 2010 and 1 April 2010	2,116	3,833	2,164	29,906	38,019
Additions	1,355	182	432	21	1,990
Exchange realignment	60	472	–	1,297	1,829
At 31 March 2011	**3,531**	**4,487**	**2,596**	**31,224**	**41,838**
Accumulated depreciation and impairment					
At 1 April 2009	398	28	8	–	434
Provided for the year	445	40	321	74	880
At 31 March 2010 and 1 April 2010	843	68	329	74	1,314
Provided for the year	593	746	460	932	2,731
Exchange realignment	10	337	1	91	439
At 31 March 2011	**1,446**	**1,151**	**790**	**1,097**	**4,484**
Carrying value					
At 31 March 2011	**2,085**	**3,336**	**1,806**	**30,127**	**37,354**
At 31 March 2010	1,273	3,765	1,835	29,832	36,705

At 31 March 2011, the buildings with the carrying amount of approximately HK$30,127,000 (2010: HK$29,832,000) have been pledged to secure for the bank loans (note 37).

16. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Total HK$'000
Cost			
At 1 April 2009, 31 March 2010 and 1 April 2010	1,082	174	1,256
Additions	30	–	30
At 31 March 2011	**1,112**	**174**	**1,286**
Accumulated depreciation and impairment			
At 1 April 2009	398	28	426
Provided for the year	410	35	445
At 31 March 2010 and 1 April 2010	808	63	871
Provided for the year	281	35	316
At 31 March 2011	**1,089**	**98**	**1,187**
Carrying value			
At 31 March 2011	**23**	**76**	**99**
At 31 March 2010	274	111	385

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum.

Leasehold improvements	20% or over the lease terms, whichever is shorter
Furniture, fixtures and equipment	8% – 20%
Motor vehicles	20%
Buildings	Over the shorter of the term of the lease or 20 – 35 years

Notes to the Consolidated Financial Statements

For the year ended 31 March 2011

17. PREPAID LEASE PAYMENTS

	Group	
	2011	2010
	HK$'000	HK$'000
At beginning of the year	**33,053**	–
Addition arising from acquisition of subsidiaries *(note 36(b))*	**–**	33,177
Amortisation for the year	**(754)**	(124)
Exchange realignment	**1,344**	–
At end of the year	**33,643**	33,053
Analysed for reporting purposes as:		
Current assets (included in prepayments, deposits and other receivables)	**773**	743
Non-current assets	**32,870**	32,310
	33,643	33,053

The prepaid lease payments were paid for the right to use certain lands under medium terms leases in the PRC.

At 31 March 2011, the prepaid lease payments with the carrying amount of approximately HK$33,643,000 (2010: HK$33,053,000) have been pledged to secure for the bank loans of the Group (note 37).

18. INTANGIBLE ASSET

	Group
	HK$'000
Cost	
At 1 April 2009	–
Addition arising from acquisition of subsidiaries *(note (b))*	146,286
At 31 March 2010 and 1 April 2010	146,286
Exchange realignment	6,034
At 31 March 2011	152,320
Carrying value	
At 31 March 2011	**152,320**
At 31 March 2010	146,286

Notes:

(a) The intangible asset represents an intellectual property relating to production and sale of Jinhua Qinggan which is presently a prescription drug for clinic use. Jinhua Qinggan is a Chinese medicine aimed at treating patients who have been infected with Influenza A (H1N1) and other types of influenza.

(b) On 29 January 2010, the Group acquired Beijing Yu Sheng Tang Group as defined in note 36(a), the fair value of the intangible asset was approximately HK$146,286,000 at 29 January 2010 and are based on the valuation report issued by an independent qualified professional valuers which valued the intangible asset on discounted cash flow method.

(c) The above intangible asset has definite useful life and is amortised on a straight-line basis over 20 years commencing from the date of granting of the new drug certificate.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2011

19. GOODWILL

	Group
	HK$'000
Cost	
At 1 April 2009	–
Addition arising from acquisition of subsidiaries *(note)*	9,935
At 31 March 2010, 1 April 2010 and 31 March 2011	**9,935**
Carrying value	
At 31 March 2011	**9,935**
At 31 March 2010	9,935

Note: On 10 February 2010, the Group acquired the equity interest of Ju Xie Chang, goodwill of approximately HK$9,935,000 was recognised. For further details on the acquisition, please refer to note 36(b).

At the end of the reporting period, the Group assessed the recoverable amount of goodwill, and determined that no impairment loss should be provided (2010: nil).

For the purpose of impairment testing, the carrying amount of goodwill has been allocated to a cash generating unit as follows:

	2011	2010
	HK$'000	HK$'000
Pharmaceutical	**9,935**	9,935

The recoverable amount of above cash generating unit was determined based on a value in use calculation, which uses cash flow projections based on the financial budgets approved by the management covering a five-year period, and at a discount rate of 10.02% (2010: 12.37%) per annum. The cash flows beyond that five-year period have been extrapolated using a zero growth rate.

All of the assumptions and estimations involved in the preparation of the cash flow projections including budgeted gross margin, discount rate and growth rate are determined by the management of the Group based on past performance, experience and their expectation for market development.

The directors of the Company believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed the aggregate recoverable amount of the cash generating unit.

20. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/(TO) SUBSIDIARIES

	Company	
	2011	2010
	HK$'000	HK$'000
Unlisted shares, at cost	**–**	–
Less: Provision for impairment	**–**	–
	–	–
Amounts due from subsidiaries	**1,226,453**	494,548
Less: Provision for impairment	**(140,553)**	(16,679)
	1,085,900	477,869
Amount due to a subsidiary	**(17,671)**	(18,033)
	1,068,229	459,836

The amounts due from/(to) subsidiaries are unsecured and have no fixed terms of repayment. Of the balances, approximately HK$468,147,000 (2010: HK$237,865,000) of the amounts due from subsidiaries bear interest at an effective interest rate of range from prime rate to prime rate plus 1% (2010: prime rate plus 1%) per annum and the remaining balances are non-interest bearing.

During the year, the directors of the Company reviewed and examined the current operations of the subsidiaries and identified that the present value of estimated net future cash flows from certain subsidiaries are lower than their carrying amounts. Accordingly, the directors of the Company consider an impairment loss of approximately HK$123,874,000 (2010: HK$12,027,000) should be provided as at the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2011

20. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/(TO) SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries as at 31 March 2011 are as follows:

Name	Place of incorporation and operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Able Market Profits Limited	British Virgin Islands ("BVI")	Ordinary US$1	100	–	Investment holding
Poly Resources (Asia) Limited	Hong Kong	Ordinary HK$7,800,000	–	100	Supply and procurement
Poly Development Group Limited	BVI	Ordinary US$1	100	–	Investment holding
Xin Corporation (HK) Limited	Hong Kong	Ordinary HK$2	–	100	Provision of management service and securities investment
Xin Credit Services Limited	Hong Kong	Ordinary HK$1	–	100	Provision of finance
Beijing Yu Sheng Tang Cultural Broadcasting Company Limited* ("Yu Sheng Tang") (北京御生堂文化傳播有限公司)	The PRC	Paid up capital RMB80,000,000	–	100	Holding of intellectual property relating to production and sale of Jinhua Qinggan
Beijing Yu Sheng Tang Chinese Medicine Clinic Company Limited* ("Yu Sheng Tang Clinic") (北京御生堂中醫門診部有限公司)	The PRC	Paid up capital RMB600,000	–	70	Sale of Chinese medicines and health care products
Ju Xie Chang	The PRC	Paid up capital RMB25,000,000	–	100	Production and sale of Chinese medicines and health care products

* *For identification purpose only*

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

21. INVENTORIES

	Group	
	2011	2010
	HK$'000	HK$'000
Raw materials	**11,618**	12,030
Finished goods	**2,561**	1,070
	14,179	13,100

At 31 March 2011, all inventories were stated at cost.

22. ACCOUNTS AND BILLS RECEIVABLE

	Group	
	2011	2010
	HK$'000	HK$'000
Accounts receivable	**10,822**	36,067
Bills receivable	**289,720**	58,497
	300,542	94,564

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of one month, extending up to three to six months for major customers. Each customer has a maximum credit limit. Overdue balances are reviewed regularly by senior management. Accounts and bills receivable are non-interest bearing. The carrying amounts of the accounts and bills receivable approximate to their fair values.

22. ACCOUNTS AND BILLS RECEIVABLE (continued)

An aged analysis of the accounts and bills receivable at the end of the reporting period, based on invoice date, and net of impairment, is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Within 30 days	**141,675**	93,198
31 to 60 days	**23,784**	830
61 to 90 days	**130,025**	–
91 to 180 days	**4,125**	536
Over 180 days	**933**	–
Total	**300,542**	94,564

The aged analysis of the accounts and bills receivable that are not considered to be impaired is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Neither past due nor impaired	**141,675**	93,198
Less than 1 month past due	**23,784**	830
1 to 3 months past due	**134,150**	536
More than 3 months past due	**933**	–
	300,542	94,564

Accounts and bills receivable that were neither past due nor impaired relate to customers for whom there was no recent history of default.

Accounts and bills receivable that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment 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 or other credit enhancements over these balances.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2011

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments and deposits	**6,502**	6,398	**484**	229
Other receivables	**56,038**	32,570	**29,980**	13,486
	62,540	38,968	**30,464**	13,715
Less: Impairment loss recognised	**–**	(138)	**–**	–
	62,540	38,830	**30,464**	13,715

Movement of impairment losses recognised:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Balance at beginning of the year	**138**	2,040	**–**	2,040
Reversal of impairment loss recognised during the year	**–**	(2,040)	**–**	(2,040)
Impairment loss recognised during the year	**–**	138	**–**	–
Amounts written off as uncollectible	**(138)**	–	**–**	–
Balance at end of the year	**–**	138	**–**	–

24. LOANS RECEIVABLE

	Group	
	2011	2010
	HK$'000	HK$'000
Loans receivable	**20,000**	13,000

The range of effective interest rates (which are equal to contractual interest rates) on the Group's loans receivable is 10% to 18% (2010: 12% to 18%) per annum.

The loans receivable, which are recoverable within one year, are neither past due nor impaired.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2011

25. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Held for trading:				
Listed equity securities investments in Hong Kong, at market value	**487,676**	176,990	**–**	4,752

The listed equity securities investments at 31 March 2011 and 2010 were classified as held for trading. The fair values of listed equity securities investments are determined based on the quoted market bid prices available on the Stock Exchange.

26. PLEDGED BANK DEPOSITS AND CASH AND BANK BALANCES

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and cash equivalents	**509,938**	619,153	**330,301**	549,028
Time deposits with original maturity of more than three months	**–**	50,000	**–**	50,000
Cash and bank balances	**509,938**	669,153	**330,301**	599,028
Pledged bank deposits *(note 37)*	**248,028**	131,099	**–**	–
Total	**757,966**	800,252	**330,301**	599,028

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances, and pledged deposits are deposited with creditworthy banks with no recent history of default.

27. ACCOUNTS AND BILLS PAYABLE

An aged analysis of the accounts and bills payable at the end of the reporting period, based on invoice date, is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Within 30 days	**84,101**	57,475
31 to 60 days	**867**	1,020
61 to 90 days	**126,543**	887
91 to 180 days	**2,579**	339
Over 180 days	**4,590**	307
	218,680	60,028

The accounts and bills payable are non-interest bearing and are normally settled on 60 days term. As at 31 March 2011, the Group had bills payable of approximately HK$216,284,000 (2010: HK$27,428,000), which were ranged from within 30 days to over 180 days.

28. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other payables *(note)*	**139,401**	144,952	**–**	4,753
Accruals	**4,549**	4,920	**3,576**	1,741
	143,950	149,872	**3,576**	6,494

Note: Included in other payables of the Group of approximately HK$112,159,000 (2010: HK$107,714,000) was the balance payment of the consideration for the transfer of intangible asset. This payable was arising from acquisition of subsidiaries. For details of the intangible asset and the acquisition, please refer to notes 18 and 36(a).

29. BANK LOANS

	Group	
	2011	2010
	HK$'000	HK$'000
Bank loans – secured	**35,672**	35,402
Carrying amount repayable:		
On demand or within one year	**35,672**	35,402
Less: Amounts due within one year shown under current liabilities	**(35,672)**	(35,402)
	–	–

The bank loans were secured by the Group's building and prepaid lease payments (note 37). The weighted average effective interest rate on the bank loans is 9.53% (2010: 9.56%) per annum.

During the years ended 31 March 2011 and 31 March 2010, Ju Xie Chang delayed in repayment of principal amounts and interests of the bank loans. The delay arose because Ju Xie Chang was renegotiating the terms of the bank loans with the bank due to claims lodged by the bank in the PRC. As at the end of the reporting period, the principal amount of the bank loans and interests in default of HK$35,672,000 (2010: HK$35,402,000) and HK$15,042,000 (2010: HK$10,264,000) had been fully provided and included in the bank loans and other payables respectively.

30. AMOUNT DUE TO A DIRECTOR

The Group

The amount due is unsecured, non-interest bearing and repayable on demand.

31. CONVERTIBLE NOTES

	Group and Company	
	2011	2010
	HK$'000	HK$'000
Convertible Notes 2010 (as defined below) – classified as non-current liabilities	**161,347**	147,882
	161,347	147,882

Notes:

(a) On 20 June 2007, the Company entered into a conditional placing agreement with Interchina Securities Limited (the "Placing Agent") in relation to the placing by the Placing Agent, on a best effort basis, of the Company's convertible notes with principal amount up to HK$100,000,000 (the "New Convertible Notes") to independent third parties (the "Placing Agreement"). The completion of the Placing Agreement and the issue of the New Convertible Notes were approved by the independent shareholders of the Company in the special general meeting of the Company held on 6 August 2007.

Pursuant to the Placing Agreement, the New Convertible Notes were convertible into shares of the Company at an initial conversion price of HK$0.28 per share. Pursuant to the terms of the New Convertible Notes, the initial conversion price was adjusted from HK$0.28 per share to HK$0.274 per share and the total number of shares to be issued under the New Convertible Notes was adjusted from 116,071,427 shares to 118,613,137 shares of the Company. Such adjustments became effective on 6 March 2009. All the other terms of the New Convertible Notes remain unchanged. Details of such adjustments are set out in the announcement of the Company dated 16 March 2009.

During the year ended 31 March 2010, all outstanding New Convertible Notes had been converted into shares of the Company and no New Convertible Notes was outstanding as at 31 March 2010.

(b) On 8 January 2010, the Company entered into a placing agreement with Kingston Securities Limited ("Kingston"), pursuant to which Kingston agreed, amongst other things, to procure, on a best effort basis, placees to subscribe in cash of the Company's convertible notes (the "Convertible Notes 2010") with principal amount up to HK$244,900,000 at an initial conversion price of HK$0.62 per share. The Convertible Notes 2010 will be due on 27 January 2013 and is interest-bearing at 1% per annum. On 28 January 2010, the Convertible Notes 2010 in the aggregate principal amount of HK$244,900,000 were issued to not less than six placees.

On 29 January 2010, three placees converted the Convertible Notes 2010 of an aggregate principal amount of HK$55,800,000, which resulted in a total number of 90,000,000 shares of HK$0.01 each being issued by the Company.

As at 1 April 2010 and 31 March 2011, the outstanding principal amount of the Convertible Notes 2010 was HK$189,100,000. There was no conversion of convertible notes during the year ended 31 March 2011.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar note without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

The effective interest rates of the liability component is 10.43%.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2011

31. CONVERTIBLE NOTES (continued)

The movement of the liability component of the convertible notes for the year is set out below:

	As at 31 March 2011 HK$'000	As at 31 March 2010 HK$'000
Liability component at beginning of the year	**147,882**	30,563
Nominal value of the convertible notes issued for the year	**–**	244,900
Equity component	**–**	(53,148)
Direct transaction costs attributable to the liability component	**–**	(3,010)
Interest expenses for the year *(note 8)*	**15,356**	3,277
Interest paid	**(1,891)**	(323)
Conversion of convertible notes	**–**	(74,377)
Liability component at end of the year	**161,347**	147,882

32. DEFERRED TAX

Deferred tax liabilities

The major deferred tax liabilities recognised by the Group and the Company, and movements thereon during the current and prior years are as follows:

	Group			
	Prepaid lease payments	**Intangible asset**	**Convertible notes**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 2009	–	–	–	–
Acquisition of subsidiaries	7,632	8,000	–	15,632
Issue of convertible notes	–	–	9,266	9,266
Reversal of deferred tax due to conversion of convertible notes	–	–	(2,110)	(2,110)
Credit to consolidated statement of comprehensive income *(note 12)*	(29)	–	(355)	(384)
At 31 March 2010 and 1 April 2010	7,603	8,000	6,801	22,404
Exchange realignment	309	330	–	639
Credit to consolidated statement of comprehensive income *(note 12)*	(173)	–	(2,222)	(2,395)
At 31 March 2011	**7,739**	**8,330**	**4,579**	**20,648**

	Company
	Convertible notes
	HK$'000
At 1 April 2009	–
Issue of convertible notes	9,266
Reversal of deferred tax due to conversion of convertible notes	(2,110)
Credit to statement of comprehensive income	(355)
At 31 March 2010 and 1 April 2010	6,801
Credit to statement of comprehensive income	(2,222)
At 31 March 2011	**4,579**

Notes to the Consolidated Financial Statements

For the year ended 31 March 2011

32. DEFERRED TAX (continued)

Deferred tax assets

The Group has tax losses arising in Hong Kong of approximately HK$126,845,000 (2010: HK$14,581,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in companies that have been loss-making for some time and future profit stream is unpredictable.

33. SHARE CAPITAL

	Number of shares		Amount	
	2011	2010	**2011**	2010
	'000	'000	**HK$'000**	HK$'000
Authorised:				
At beginning of the year and at the end of the year, ordinary shares of HK$0.01 each	**10,000,000**	10,000,000	**100,000**	100,000
Issued and fully paid:				
At beginning of the year	**2,555,480**	1,395,715	**25,555**	13,957
Issue of ordinary shares *(notes (a) and (b))*	**1,517,000**	838,672	**15,170**	8,387
Issue of ordinary shares on exercise of share options *(note (c))*	**46,000**	112,480	**460**	1,125
Conversion of convertible notes	**–**	208,613	**–**	2,086
At end of the year	**4,118,480**	2,555,480	**41,185**	25,555

33. SHARE CAPITAL (continued)

Notes:

Details of the changes in the Company's share capital for the year ended 31 March 2011 are as follows:

(a) On 28 September 2010, the Company entered into a placing agreement with a placing agent, pursuant to which the Company agreed to place through the placing agent, on a fully underwritten basis, 517,000,000 new shares of the Company at a price of HK$0.285 per share. The placing was completed on 12 October 2010. The net proceeds from this placing of approximately HK$142,912,000 (equivalent to a net price of approximately HK$0.276 per share) were used as general working capital of the Group.

(b) On 10 November 2010, the Company entered into a placing agreement with a placing agent, pursuant to which the placing agent agreed to place, on a best effort basis, up to 1,000,000,000 new shares of the Company at a price of HK$0.32 per share. The placing was completed and 1,000,000,000 new shares of the Company were allotted on 8 February 2011. The net proceeds from this placing of approximately HK$311,400,000 (equivalent to a net price of approximately HK$0.311 per share) were mainly used as general working capital of the Group.

(c) During the year ended 31 March 2011, the subscription rights attaching to 46,000,000 share options were exercised at the subscription price of HK$0.272 per share, resulted in the issue of 46,000,000 shares of the Company of HK$0.01 each for a cash consideration of HK$12,512,000 and the transfer of approximately HK$7,739,000 from the share option reserve to the share premium account. Details of the share option scheme of the Company are set out in note 34.

34. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, employees of the Group, suppliers of goods or services to the Group, customers of the Group and any shareholder of the Group. The Scheme became effective on 30 December 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 10%, in nominal amount, of the issued share capital of the Company on the adoption date of the Scheme (the "Scheme Mandate Limit"). The Company may seek approval of its shareholders in a general meeting to refresh the Scheme Mandate Limit, provided that the total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company under the Scheme Mandate Limit as refreshed must not exceed 10% of the shares of the Company in issue as at the date of approval of the refreshment of the Scheme Mandate Limit. Options which have lapsed in accordance with the terms of the Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

34. SHARE OPTION SCHEME (continued)

Share options granted to any director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any grant of share options to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled or outstanding) to such person in the 12-month period up to and including the date of such grant (a) representing in aggregate over 0.1% of the shares of the Company in issue; and (b) having an aggregate value, based on the closing price of the shares of the Company as stated in the daily quotation sheet issued by the Stock Exchange on the date of grant, in excess of HK$5,000,000, is subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of grant, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors or up to the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors of the Company in their absolute discretion, but in any event shall not be less than the greatest of (i) the closing price of the Company's shares as stated in the daily quotation sheet issued by the Stock Exchange on the date of grant of the share options; (ii) the average closing price of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant of share options; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Details of specific categories of share options are as follows:

Tranche	**Date of grant of share options**	**Exercise period of share options**	**Exercise price of share options** HK$ per share	**Closing price of the Company's shares immediately before the grant date** HK$ per share
One	30-04-2008	30-04-2008 to 29-04-2010	0.188	0.185
Two	01-09-2009	01-09-2009 to 31-08-2012	0.272	0.208

34. SHARE OPTION SCHEME (continued)

The movement of share options under the Scheme during the year is presented as follows:

	Number of share options				
Name or category of participant	**At 1 April 2010** '000	**Granted during the year** '000	**Exercised during the year** '000	**Lapsed during the year** '000	**At 31 March 2011** '000
Tranche Two					
Directors					
Suen Cho Hung, Paul	16,000	–	–	–	**16,000**
Sue Ka Lok	16,000	–	(16,000)	–	**–**
	32,000	–	(16,000)	–	**16,000**
Employees					
In aggregate	30,000	–	(30,000)	–	**–**
Total	62,000	–	(46,000)	–	**16,000**

Notes:

(a) The share options granted are vested upon granted.

(b) The exercise price of the share options is subject to adjustments in the case of capitalisation of profits or reserve, rights or bonus issues, consolidation, subdivision or reduction of the share capital or other changes in the capital structure of the Company.

(c) The closing price per share quoted on the Stock Exchange on the trading date immediate before the date on which the share options were granted was HK$0.208.

(d) The weighted average closing price per share quoted on the Stock Exchange on the trading dates before the dates on which the share options were exercised was HK$0.718.

(e) No share options were granted, cancelled or lapsed during the year ended 31 March 2011.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2011

34. SHARE OPTION SCHEME (continued)

The movement of share options under the Scheme during prior year is presented as follows:

	Number of share options				
Name or category of participant	At 1 April 2009 '000	Granted during the year '000	Exercised during the year '000	Lapsed during the year '000	At 31 March 2010 '000
Tranche One					
Directors					
Mr. Suen Cho Hung, Paul	10,000	–	(10,000)	–	–
Mr. Lo Ming Chi, Charles	3,000	–	(3,000)	–	–
Mr. Sue Ka Lok	10,000	–	(10,000)	–	–
	23,000	–	(23,000)	–	–
Employees					
In aggregate	33,656 *(note (f))*	–	(25,656)	(8,000)	–
Consultants					
In aggregate	1,256	–	(1,256)	–	–
Subtotal	57,912	–	(49,912)	(8,000)	–
Tranche Two					
Directors					
Suen Cho Hung, Paul	–	16,000	–	–	16,000
Sue Ka Lok	–	16,000	–	–	16,000
	–	32,000	–	–	32,000
Employees					
In aggregate	–	92,568	(62,568)	–	30,000
Subtotal	–	124,568	(62,568)	–	62,000
Total	57,912	124,568	(112,480)	(8,000)	62,000

34. SHARE OPTION SCHEME (continued)

Notes:

(a) The share options granted under Tranche Two are vested upon granted.

(b) The exercise price of the share options is subject to adjustments in the case capitalisation of profits or reserve, rights or bonus issues, consolidation, subdivision or reduction of the share capital or other changes in the capital structure of the Company.

(c) The closing price per share quoted on the Stock Exchange on the trading date immediate before the date on which the share options were granted under Tranche Two was HK$0.208.

(d) The weighted average closing price per share quoted on the Stock Exchange on the trading dates before the dates on which the share options were exercised under Tranche One and Two were HK$0.60 and HK$0.89 respectively.

(e) For share options granted under Tranche One, a total of 8,000,000 share options were lapsed during the year ended 31 March 2010 due to the resignation of an employee on 1 April 2009, which resulted in the reduction in the share option reserve of approximately HK$366,000. No other options was cancelled during the year ended 31 March 2010.

(f) The 1,000,000 share options of Mr. Yu Wai Man, the former director of the Company, has been re-categorised as share options of employee after his resignation as a director of the Company on 5 November 2008.

The fair value of share options granted during the year ended 31 March 2010 in the amount of approximately HK$20,958,000 was recognised as expenses in the statement of comprehensive income of the Company. The Company had used the Trinomial Option Pricing Model to value the share options granted during the year ended 31 March 2010.

The following assumptions were used to calculate the fair values of share options:

	As at 1 September 2009	As at 30 April 2008
Grant date share price	**HK$0.255**	HK$0.186
Exercisable period	**3 years**	2 years
Exercise price	**HK$0.272**	HK$0.188
Expected volatility	**111.98%**	108.40%
Early exercise behaviour	**N/A**	126% of exercise price
Nature of the share options	**Call**	Call
Risk-free interest rate	**0.92%**	1.662%

The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions. The expected volatility was determined with reference to the historical daily volatilities of the share prices of the Company as extracted from Bloomberg. The risk-free interest rate was determined with reference to the period average yields of the Exchange Fund Notes of comparable term issued by the Hong Kong Monetary Authority as extracted from Bloomberg.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2011

34. SHARE OPTION SCHEME (continued)

During the year ended 31 March 2011, an aggregate of 46,000,000 share options granted under Tranche Two were exercised by certain employees and a director of the Company at an exercise price of HK$0.272 per share, which resulted in the issue of 46,000,000 shares of the Company, an increase of share capital of HK$460,000, an increase of share premium of approximately HK$19,791,000 and the reduction in the share option reserve of approximately HK$7,739,000.

Subsequent to the year ended 31 March 2011 and up to the reporting date, no share options granted under Tranche Two were exercised by any share option holder. As at the date of this annual report, the total number of shares available for issue upon exercise of share options granted under the Scheme is 16,000,000 shares, which represented approximately 0.39% of the Company's shares in issue as at that date.

35. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the consolidated financial statements.

35. RESERVES (continued)

(b) Company

	Share premium HK$'000	Contributed surplus HK$'000	Convertible notes equity reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2009	244,424	3,085	4,992	2,647	(61,050)	194,098
Loss for the year	–	–	–	–	(28,364)	(28,364)
Total comprehensive expense for the year	–	–	–	–	(28,364)	(28,364)
Issue of convertible notes	–	–	53,148	–	–	53,148
Direct transaction costs attributable to the equity component of convertible notes	–	–	(834)	–	–	(834)
Deferred tax arising on issue of convertible notes	–	–	(9,266)	–	–	(9,266)
Conversion of the convertible notes	89,203	–	(16,912)	–	–	72,291
Reversal of deferred tax due to conversion of convertible notes	–	–	2,110	–	–	2,110
Issue of shares	573,514	–	–	–	–	573,514
Transaction costs attributable to issue of shares	(11,948)	–	–	–	–	(11,948)
Recognition of equity settled share-based payment expenses	–	–	–	20,958	–	20,958
Lapse of share option	–	–	–	(366)	366	–
Share options exercised during the year	38,085	–	–	(12,808)	–	25,277

Notes to the Consolidated Financial Statements

For the year ended 31 March 2011

35. RESERVES (continued)

(b) Company (continued)

	Share premium HK$'000	Contributed surplus HK$'000	Convertible notes equity reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 31 March 2010 and 1 April 2010	933,278	3,085	33,238	10,431	(89,048)	890,984
Loss for the year	–	–	–	–	(123,772)	(123,772)
Total comprehensive expense for the year	–	–	–	–	(123,772)	(123,772)
Issue of shares	452,175	–	–	–	–	452,175
Transaction costs attributable to issue of shares	(13,033)	–	–	–	–	(13,033)
Share options exercised during the year	19,791	–	–	(7,739)	–	12,052
At 31 March 2011	**1,392,211**	**3,085**	**33,238**	**2,692**	**(212,820)**	**1,218,406**

36. ACQUISITIONS OF SUBSIDIARIES

(a) Acquisition of Beijing Yu Sheng Tang Holdings Limited

On 29 January 2010, the Group entered into a sale and purchase agreement to acquire the entire issued share capital of Beijing Yu Sheng Tang Holdings Limited, which directly and indirectly held 100% equity interest in Yu Sheng Tang and Weikang Yigan (Beijing) Technology Development Company Limited* ("Weikang Yigan") (維康依感（北京）科技發展有限公司) respectively and 70% equity interest in Yu Sheng Tang Clinic (collectively referred to as the "Beijing Yu Sheng Tang Group"), and shareholder's loan at a total consideration of approximately HK$29,758,000. For details, please refer to the Company's announcement dated 29 January 2010.

* *For identification purpose only*

	Acquiree's carrying amount HK$'000	Fair value adjustments HK$'000	Fair value HK$'000
Net assets acquired:			
Property, plant and equipment	1,136	–	1,136
Intangible asset	114,286	32,000	146,286
Inventories	421	–	421
Prepayments, deposits and other receivables	10,393	–	10,393
Cash and bank balances	3,681	–	3,681
Other payables and accruals	(110,771)	–	(110,771)
Deferred tax liabilities	–	(8,000)	(8,000)
	19,146	24,000	43,146
Excess of acquirer's interest in fair value of acquiree's identifiable net assets over costs			(10,688)
Total consideration			32,458

	HK$'000
Total consideration satisfied by:	
Cash consideration	29,758
Direct attributable costs	2,700
	32,458

36. ACQUISITIONS OF SUBSIDIARIES (continued)

(a) Acquisition of Beijing Yu Sheng Tang Holdings Limited (continued)

	HK$'000
Net cash outflow arising on acquisition:	
Cash and bank balances acquired	3,681
Cash consideration paid	(32,458)
	(28,777)

Notes:

(i) In the opinion of the directors of the Company, the excess of acquirer's interest in fair value of acquiree's identifiable net assets over cost arose in the business combination is mainly attributable to the increase in the fair value of the intellectual property in relation to Jinhua Qinggan, a Chinese medicine aimed at treating patients who have been infected with Influenza A (H1N1) and other types of influenza. The excess was recognised in the consolidated statement of comprehensive income immediately. The Company has reassessed the fair value of acquiree's identifiable net assets and considered the values of net assets are measured reliably.

(ii) The loss and the revenue contributed by Beijing Yu Sheng Tang Group from the date of acquisition to 31 March 2010 attributable to the Group were HK$1,408,000 and HK$6,000 respectively.

(iii) If the acquisition had been completed on 1 April 2009, the Group's total revenue and loss for the year 2010 would have been approximately HK$859,900,000 and HK$17,162,000 respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 April 2009, nor is it intended to be a projection of future results.

(b) Acquisition of Ju Xie Chang

On 10 February 2010, Weikang Yigan, an indirect wholly-owned subsidiary of the Company entered into an equity transfer agreement ("Equity Transfer Agreement") to acquire from independent third parties ("Vendors") the entire equity interest of Ju Xie Chang, at a total consideration of RMB15,000,000 (equivalent to approximately HK$17,145,000).

Pursuant to the Equity Transfer Agreement, one of the Vendors shall acquire the remaining 5% equity interests in Ju Xie Chang then held by a third party and transfer such 5% equity interests in Ju Xie Chang to the Group. Under the Equity Transfer Agreement, the parties have agreed on the total liabilities of Ju Xie Chang as at 8 February 2010 as being RMB45,000,000 ("Agreed Liabilities"), to be assumed by Weikang Yigan commencing from the date of execution of the Equity Transfer Agreement. If total liabilities of Ju Xie Chang are subsequently discovered to be more or less than the Agreed Liabilities, Weikang Yigan shall have the right to adjust from the balance of consideration payable accordingly. For further details, please refer to the Company's announcement dated 10 February 2010.

36. ACQUISITIONS OF SUBSIDIARIES (continued)

(b) Acquisition of Ju Xie Chang (continued)

During the year ended 31 March 2010, Weikang Yigan completed the acquisition of 95% equity interest in Ju Xie Chang. The excess of acquisition cost over the Group's interest in fair value of Ju Xie Chang is identifiable net assets included a control premium paid to acquire the equity interest in Ju Xie Chang. In addition, the consideration paid for the combination effectively included amounts in relation to the benefits of expected synergies. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

	Acquiree's carrying amount HK$'000	Fair value adjustments HK$'000	Fair value HK$'000
Net assets acquired:			
Property, plant and equipment	33,449	–	33,449
Prepaid lease payments	2,649	30,528	33,177
Cash and bank balances	60	–	60
Other payables and accruals	(22,109)	–	(22,109)
Bank loans	(35,402)	–	(35,402)
Deferred tax liabilities	–	(7,632)	(7,632)
	(21,353)	22,896	1,543
Non-controlling interests			(77)
Goodwill			9,935
Total consideration			11,401

	HK$'000
Total consideration satisfied by:	
Cash consideration	16,286
Consideration adjustment	(6,082)
Direct attributable costs	1,197
	11,401

Notes to the Consolidated Financial Statements

For the year ended 31 March 2011

36. ACQUISITIONS OF SUBSIDIARIES (continued)

(b) Acquisition of Ju Xie Chang (continued)

	HK$'000
Net cash outflow arising on acquisition:	
Cash and bank balances acquired	60
Cash consideration paid	(11,484)
	(11,424)

On 12 October 2010, Weikang Yigan completed the acquisition of the remaining 5% equity interests in Ju Xie Chang pursuant to the Equity Transfer Agreement with no consideration paid because the actual total liabilities of Ju Xie Chang as at 8 February 2010 were subsequently discovered to be more than the Agreed Liabilities. The excess of the Agreed Liabilities was offset against the outstanding consideration. Ju Xie Chang became a wholly owned subsidiary of the Group on 12 October 2010.

37. PLEDGE OF ASSETS

At 31 March 2011, time deposits of approximately HK$248,028,000 (2010: HK$131,099,000) were pledged to secure banking facilities to the Group.

At 31 March 2011, the buildings and prepaid lease payments of approximately HK$30,127,000 (2010: HK$29,832,000) and HK$33,643,000 (2010: HK$33,053,000) respectively were pledged to secure for the bank loans of the Group.

38. CAPITAL COMMITMENTS

	Group	
	2011	2010
	HK$'000	HK$'000
Commitments for acquisition of property, plant and equipment	**105**	–

Notes to the Consolidated Financial Statements

For the year ended 31 March 2011

39. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for the properties are negotiated for terms of two to five years.

At 31 March 2011 and 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2011	2010
	HK$'000	HK$'000
Within one year	**3,212**	2,429
In the second to fifth years, inclusive	**4,769**	5,828
	7,981	8,257

40. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, the Group also had the following related party transactions for the year ended 31 March 2011 and 2010.

Compensation of key management personnel of the Group:

	2011	2010
	HK$'000	HK$'000
Short term employee benefits	**5,117**	2,575
Post-employment benefits	**244**	89
Equity settled share-based payment expenses	**–**	5,384
Total compensation paid to key management personnel	**5,361**	8,048

Further details of directors' emoluments are included in note 10 to the consolidated financial statements.

41. EVENTS AFTER THE REPORTING PERIOD

There was no significant event happened after the end of the reporting period.

42. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 23 June 2011.`

Five-Year Financial Summary

RESULTS

	Year ended 31 March				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**1,878,475**	859,758	350,146	129,582	193,989
Profit/(loss) before taxation	**(122,788)**	(16,971)	(3,712)	(9,486)	3,643
Taxation	**1,618**	224	(1,773)	(655)	(3,553)
Profit/(loss) for the year	**(121,170)**	(16,747)	(5,485)	(10,141)	90
Attributable to:					
Owners of the Company	**(120,373)**	(16,762)	(4,907)	(12,854)	(7,904)
Non-controlling interests	**(797)**	15	(578)	2,713	7,994
	(121,170)	(16,747)	(5,485)	(10,141)	90

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 March				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**1,877,569**	1,362,814	275,269	290,849	166,931
Total liabilities	**(580,744)**	(416,088)	(47,236)	(113,678)	(128,178)
Non-controlling interests	**734**	(47)	(11)	(608)	(688)
Equity attributable to owners of the Company	**1,297,559**	946,679	228,022	176,563	38,065