Annual Report

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

Abbreviations

In this annual report, the following abbreviations have the following meanings unless otherwise specified:

"Board"	the Board of Directors of the Company
"Company"	Beijing Yu Sheng Tang Pharmaceutical Group Limited
"Directors"	the directors of the Company from time to time
"Group"	the Company and its subsidiaries
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	the People's Republic of China
"RMB"	Renminbi
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"HK$" and "cents"	Hong Kong dollars and cents
"%"	per cent.

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

NOMINATION COMMITTEE

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

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
ABN AMRO Bank N.V.

LEGAL ADVISERS

Reed Smith 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 2012, the Group reported revenue of HK$1,114,563,000, decreased by 41% from last year (2011: HK$1,878,475,000), and a gross profit of HK$20,324,000, dropped by 60% from the previous year (2011: HK$50,601,000). The decreases in the Group's revenue and gross profit were largely due to the decline in volume of metal minerals traded by the Group's supply and procurement division during the year.

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 posted revenue of HK$1,059,617,000 (2011: HK$1,857,066,000), declined by 43% from last year, and incurred operating loss of HK$15,165,000, in contrast to the operating profit of HK$31,708,000 in the previous year. During the last quarter of 2011, the building materials market in the Mainland showed a rapid slowdown and a drop in demand for metal minerals, which in turn, was caused by the financial tightening measures imposed on the property sector by the Chinese government. The noticeable drop in demand of metal minerals drove down the division's revenue and consequently its profitability, in addition, the very volatile metal minerals market appeared in the fourth quarter of 2011 also posed problems on the division in fixing prices for its commodities, which ultimately resulted in a shipment of goods being completed at a considerable loss. Overall speaking, the year under review was a difficult year for the division. Looking forward, there are signs that the metal minerals market in the Mainland is stabilized and management expects that, given the current economic situation in the Mainland, the demand and price for metal minerals will tend to be steady in 2012.

For the year under review, the revenue of the Group's pharmaceutical division increased by 118% to HK$34,490,000 (2011: HK$15,791,000) which mainly represented the sales income of Jinhua Qinggan, a Chinese medicine for treating patients 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, and the division will be able to market the medicine as a non-prescription drug to public subject to the issuance of a new drug certificate from the relevant authorities in Mainland China. The division has submitted medicine tests results in connection with the application of such certificate and is still awaiting for feedback and results of its application. Despite the increase of its revenue, the division recorded operating loss of HK$8,053,000 (2011: HK$3,404,000) primarily for the reasons that substantial promotional expenses were incurred in marketing Jinhua Qinggan and that sales volume of the medicine had not yet reached a scale that could cover the division's operating costs, in particular, the high start-up costs in its early stage of operation.

The financing division continued to contribute a stable income to the Group's results for the year. The division reported revenue and operating profit of HK$4,418,000 (2011: HK$3,289,000) and HK$4,235,000 (2011: HK$3,250,000) respectively, increased by 34% and 30% over their comparables in last year. The increases were mainly due to the comparatively higher average amount of loans advanced to customers over the previous year.

The Group's securities division incurred an overall operating loss of HK$414,792,000 (2011: HK$119,053,000) for the year. The Group invested in Hong Kong listed equity securities, convertible bonds and equity-linked notes and loss incurred comprised mainly unrealised loss of HK$410,246,000 (2011: HK$89,162,000) from holdings of listed equity securities and convertible bonds at the financial year end.

For the year ended 31 March 2012, the Group recorded loss attributable to owners of the Company of HK$467,851,000 (2011: HK$120,373,000) and basic loss per share of HK38.34 cents (2011: HK15.02 cents (restated)). Such loss was mainly attributed to the loss incurred by the Group's securities investment division. Throughout the financial year, the Hong Kong stock market had been under the negative influences of the sovereign debts crises in Europe, the slow recovery of the United States economy, the financial tightening measures imposed by the Chinese government on its banking and property sector, and the slowdown of GDP growth of the Mainland economy. From April 2011 to March 2012, Hang Seng Index, Hang Seng Chinese Enterprises Index and Hang Seng Composite Mid Cap Index dropped by approximately 14%, 21% and 23% respectively. Investor confidence and market sentiments were weak for a large part of the year and prices of listed securities invested by the Group fell. Looking ahead, it is expected that the global financial and investment markets will continue to be volatile in view of the issues including the European sovereign debt crises, the state of recovery of the US economy and the slower GDP growth of the Mainland economy. The management will review and reformulate its investment strategy from time to time in order to cope with these market volatilities.

PROSPECTS

During the year, most of the businesses of the Group had been negatively affected by the global financial issues by varying degrees and recorded losses. Looking forward, in view of the uncertainties and challenges embedded in the business environments the Group is operating in, the management will manage the Group's businesses in a cautious and prudent manner and will review its business strategy regularly aiming to ensure a stable prospect to shareholders.

APPRECIATION

The year under review was a difficult year for the Group. 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 during the past year.

Suen Cho Hung, Paul
Chairman

Hong Kong, 27 June 2012

Management Discussion and Analysis

OPERATIONS REVIEW

For the year ended 31 March 2012, the Group continued to engage in the businesses of supply and procurement of metal minerals, pharmaceutical products, provision of finance and securities investment.

During the year under review, the Group's supply and procurement division continued to focus on the sourcing, transporting and supplying of metal minerals to industrial customers based in Mainland China. The division posted revenue of HK$1,059,617,000 and operating loss of HK$15,165,000, in contrast to revenue of HK$1,857,066,000 and operating profit of HK$31,708,000 in last year. During the last quarter of 2011, the building materials market in the Mainland showed a rapid slowdown and a drop in demand for metal minerals, which in turn, was caused by the financial tightening measures imposed on the property sector by the Chinese government. The noticeable drop in demand of metal minerals drove down the division's revenue and consequently its profitability, in addition, the very volatile metal minerals market appeared in the fourth quarter of 2011 also posed problems on the division in fixing prices for its commodities, which ultimately resulted in a shipment of goods being completed at a considerable loss. The division's results were further adversely affected by the loss of approximately HK$8 million incurred due to the deviation of minerals content of a shipment of iron ore transacted. The Group had initiated an arbitration claim against the supplier of that shipment and the case was finally settled through mediation. The Group was awarded a compensation of approximately HK$4.5 million and out of which approximately HK$2.6 million had been received, this amount, together with compensations for two other claims of similar nature totaling approximately HK$8.5 million was included as other income and partly offset the loss incurred by the division. The division's lower trade volume this year was the main cause that led to 81% decrease in the Group's accounts and bills receivable to HK$57,447,000 (2011: HK$300,542,000) and the 90% decrease in the Group's accounts and bills payable to HK$22,590,000 (2011: HK$218,680,000) compared to last year.

During the year, the Group continued 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 Group's pharmaceutical division increased by 118% to HK$34,490,000 (2011: HK$15,791,000) for the year. Currently, Jinhua Qinggan is selling as a prescription drug to designated medical institutions in Beijing, and the division will be able to market the medicine as a non-prescription drug to public subject to the issuance of a new drug certificate from the relevant authorities in Mainland China. The division has submitted medicine tests results in connection with the application of such certificate and is still awaiting for feedback and results of its application. Despite the increase of its revenue, the division recorded operating loss of HK$8,053,000 (2011: HK$3,404,000) primarily for the reasons that substantial promotional expenses were incurred in marketing Jinhua Qinggan and that sales volume of the medicine had not yet reached a scale that could cover the division's operating costs, in particular, the high start-up costs in its early stage of operation. The management performed an annual review of the value of the intellectual property relating to production and sale of Jinhua Qinggan in light of, amongst others, the future cash flows of the medicine (after having considered its historical performance) and the financial budgets for the medicine. It was concluded that an impairment loss of HK$21,704,000 (2011: nil) should be recognised in view of the revised prospect of the medicine.

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 34% and 30% to HK$4,418,000 (2011: HK$3,289,000) and HK$4,235,000 (2011: HK$3,250,000) respectively. The increases were mainly due to the comparatively higher average amount of loans advanced to customers over the previous year. The loan portfolio held by the Group amounted to HK$66,838,000 (2011: HK$20,000,000) at the year end.

The Group's securities investment division recorded revenue of HK$16,038,000, jumped sharply by 5.9 times compared to last year (2011: HK$2,329,000). The revenue of the division represented mainly dividend income from listed share investments and interest income from convertible bonds and equity-linked notes. As a whole, the Group's securities division incurred an overall operating loss of HK$414,792,000 (2011: HK$119,053,000) for the year. The Group invested in Hong Kong listed equity securities, convertible bonds and equity-linked notes, and loss incurred comprised mainly unrealised loss of HK$410,246,000 (2011: HK$89,162,000) from holdings of listed equity securities and convertible bonds measured at fair values at the financial year end. Throughout the financial year, the Hong Kong stock market had been under the negative influences of the sovereign debts crises in Europe, the slow recovery of the United States economy, the financial tightening measures imposed by the Chinese government on its banking and property sector, and the slowdown of GDP growth of the Mainland economy. From April 2011 to March 2012, Hang Seng Index, Hang Seng Chinese Enterprises Index and Hang Seng Composite Mid Cap Index dropped by approximately 14%, 21% and 23% respectively. Investor confidence and market sentiments were weak for a large part of the year and prices of listed securities invested by the Group fell. The Group's securities portfolio at the year end comprised mainly listed equity securities in conglomerate company, infrastructure company, property company, mining and resources company, industrial materials company, consumer electronics company, healthcare services company, agricultural machinery company, automobile retailing company and financial services company. At the year end, the Group's securities and convertible bonds portfolio was valued at HK$715,251,000 (2011: HK$487,676,000).

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

At 31 March 2012, the Group had current assets of HK$1,230,337,000 (2011: HK$1,642,903,000) and liquid assets comprising cash and bank balances and short-term securities investments totaled HK$1,029,865,000 (2011: HK$997,614,000) (excluding pledged bank deposits). The Group's current ratio, calculated based on current assets of HK$1,230,337,000 (2011: HK$1,642,903,000) over current liabilities of HK$241,615,000 (2011: HK$398,749,000), was at a strong ratio of 5.09 at the year end (2011: 4.12).

The Company issued approximately 2,554 million new shares (after adjusted for the effect of share consolidation in February 2012) and raised net proceeds of approximately HK$386.3 million during the year as a result of placing and rights issue of new shares as well as exercising of warrants. At the year end, equity attributable to owners of the Company amounted to HK$1,199,742,000, representing a decrease of 8% compared to last year (2011: HK$1,297,559,000), and is equivalent to an amount of approximately HK$0.40 per share of the Company. The decrease of the equity attributable to owners of the Company was mainly a result of the loss incurred by the Group, after partly offset by the new capital raised during the year.

At 31 March 2012, the Group's total indebtedness comprised bank advances for discounted bills and bank loans with aggregate amount of HK$59,920,000 (2011: HK$197,019,000 (including fair value of convertible notes)). The Group's gearing ratio, calculated on the basis of total indebtedness divided by total indebtedness plus equity attributable to owners of the Company, was at a low ratio of 5% at the year end (2011: 13%). The bank loans were repayable within one year, denominated in Renminbi and bore interest at floating rates.

The Group's finance costs for the current year included an interest on convertible notes of HK$7,890,000 (2011: HK$15,356,000) calculated in accordance with the Group's accounting policy on financial instruments, yet only part of that interest of HK$912,000 (2011: HK$1,891,000) required cash settlement whereas the rest of the amount was not associated with any cash outlay. In September 2011, the Company repurchased all outstanding convertible notes in an aggregate principal amount of HK$189,100,000 at the price of HK$187,209,000, representing a discount of 1% on the aggregate principal amount of such notes. The net gain on repurchase of the convertible notes amounted to HK$2,159,000, which was included as other income.

With the amount of liquid assets on hand as well as bank credit facilities available, the management is of the view that the Group has 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 2012, bank deposits of HK$15,008,000 were pledged to secure banking facilities granted to the Group. The 94% decrease in pledged bank deposits compared with last year (2011: HK$248,028,000) was mainly due to decline in trade volume of the supply and procurement division with the results that less deposits were placed with banks to secure trade credit facilities granted to the Group at the year end.

At 31 March 2012, carrying amount of buildings and prepaid lease payments of HK$30,114,000 (2011: HK$30,127,000) and HK$33,974,000 (2011: HK$33,643,000) respectively were pledged to secure for bank loans of the Group.

Contingent Liability

At 31 March 2012, the Group had no significant contingent liability (2011: nil).

Capital Commitment

At 31 March 2012, the Group had no significant capital commitment (2011: HK$105,000).

EMPLOYEES AND REMUNERATION POLICY

At 31 March 2012, the Group had about 140 (2011: 130) employees including directors. Total staff costs for the year, including directors' remuneration, was HK$12,004,000 (2011: HK$12,001,000). 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 51, joined the Company as an Executive Director and the Chairman of the Company in November 2007. Mr. Suen 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, electrical and electronic consumer products, energy and property business ventures as well as in strategic planning and corporate management of business enterprises in Hong Kong and 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) ("BEP International"), and has been appointed an executive director and the chairman of Sunlink International Holdings Limited (stock code: 2336) ("Sunlink International") since 23 February 2012 and 1 March 2012 respectively. Both of the above companies are listed in Hong Kong.

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

Aged 47, joined the Company as an Executive Director in November 2007 and appointed 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, a non-executive director and the chairman of China Tycoon Beverage Holdings Limited (stock code: 209) ("China Tycoon"), and has been appointed an executive director and the chief executive officer of Sunlink International since 23 February 2012 and 1 March 2012 respectively. All of the above companies are listed companies in Hong Kong.

Biographical Details of Directors and Senior Management

Mr. Bai Jianjiang

Aged 49, 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.

Ms. Lee Chun Yeung, Catherine

Aged 44, joined the Group in February 2009 and was appointed 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 members of the Remuneration Committee and the Nomination Committee*

Aged 73, 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 a director of W. Wong CPA Limited and has more than 46 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.

Biographical Details of Directors and Senior Management

Mr. Weng Yixiang, *Chairman of the Remuneration Committee, members of the Audit Committee and the Nomination Committee*

Aged 53, 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, *Chairman of the Nomination Committee and members of the Audit Committee and the Remuneration Committee*

Aged 45, 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 44, joined the Company as Company Secretary in November 2008. Ms. Chan is also a director of a subsidiary of the Group. 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, an executive director of New Island Printing Holdings Limited (stock code: 377), and has been appointed the company secretary of Sunlink International since 23 February 2012. All of the above companies are listed companies in Hong Kong.

Report of the Directors

The Directors are pleased to present their report and the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 March 2012.

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 2012 are set out in the consolidated statement of comprehensive income on page 29.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 March 2012 (2011: 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 106. 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, WARRANTS, SHARE OPTIONS AND CONVERTIBLE NOTES

Details of movements in the Company's share capital and warrants, share options and convertible notes during the year are set out in notes 32, 33 and 30 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.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 34(b) to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 March 2012, 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$1,523,162,000 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 71% of the total sales for the year and sales to the largest customer accounted for approximately 26%. Purchases from the Group's five largest suppliers accounted for approximately 76% of the total purchases for the year and purchases from the largest supplier accounted for approximately 36%.

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

Independent Non-executive Directors:

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

DIRECTORS(continued)

In accordance with bye-law 87 of the Company's Bye-laws, Mr. Sue Ka Lok, Mr. Weng Yixiang and Mr. Lu Xinsheng will retire by rotation at the forthcoming annual general meeting ("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 a director of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

The remuneration of Mr. Bai Jianjiang has been revised down to approximately HK$385,000 per annum in aggregate under his service contracts with subsidiaries of the Company in Hong Kong and the PRC respectively with effect from 1 January 2012. The revised remuneration of Mr. Bai 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.

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

As at 31 March 2012, 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 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in 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	Interests held by controlled corporation	863,460,316 *(Note 1)*	–	–
	Directly beneficially owned	6,000,000	869,460,316	29.32%

Long positions in warrants of the Company:

Name of director	Capacity and nature of interest	Number of underlying shares	Total interests	Approximate percentage of the Company's issued share capital
Mr. Suen Cho Hung, Paul	Interests held by controlled corporation	163,943,386 *(Notes 1 & 2)*	–	–
	Directly beneficially owned	1,000,000 *(Note 3)*	164,943,386	5.56%

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	4,311,864 *(Note 4)*	0.15%

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

Notes:

1. These interests were held by Global Wealthy Limited ("Global Wealthy"), which was a wholly owned subsidiary of Excelsior Kingdom Limited ("Excelsior Kingdom") which in turn was wholly owned by Mr. Suen Cho Hung, Paul. Mr. Suen is the sole director of Global Wealthy and Excelsior Kingdom. Accordingly, Mr. Suen was deemed to be interested in 863,460,316 shares and 163,943,386 underlying shares under the SFO.

2. This represented the interests of Global Wealthy in 163,943,386 units of warrants issued by the Company on 9 March 2012 (the "Warrants") which carry the rights to subscribe for 163,943,386 shares of the Company at the initial exercise price of HK$0.10 per share (subject to adjustments) (the "Exercise Price") during the period from 9 March 2012 to 7 March 2014 (both days inclusive) (the "Subscription Period").

3. This represented the interests of Mr. Suen Cho Hung, Paul in 1,000,000 units of Warrants which carries the rights to subscribe for 1,000,000 shares of the Company at the Exercise Price during the Subscription Period.

4. This represented the interest of Mr. Suen Cho Hung, Paul in 4,311,864 underlying shares (adjusted to take into account the effects of the share consolidation and rights issue as mentioned in notes 33(c) and 33(d) to the consolidated financial statements respectively) 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 (the "Share Option Scheme"). The consideration paid by Mr. Suen on acceptance of the share options granted was HK$1.00. The exercise price for the share options is HK$1.01 per share (adjusted to take into account the effects of the share consolidation and rights issue as mentioned in notes 33(c) and 33(d) to the consolidated financial statements respectively) and the exercise period is between 1 September 2009 and 31 August 2012.

Save as disclosed above, as at 31 March 2012, 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 33 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 are set out in note 33 to the consolidated financial statements.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 March 2012, 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	Interests held by controlled corporation	863,460,316 *(Note 1)*	163,943,386 *(Notes 1 & 2)*	–	–
	Directly beneficially owned	6,000,000	1,000,000 *(Note 3)*	–	–
	Directly beneficially owned	–	4,311,864 *(Note 4)*	1,038,715,566	35.03%
Excelsior Kingdom	Interests held by controlled corporation	863,460,316 *(Note 1)*	163,943,386 *(Notes 1 & 2)*	1,027,403,702	34.65%
Global Wealthy	Directly beneficially owned	863,460,316 *(Note 1)*	163,943,386 *(Notes 1 & 2)*	1,027,403,702	34.65%

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (continued)

Notes:

1. These interests were held by Global Wealthy, which was a wholly owned subsidiary of Excelsior Kingdom which in turn was wholly owned by Mr. Suen Cho Hung, Paul. Mr. Suen is the sole director of Global Wealthy and Excelsior Kingdom. Accordingly, Mr. Suen was deemed to be interested in 863,460,316 shares and 163,943,386 underlying shares under the SFO.

2. This represented the interests of Global Wealthy in 163,943,386 units of Warrants which carry the rights to subscribe for 163,943,386 shares of the Company at the Exercise Price during the Subscription Period.

3. This represented the interests of Mr. Suen Cho Hung, Paul in 1,000,000 units of Warrants which carry the rights to subscribe for 1,000,000 shares of the Company at the Exercise Price during the Subscription Period.

4. This represented the interest of Mr. Suen Cho Hung, Paul in 4,311,864 underlying shares (adjusted to take into account the effects of the share consolidation and rights issue as mentioned in notes 33(c) and 33(d) to the consolidated financial statements respectively) 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 for the share options is HK$1.01 per share (adjusted to take into account the effects of the share consolidation and rights issue as mentioned in notes 33(c) and 33(d) to the consolidated financial statements respectively) and the exercise period is between 1 September 2009 and 31 August 2012.

The interests of Mr. Suen Cho Hung, Paul, Excelsior Kingdom and Global Wealthy in 863,460,316 shares and 163,943,386 underlying shares referred in note 1 above related to the same parcel of shares and underlying 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 2012 as required pursuant to section 336 of the SFO.

CONNECTED TRANSACTION

On 20 December 2011, the Company, Global Wealthy and Chung Nam Securities Limited, entered into an underwriting agreement (the "Underwriting Agreement") in relation the underwriting of 2,247,370,920 rights shares. Pursuant to the Underwriting Agreement, among other things, Global Wealthy as one of the underwriters would underwrite up to a maximum of 601,000,000 underwritten shares and would receive a commission payment of approximately HK$1,950,000. Details of the Underwriting Agreement were set out in the circular of the Company dated 13 January 2012. Global Wealthy was a wholly owned subsidiary of Excelsior Kingdom which in turn was wholly owned by Mr. Suen Cho Hung, Paul, an Executive Director and the Chairman of the Company. Accordingly, Global Wealthy was a connected person of the Company under Chapter 14A of the Listing Rules. As the relevant percentage ratios (other than the profits ratio) as defined in the Listing Rules were less than 5%, the commission payment to Global Wealthy constituted a connected transaction that was only subject to the reporting and announcement requirements and was exempted from independent shareholders approval requirements under Chapter 14A of the Listing Rules. Pursuant to the Underwriting Agreement, Global Wealthy had taken up 601,000,000 right shares on 9 March 2012 and received a commission of approximately HK$1,950,000 from the Company.

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 with reference to market conditions.

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

The accounts of the Company for the year ended 31 March 2012 have been audited by HLB Hodgson Impey Cheng whose term of office will expire upon the forthcoming AGM. In March 2012, the practice of HLB Hodgson Impey Cheng was reorganised as HLB Hodgson Impey Cheng Limited. A resolution for the appointment of HLB Hodgson Impey Cheng Limited as the auditor of the Company will be proposed at the forthcoming AGM.

On behalf of the Board

Suen Cho Hung, Paul
Chairman

Hong Kong, 27 June 2012

Corporate Governance Report

The Board 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 had 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 Listing Rules for the year ended 31 March 2012, except for following deviations with considered reasons as explained:

Code Provision A.4.1

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. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those set out in the Code.

Code Provision E.1.2

Code provision E.1.2 of the Code stipulates that the Chairman of the Board should attend the annual general meeting of the Company.

Deviation

The Chairman of the Board, Mr. Suen Cho Hung, Paul, was unable to attend the annual general meeting of the Company held on 26 August 2011 as he had other important business engagement. However, Mr. Sue Ka Lok, an Executive Director and the Chief Executive Officer of the Company, had chaired the meeting in accordance with bye-law 63 of the Company's Bye-laws.

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, all of them confirmed that they had 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.

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 10 to 12 of this annual report. As disclosed in that section, Mr. Suen and Mr. Sue are both executive directors of BEP International Holdings Limited and Sunlink International Holdings Limited of which Mr. Suen is the chairman and the controlling shareholder of both companies. Mr. Suen is also the controlling shareholder of China Tycoon Beverage Holdings Limited of which Mr. Sue is a non-executive director and the chairman and Mr. Wong Kwok Tai is an independent non-executive director.

During the year ended 31 March 2012, five 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	5/5
Mr. Sue Ka Lok	5/5
Mr. Bai Jianjiang	5/5
Ms. Lee Chun Yeung, Catherine	5/5
Independent Non-executive Directors	
Mr. Wong Kwok Tai	5/5
Mr. Weng Yixiang	5/5
Mr. Lu Xinsheng	5/5

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 implement 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.

REMUNERATION COMMITTEE

The Remuneration Committee has specific written terms of reference as set out in the Code. Following the cessation of Mr. Sue Ka Lok to act as chairman of the Remuneration Committee but remains as a member of the Remuneration Committee, and the appointment of Mr. Weng Yixiang as chairman of the Remuneration Committee with effect from 30 March, 2012, as at the date of this report, the Remuneration Committee comprises four members, including three Independent Non-executive Directors, namely Mr. Wong Kwok Tai, Mr. Weng Yixiang and Mr. Lu Xinsheng, and one Executive Director, namely Mr. Sue Ka Lok. Mr. Weng Yixiang is the chairman of the Remuneration Committee.

The Remuneration Committee is mainly responsible for making recommendations to the Board on the Company's policy and structure for all directors and senior management remuneration; determining the remuneration packages of individual executive directors and senior management and making recommendations to the Board on the remuneration of non-executive directors.

During the year ended 31 March 2012, one remuneration committee meeting was held to determine the remuneration of directors and the attendance of each member is set out as follows:

Members	Number of attendance
Mr. Weng Yixiang	1/1
Mr. Wong Kwok Tai	1/1
Mr. Lu Xinsheng	1/1
Mr. Sue Ka Lok	1/1

NOMINATION COMMITTEE

The Nomination Committee was established on 30 March 2012 with specific written terms of reference as set out in the Code. As at the date of this report, the Nomination Committee comprises four members, including three Independent Non-executive Directors, namely Mr. Wong Kwok Tai, Mr. Weng Yixiang and Mr. Lu Xinsheng, and one Executive Director, namely Mr. Sue Ka Lok. Mr. Lu Xinsheng is the chairman of the Nomination Committee.

The Nomination Committee is mainly responsible for making recommendations to the Board on the appointment of directors, evaluation of board composition, assessment of the independence of independent non-executive directors and the management of board succession.

As the Nomination Committee was formed in March 2012, no nomination committee meeting was held during the year ended 31 March 2012.

AUDITORS AND AUDITORS' REMUNERATION

The accounts of the Company for the year ended 31 March 2012 have been audited by HLB Hodgson Impey Cheng whose term of office will expire upon the forthcoming annual general meeting. In March 2012, the practice of HLB Hodgson Impey Cheng was reorganised as HLB Hodgson Impey Cheng Limited. Accordingly, the Audit Committee has recommended to the Board that HLB Hodgson Impey Cheng Limited be nominated for appointment as the auditor of the Company at the forthcoming annual general meeting.

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 27 to 28 of this annual report.

For the year ended 31 March 2012, 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$300,000 was paid as remuneration to HLB Hodgson Impey Cheng for the provision of non-audit related services to the Group.

AUDIT COMMITTEE

The Audit Committee has specific written terms of reference as set out in the Code. As at the date of this report, the Audit Committee comprises three Independent Non-executive Directors, namely Mr. Wong Kwok Tai, Mr. Weng Yixiang and Mr. Lu Xinsheng. Mr Wong Kwok Tai is the chairman of the Audit Committee.

The Audit Committee is mainly responsible for assisting the Board in applying financial reporting and internal control principles and in maintaining an appropriate relationship with the Company's auditor. The Audit Committee is also delegated the corporate governance function of the Board to monitor, procure and manage corporate governance compliance within the Group.

During the year ended 31 March 2012, 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

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 2011 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 2011 and recommended the same to the Board for approval.

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 2012.

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, and 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 of financial statements or loss of assets and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

For the year ended 31 March 2012, 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 29 to 105, which comprise the consolidated and company statements of financial position as at 31 March 2012, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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.

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 2012 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, 27 June 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
Revenue	7	**1,114,563**	1,878,475
Cost of sales		**(1,094,239)**	(1,827,874)
Gross profit		**20,324**	50,601
Net losses on investments at fair value through profit or loss	9	**(430,825)**	(121,378)
Other income and gains	7	**12,466**	2,623
Selling and distribution costs		**(10,167)**	(1,803)
Administrative expenses		**(37,003)**	(33,230)
Finance costs	8	**(11,856)**	(19,601)
Impairment loss recognised in respect of intangible asset	9	**(21,704)**	–
Loss before taxation	9	**(478,765)**	(122,788)
Taxation	12	**9,895**	1,618
Loss for the year		**(468,870)**	(121,170)
Other comprehensive income			
Exchange difference on translating foreign operations		**3,488**	4,527
Other comprehensive income for the year, net of tax		**3,488**	4,527
Total comprehensive expense for the year		**(465,382)**	(116,643)
Loss for the year attributable to:			
Owners of the Company		**(467,851)**	(120,373)
Non-controlling interests		**(1,019)**	(797)
		(468,870)	(121,170)
Total comprehensive expense attributable to:			
Owners of the Company		**(464,323)**	(115,820)
Non-controlling interests		**(1,059)**	(823)
		(465,382)	(116,643)
Loss per share attributable to owners of the Company	15		(Restated)
Basic and diluted (HK cents per share)		**(38.34)**	(15.02)

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

Consolidated Statement of Financial Position

As at 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	16	**41,322**	37,354
Prepaid lease payments	17	**33,175**	32,870
Other deposits		**190**	2,187
Intangible asset	18	**135,558**	152,320
Goodwill	19	**9,935**	9,935
Total non-current assets		**220,180**	234,666
Current assets			
Inventories	21	**6,704**	14,179
Accounts and bills receivable	22	**57,447**	300,542
Prepayments, deposits and other receivables	23	**53,902**	62,540
Loans receivable	24	**66,838**	20,000
Tax recoverable		**573**	–
Investments at fair value through profit or loss	25	**715,251**	487,676
Pledged bank deposits	26	**15,008**	248,028
Cash and bank balances	26	**314,614**	509,938
Total current assets		**1,230,337**	1,642,903
Current liabilities			
Accounts and bills payable	27	**22,590**	218,680
Other payables and accruals	28	**159,053**	143,950
Tax payable		**52**	447
Bank advances for discounted bills	22	**31,169**	–
Bank loans	29	**28,751**	35,672
Total current liabilities		**241,615**	398,749
Net current assets		**988,722**	1,244,154
Total assets less current liabilities		**1,208,902**	1,478,820

Consolidated Statement of Financial Position

As at 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current liabilities			
Convertible notes	30	–	161,347
Deferred tax liabilities	31	10,953	20,648
Total non-current liabilities		10,953	181,995
Net assets		1,197,949	1,296,825
Capital and reserves			
Share capital	32	296,549	41,185
Reserves	34(a)	903,193	1,256,374
Equity attributable to owners of the Company		1,199,742	1,297,559
Non-controlling interests		(1,793)	(734)
Total equity		1,197,949	1,296,825

The consolidated financial statements on pages 29 to 105 were approved and authorised for issue by the Board of Directors on 27 June 2012 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 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	16	**47**	99
Investments in subsidiaries	20	**–**	–
Total non-current assets		**47**	99
Current assets			
Prepayments, deposits and other receivables	23	**6,698**	30,464
Amounts due from subsidiaries	20	**961,547**	1,085,900
Cash and bank balances	26	**235,107**	330,301
Total current assets		**1,203,352**	1,446,665
Current liabilities			
Amount due to a subsidiary	20	**17,349**	17,671
Other payables and accruals	28	**1,064**	3,576
Total current liabilities		**18,413**	21,247
Net current assets		**1,184,939**	1,425,418
Total assets less current liabilities		**1,184,986**	1,425,517
Non-current liabilities			
Convertible notes	30	**–**	161,347
Deferred tax liabilities	31	**–**	4,579
Total non-current liabilities		**–**	165,926
Net assets		**1,184,986**	1,259,591
Capital and reserves			
Share capital	32	**296,549**	41,185
Reserves	34(b)	**888,437**	1,218,406
Total equity		**1,184,986**	1,259,591

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 2012

		Attributable to owners of the Company										
		Share capital	Share premium (note 1)	Contributed surplus (note 2)	Convertible notes equity reserve (note 3)	Translation reserve (note 4)	Share option reserve (note 5)	Other reserve (note 6)	Accumulated losses	Sub-total	Non-controlling interests	Total
	Notes	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
At 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		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		460	19,791	–	–	–	(7,739)	–	–	12,512	–	12,512
Acquisition of additional interests in a subsidiary		–	–	–	–	–	–	(124)	–	(124)	42	(82)
At 31 March 2011 and 1 April 2011		41,185	1,392,211	3,085	33,238	4,553	2,692	(124)	(179,281)	1,297,559	(734)	1,296,825
Loss for the year		–	–	–	–	–	–	–	(467,851)	(467,851)	(1,019)	(468,870)
Other comprehensive income/ (expense)		–	–	–	–	3,528	–	–	–	3,528	(40)	3,488
Total comprehensive income/ (expense) for the year		–	–	–	–	3,528	–	–	(467,851)	(464,323)	(1,059)	(465,382)
Issue of shares	*32(b)*	8,237	68,367	–	–	–	–	–	–	76,604	–	76,604
Rights issue of shares	*32(a)(iii)*	247,109	74,133	–	–	–	–	–	–	321,242	–	321,242
Transaction costs attributable to issue of shares		–	(11,549)	–	–	–	–	–	–	(11,549)	–	(11,549)
Exercise of warrants	*32(a)(iv)*	18	–	–	–	–	–	–	–	18	–	18
Repurchase of convertible notes	*30*	–	–	–	(33,238)	–	–	–	13,429	(19,809)	–	(19,809)
At 31 March 2012		**296,549**	**1,523,162**	**3,085**	**–**	**8,081**	**2,692**	**(124)**	**(633,703)**	**1,199,742**	**(1,793)**	**1,197,949**

Consolidated Statement of Changes in Equity

For the year ended 31 March 2012

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) 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 2012

	Notes	2012 HK$'000	2011 HK$'000
Cash flows from operating activities			
Loss before taxation		**(478,765)**	(122,788)
Adjustments for:			
Finance costs	8	**11,856**	19,601
Bank interest income	7	**(1,254)**	(1,697)
Interest income from provision of finance	7	**(4,418)**	(3,289)
Impairment loss recognised in respect of intangible asset	9	**21,704**	–
Unrealised loss on investments at fair value through profit or loss	9	**410,246**	89,162
Depreciation of property, plant and equipment	9	**3,429**	2,731
Amortisation of prepaid lease payments	9	**793**	754
Gain on disposal of property, plant and equipment	7	**(87)**	–
Gain on repurchase of convertible notes	7	**(2,159)**	–
Operating cash flows before movements in working capital		**(38,655)**	(15,526)
Decrease/(increase) in inventories		**7,475**	(1,079)
Decrease/(increase) in accounts and bills receivable		**243,095**	(205,978)
Decrease/(increase) in prepayments, deposits and other receivables		**8,665**	(23,680)
Increase in loans receivable		**(46,838)**	(7,000)
Increase in investments at fair value though profit or loss		**(637,821)**	(399,848)
(Decrease)/increase in accounts and bills payable		**(196,090)**	158,652
Increase/(decrease) in other payables and accruals		**12,371**	(10,249)
Decrease in amount due to a director		**–**	(301)
Cash used in operations		**(647,798)**	(505,009)
Interest on loans receivable received	7	**4,418**	3,289
Interest paid for convertible notes	30	**(912)**	(1,891)
Hong Kong Profits Tax paid		**(1,129)**	(528)
Overseas taxes paid		**–**	(1)
Net cash outflow from operating activities		**(645,421)**	(504,140)

Consolidated Statement of Cash Flows

For the year ended 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
Cash flows from investing activities			
Bank interest received	7	**1,254**	1,697
Proceeds from disposal of property, plant and equipment		**420**	–
Purchases of property, plant and equipment	16	**(4,487)**	(1,990)
Increase in other deposits		**–**	(1,345)
Decrease in time deposits		**–**	50,000
Decrease/(increase) in pledged bank deposits	26	**233,020**	(116,929)
Net cash inflow/(outflow) from investing activities		**230,207**	(68,567)
Cash flows from financing activities			
Proceeds from rights issue	32(a)(iii)	**311,814**	–
Proceeds from exercise of warrants	32(a)(iv)	**18**	–
Proceeds from issue of shares	32(b)	**74,483**	454,312
Proceeds from exercise of share options		**–**	12,512
Increase in bank advances for discounted bills		**31,169**	–
Repayment of bank loans		**(8,054)**	(1,160)
Repurchase of convertible notes	30	**(187,209)**	–
Net cash inflow from financing activities		**222,221**	465,664
Net decrease in cash and cash equivalents		**(192,993)**	(107,043)
Cash and cash equivalents at beginning of year		**509,938**	619,153
Effect of foreign exchange rate changes, net		**(2,331)**	(2,172)
Cash and cash equivalents at end of year	26	**314,614**	509,938

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 Company's ultimate holding company is Excelsior Kingdom Limited, which is incorporated in the British Virgin Islands (the "BVI").

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 2011.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 (Amendments)	Classification of Rights Issues
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirements
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The adoption of the above new and revised HKFRSs has had no material effect on the results and the financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment is required.

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

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

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income [3]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets [2]
HKAS 19 (As revised in 2011)	Employee Benefits [4]
HKAS 27 (As revised in 2011)	Separate Financial Statements [4]
HKAS 28 (As revised in 2011)	Investments in Associates and Joint Ventures [4]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities [5]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine [4]
HKFRS 1 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters [1]
HKFRS 1 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans [4]
HKFRS 7 (Amendments)	Disclosure – Transfer of Financial Assets [1]
HKFRS 7 (Amendments)	Disclosure – Offsetting Financial Assets and Financial Liabilities [4]
HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosure [6]
HKFRS 9	Financial Instruments [6]
HKFRS 10	Consolidated Financial Statements [4]
HKFRS 11	Joint Arrangements [4]
HKFRS 12	Disclosure of Interests in Other Entities [4]
HKFRS 13	Fair Value Measurement [4]

[1] Effective for annual periods beginning on or after 1 July 2011.
[2] Effective for annual periods beginning on or after 1 January 2012.
[3] Effective for annual periods beginning on or after 1 July 2012.
[4] Effective for annual periods beginning on or after 1 January 2013.
[5] Effective for annual periods beginning on or after 1 January 2014.
[6] Effective for annual periods beginning on or after 1 January 2015.

The Group is in the process of making an assessment of the impact upon initial application of the new and revised HKFRSs. The Group is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on 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 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, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried 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 Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). 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.

Business combinations

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, except that:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

- liabilities or equity instruments related to share-based payment transactions of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree 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 reassessment, 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 values or, when applicable, on the basis specified in another HKFRS.

Where the consideration transferred by the Group 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 included 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 against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

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 at that date.

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 new 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 derecognised.

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.

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.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) 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 (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognised 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 one of the two categories, including financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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 and 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 other than those financial assets classified as at FVTPL.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is part of a portfolio of identified 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 FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at FVTPL.

At the end of each reporting period subsequent to initial recognition, financial assets at FVTPL are measured at fair values, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including accounts and bills receivable, other receivables, 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 impairment.

Interest income is recognised by applying the effective interest rate.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be 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 investment have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial liabilities.

For certain categories of financial asset, such as accounts and bills receivable, assets that are assessed not to be impaired individually are, in addition, 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, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

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

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Warrants

Warrants issued by the Company to acquire a fixed number of the Company's own equity instruments for a fixed amount of any currency are equity instruments if the Company offers the warrants pro rata to all of its existing owners of the same class of its own equity instruments. When the warrants are exercised, the portion of subscription money with the nominal value of the ordinary shares is recognised to the share capital account while any excess of the subscription money over the nominal value of ordinary shares is taken into the share premium account.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Other financial liabilities

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and 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.

Convertible notes

Convertible notes issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. 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.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. The amount is recorded a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Convertible notes (continued)

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 recognised directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and amortised over the lives of the convertible notes using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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 an 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 charged to the statement of comprehensive income as they become payable in accordance with the rules of the central pension scheme.

Related parties transactions

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

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

 (i) has control or join control over the Group;

 (ii) has significant influence over the Group; or

 (iii) is a member of the key management personnel of the Group or of a parent of the Group.

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

 (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

 (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group which the other entity is a member).

 (iii) Both entities are joint ventures of the same third party.

 (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties transactions (continued)

(b) (continued)

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

A transaction is considered to be a related party transaction when there is a transfer of resources or, obligations between the Group and a related party, regardless of whether a price is charged.

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 various jurisdictions. Significant judgement is required in determining the 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Critical accounting estimates and assumptions (continued)

(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$135,558,000 (2011: HK$152,320,000) and an impairment loss of HK$21,704,000 (2011: nil) was 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.

(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.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

(a) Categories of financial instruments

Group

Financial assets

	2012			2011		
	Loans and receivables	**Financial assets at FVTPL**	**Total**	Loans and receivables	Financial assets at FVTPL	Total
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Accounts and bills receivable	**57,447**	**–**	**57,447**	300,542	–	300,542
Other receivables	**41,810**	**–**	**41,810**	56,038	–	56,038
Loans receivable	**66,838**	**–**	**66,838**	20,000	–	20,000
Investments at fair value through profit or loss	**–**	**715,251**	**715,251**	–	487,676	487,676
Pledged bank deposits	**15,008**	**–**	**15,008**	248,028	–	248,028
Cash and bank balances	**314,614**	**–**	**314,614**	509,938	–	509,938
	495,717	**715,251**	**1,210,968**	1,134,546	487,676	1,622,222

Financial liabilities

	2012	2011
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	HK$'000	*HK$'000*
Accounts and bills payable	**22,590**	218,680
Other payables	**156,904**	139,401
Bank advances for discounted bills	**31,169**	–
Bank loans	**28,751**	35,672
Convertible notes	**–**	161,347
	239,414	555,100

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (continued)

(a) Categories of financial instruments (continued)

Company

Financial assets

	2012			2011		
	Loans and receivables	Financial assets at FVTPL	Total	Loans and receivables	Financial assets at FVTPL	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other receivables	6,252	–	6,252	29,980	–	29,980
Amounts due from subsidiaries	961,547	–	961,547	1,085,900	–	1,085,900
Cash and bank balances	235,107	–	235,107	330,301	–	330,301
	1,202,906	–	1,202,906	1,446,181	–	1,446,181

Financial liabilities

	2012 Financial liabilities at amortised cost	2011 Financial liabilities at amortised cost
	HK$'000	*HK$'000*
Amount due to a subsidiary	17,349	17,671
Convertible notes	–	161,347
	17,349	179,018

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (continued)

(b) Financial risk management objectives and policies

The Group's major financial instruments include accounts and bills receivable, other receivables, loans receivable, investments at fair value through profit or loss, pledged bank deposits, bank balances, accounts and bills payable, other payables, bank loans, bank advances for discounted bills 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 bank balances. The Group's maximum exposure to credit risk in the event of counterparties' failure to perform their obligations as at 31 March 2012 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.

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

	2012	2011
	HK$'000	*HK$'000*
Renminbi ("RMB")	**82,624**	79,541
US dollars	**79,679**	325,458

Liabilities

	2012	2011
	HK$'000	*HK$'000*
RMB	**198,745**	174,955
US dollars	**9,679**	216,284

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% (2011: 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% (2011: 5%) against RMB.

Impact of RMB

	2012	2011
	HK$'000	*HK$'000*
Profit or loss *(note)*	**(5,806)**	(4,771)

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 increased during the current year mainly due to the increase 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 2012 would decrease/increase by approximately HK$35,763,000 (2011: decrease/increase by HK$24,384,000). 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, bank deposits and bank loans. The Group monitors the interest rate exposure on a continuous basis and adjusts the portfolio of bank saving balances, bank deposits 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, bank deposits 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 2012 would decrease/increase by approximately HK$65,000 (2011: decrease/increase by HK$843,000). This is mainly attributable to the Group's exposure to interest rates on its bank saving balances, bank deposits 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 operations, capital investments and repayment of related 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**	**Less than 3 months**	**3 to 12 months**	**Over 1 year**	**Total undiscounted cash flows**	**Total carrying amount**
	%	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
As at 31 March 2012							
Accounts and bills payable	**–**	**17,108**	**5,482**	**–**	**–**	**22,590**	**22,590**
Other payables	**–**	**22,593**	**3,997**	**130,314**	**–**	**156,904**	**156,904**
Bank loans	**9.42%**	**28,751**	**–**	**–**	**–**	**28,751**	**28,751**
		68,452	**9,479**	**130,314**	**–**	**208,245**	**208,245**

	Weighted average interest rate	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total undiscounted cash flows	Total carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'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

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 values.

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

	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*	Total *HK$'000*
As at 31 March 2012				
Financial assets at FVTPL				
Held-for-trading investments	**638,626**	**–**	**–**	**638,626**
Investments designated as FVTPL	**–**	**–**	**76,625**	**76,625**
Total	**638,626**	**–**	**76,625**	**715,251**
As at 31 March 2011				
Financial assets at FVTPL				
Held-for-trading investments	487,676	–	–	487,676

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

Reconciliation of Level 3 fair value measurements of financial assets

	HK$'000
As at 1 April 2010, 31 March 2011 and 1 April 2011	**–**
Purchases	**77,000**
Fair value loss in profit or loss	**(375)**
As at 31 March 2012	**76,625**

The above fair value loss included in the consolidated statement of comprehensive income for the current year related to investment in convertible bonds *(note 25(b))* held at the end of the reporting period.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (continued)

(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 advances for discounted bills, 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.

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 2012 and 2011, the Group's strategy was to maintain a reasonable gearing ratio. The gearing ratio at 31 March 2012 and 2011 were as follows:

	Group	
	2012	2011
	HK$'000	*HK$'000*
Convertible notes, the liability component	**–**	161,347
Bank loans	**28,751**	35,672
Bank advances for discounted bills	**31,169**	–
Total debt	**59,920**	197,019
Equity attributable to owners of the Company	**1,199,742**	1,297,559
Capital and total debt	**1,259,662**	1,494,578
Gearing ratio	**0.05**	0.13

The decrease in gearing ratio was due to the decrease in total debt during the year.

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, equity-linked notes and convertible bonds.

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 2012

	Supply and procurement HK$'000	Pharmaceutical HK$'000	Provision of finance HK$'000	Securities investment HK$'000	Consolidated HK$'000
Segment revenue					
Sales to and income from external parties	1,059,617	34,490	4,418	16,038	1,114,563
Segment results	(15,165)	(8,053)	4,235	(414,792)	(433,775)
Unallocated other income and gains					3,727
Unallocated expenses					(15,157)
Finance costs					(11,856)
Impairment loss recognised in respect of intangible asset					(21,704)
Loss before taxation					(478,765)
Taxation					9,895
Loss for the year					(468,870)
Assets and liabilities					
Segment assets	101,175	306,954	73,289	715,251	1,196,669
Unallocated assets					253,848
Total assets					1,450,517
Segment liabilities	41,102	209,783	250	–	251,135
Unallocated liabilities					1,433
Total liabilities					252,568
Other segment information					
Depreciation of property, plant and equipment and amortisation of prepaid lease payments					
– allocated	–	3,619	–	–	3,619
– unallocated					603
					4,222
Capital expenditure					
– allocated	–	2,618	–	–	2,618
– unallocated					1,869
					4,487
Impairment loss recognised in respect of intangible asset	–	21,704	–	–	21,704

6. SEGMENT INFORMATION (continued)

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 and income from external parties	1,857,066	15,791	3,289	2,329	1,878,475
Segment results	31,708	(3,404)	3,250	(119,053)	(87,499)
Unallocated other income 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 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)

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

	2012	2011
	HK$'000	*HK$'000*
Segment assets for reportable segment	**1,196,669**	1,509,682
Unallocated:		
Property, plant and equipment	**2,526**	1,593
Prepayments, deposits and other receivables	**15,802**	34,584
Cash and bank balances	**235,520**	331,710
Total assets	**1,450,517**	1,877,569

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

	2012	2011
	HK$'000	*HK$'000*
Segment liabilities for reportable segment	**251,135**	411,115
Unallocated:		
Other payables and accruals	**1,433**	3,703
Convertible notes	**–**	161,347
Deferred tax liabilities	**–**	4,579
Total liabilities	**252,568**	580,744

6. SEGMENT INFORMATION (continued)

Geographical information

The following table presents segment revenue and non-current assets for the Group's geographical segments for the years ended 31 March 2012 and 2011:

	Hong Kong		The People's Republic of China (the "PRC") (excluding Hong Kong)		Consolidated	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue						
Sales to and income from external parties	**20,456**	5,618	**1,094,107**	1,872,857	**1,114,563**	1,878,475
Other segment information						
Non-current assets	**2,716**	1,784	**217,464**	232,882	**220,180**	234,666

Segment revenue reported above represents revenue generated from external parties. There were no inter-segment sales in the current year (2011: nil).

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment results represents the profit/loss earned by each segment which do not include intercompanies income and expenses, unallocated other income and gains, unallocated expenses, finance costs, impairment loss recognised in respect of intangible asset and taxation. 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 2012, there were four major customers contributing over 10% of the total sales amounting to approximately HK$284,330,000, HK$200,309,000, HK$119,924,000 and HK$113,591,000 respectively. For the year 2011, there were two major customers contributing over 10% of the total sales amounting to approximately HK$343,394,000 and HK$189,528,000 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, and income from provision of finance and investments during the year.

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

	2012	2011
	HK$'000	*HK$'000*
Revenue		
Sale of goods	**1,094,107**	1,872,857
Interest income from provision of finance	**4,418**	3,289
Dividend income on investment in listed equity securities	**15,361**	1,423
Interest income on investment in convertible bonds	**609**	–
Interest income on investment in equity-linked notes	**68**	906
	1,114,563	1,878,475
Other income and gains		
Bank interest income	**1,254**	1,697
Other interest income	**13**	3
Rental income	**120**	180
Exchange gains	**–**	415
Gain on disposal of property, plant and equipment	**87**	–
Gain on repurchase of convertible notes *(note 30)*	**2,159**	–
Compensation received	**8,473**	234
Sundry income	**360**	94
	12,466	2,623

8. FINANCE COSTS

	2012	2011
	HK$'000	*HK$'000*
Interest on:		
Bank loans and other loan wholly repayable within five years	**3,966**	4,245
Convertible notes *(note 30)*	**7,890**	15,356
	11,856	19,601

9. LOSS BEFORE TAXATION

	2012 HK$'000	2011 HK$'000
The Group's loss before taxation is arrived at after charging:		
Staff costs (excluding directors' remuneration – *note 10*):		
Wages and salaries	**6,809**	6,323
Pension scheme contributions	**655**	317
Total staff costs	**7,464**	6,640
Auditors' remuneration	**826**	854
Cost of inventories sold	**1,013,979**	1,767,444
Depreciation of property, plant and equipment *(note 16)*	**3,429**	2,731
Amortisation of prepaid lease payments *(note 17)*	**793**	754
Net exchange loss	**1,059**	–
Minimum lease payments in respect of land and buildings	**3,496**	3,231
Impairment loss recognised in respect of intangible asset *(note 18)*	**21,704**	–
Net losses on investments at fair value through profit or loss:		
Proceeds on sales of listed equity securities investments	**(230,820)**	(93,582)
Less: cost of sales	**251,399**	125,798
Net realised loss on investment in listed equity securities	**20,579**	32,216
Unrealised loss on investments at fair value through profit or loss	**410,246**	89,162
Net losses on investments at fair value through profit or loss	**430,825**	121,378

At 31 March 2012, the Group had no forfeited contributions available to reduce its contributions to pension schemes in future years (2011: 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:

	2012	2011
	HK$'000	*HK$'000*
Fees:		
Executive directors	**–**	–
Independent non-executive directors	**240**	270
	240	270
Other emoluments of executive directors:		
Salaries, other allowances and benefits in kind	**4,115**	3,804
Discretionary bonuses	**–**	1,043
Pension scheme contributions	**185**	244
	4,300	5,091
	4,540	5,361

(a) Independent non-executive directors

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

	Group	
	2012	2011
	HK$'000	*HK$'000*
Mr. Wong Kwok Tai	**120**	120
Mr. Weng Yixiang	**60**	60
Mr. Lu Xinsheng	**60**	60
Mr. Xiong Wei	**–**	30
	240	270

There were no other emoluments payable to the independent non-executive directors during the year (2011: nil).

10. DIRECTORS' REMUNERATION (continued)

(b) Executive directors

	Salaries, other allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2012				
Mr. Suen Cho Hung, Paul	**1,950**	**–**	**98**	**2,048**
Mr. Sue Ka Lok	**715**	**–**	**36**	**751**
Ms. Lee Chun Yeung, Catherine	**956**	**–**	**47**	**1,003**
Mr. Bai Jianjiang	**494**	**–**	**4**	**498**
	4,115	**–**	**185**	**4,300**
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

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 four (2011: three) directors of the Company, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining one (2011: two) non-director, highest paid employee for the year is as follows:

	Group	
	2012	2011
	HK$'000	*HK$'000*
Salaries, other allowances and benefits in kind	**514**	1,443
Pension scheme contributions	**26**	58
	540	1,501

The remuneration of the five highest paid employees for the year fell within the following band:

	Number of individuals	
	2012	2011
Nil to HK$1,000,000	**3**	3
HK$1,000,001 to HK$2,000,000	**1**	1
HK$2,000,001 to HK$3,000,000	**1**	1
	5	5

During the year, no discretionary bonuses were paid to or receivable by the five highest paid employees of the Group (2011: HK$1,387,000 were paid to or receivable by three 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 (2011: nil).

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12. TAXATION

	2012	2011
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the year	**215**	778
Over provision in prior years	**(54)**	(1)
	161	777
Deferred tax *(note 31)*		
Current year	**(10,056)**	(2,395)
	(9,895)	(1,618)

Hong Kong Profits Tax for the year ended 31 March 2012 was calculated at 16.5% (2011: 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 – 2012

	Hong Kong *HK$'000*	**The PRC** *HK$'000*	**Total** *HK$'000*
Tax rate	**16.5%**	**25.0%**	
Loss before taxation	**(445,055)**	**(33,710)**	**(478,765)**
Tax at the applicable tax rate	**(73,434)**	**(8,428)**	**(81,862)**
Tax effect of income not taxable for tax purpose	**(7,749)**	**(5,845)**	**(13,594)**
Tax effect of expenses not deductible for tax purpose	**1,241**	**6,642**	**7,883**
Tax effect of tax losses not recognised	**77,044**	**2,154**	**79,198**
Over provision in prior years	**(54)**	**–**	**(54)**
Effect of utilisation of tax losses previously not recognised	**(1,466)**	**–**	**(1,466)**
Taxation for the year	**(4,418)**	**(5,477)**	**(9,895)**

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 for the year	(1,445)	(173)	(1,618)

13. LOSS OF THE COMPANY

The net loss for the year dealt with in the financial statements of the Company amounted to HK$441,111,000 (2011: HK$123,772,000).

14. DIVIDEND

The directors of the Company do not recommend the payment of any dividend for the year ended 31 March 2012 (2011: nil)

15. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

	2012 ***HK$'000***	2011 *HK$'000*
Loss		
Loss attributable to owners of the Company for the purpose of basic loss per share	**467,851**	120,373

	2012 ***'000***	2011 *'000* (Restated)
Number of shares		
Weighted average number of shares for the purpose of basic loss per share	**1,220,356**	801,262

The weighted average number of ordinary shares for the years ended 31 March 2012 and 2011 for the purpose of calculating the basic loss per share has been adjusted and restated respectively resulting from the share consolidation and rights issues of the Company *(note 32(a))* during the year.

Basic and diluted loss per share for the years ended 31 March 2012 and 2011 were the same because conversion of convertible notes and exercise of share options and warrants (2011: no warrants) would decrease the loss per share for both years, therefore, anti-dilutive.

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 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 and 1 April 2011	3,531	4,487	2,596	31,224	41,838
Additions	1,648	981	1,858	–	4,487
Reclassified from other deposit	2,047	–	–	–	2,047
Disposal	–	–	(588)	–	(588)
Exchange realignment	99	402	15	1,101	1,617
At 31 March 2012	**7,325**	**5,870**	**3,881**	**32,325**	**49,401**
Accumulated depreciation and impairment					
At 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 and 1 April 2011	1,446	1,151	790	1,097	4,484
Provided for the year	782	1,073	557	1,017	3,429
Disposal	–	–	(255)	–	(255)
Exchange realignment	19	304	1	97	421
At 31 March 2012	**2,247**	**2,528**	**1,093**	**2,211**	**8,079**
Carrying value					
At 31 March 2012	**5,078**	**3,342**	**2,788**	**30,114**	**41,322**
At 31 March 2011	2,085	3,336	1,806	30,127	37,354

The buildings with the carrying amount of approximately HK$30,114,000 (2011: HK$30,127,000) have been pledged to secure for the bank loans of the Group *(note 35)*.

16. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Total HK$'000
Cost			
At 1 April 2010	1,082	174	1,256
Additions	30	–	30
At 31 March 2011, 1 April 2011 and 31 March 2012	**1,112**	**174**	**1,286**
Accumulated depreciation and impairment			
At 1 April 2010	808	63	871
Provided for the year	281	35	316
At 31 March 2011 and 1 April 2011	1,089	98	1,187
Provided for the year	17	35	52
At 31 March 2012	**1,106**	**133**	**1,239**
Carrying value			
At 31 March 2012	**6**	**41**	**47**
At 31 March 2011	23	76	99

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

17. PREPAID LEASE PAYMENTS

	Group	
	2012	2011
	HK$'000	*HK$'000*
At beginning of the year	**33,643**	33,053
Amortisation for the year	**(793)**	(754)
Exchange realignment	**1,124**	1,344
At end of the year	**33,974**	33,643
Analysed for reporting purposes as:		
Current assets (included in prepayments, deposits and other receivables)	**799**	773
Non-current assets	**33,175**	32,870
	33,974	33,643

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

At 31 March 2012, the prepaid lease payments with the carrying amount of approximately HK$33,974,000 (2011: HK$33,643,000) have been pledged to secure for bank loans of the Group *(note 35)*.

18. INTANGIBLE ASSET

	Group HK$'000
Cost	
At 1 April 2010	146,286
Exchange realignment	6,034
At 31 March 2011 and 1 April 2011	152,320
Exchange realignment	5,120
At 31 March 2012	**157,440**
Impairment	
At 1 April 2010, 31 March 2011 and 1 April 2011	–
Impairment loss recognised in profit or loss	21,704
Exchange realignment	178
At 31 March 2012	**21,882**
Carrying value	
At 31 March 2012	**135,558**
At 31 March 2011	152,320

Notes:

The intangible asset represents an intellectual property relating to the 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.

During the year ended 31 March 2012, the recoverable amount of intellectual property is determined based on value-in-use calculations. The impairment review of the intellectual property is based on the expected future cash flows and based on the financial budgets approved by management covering its estimated useful life. Discount rate of 14.01% is applied on the value-in-use calculations.

The value-in-use at 31 March 2012 is calculated to be lower than the carrying amount of the intellectual property and accordingly an impairment loss of approximately HK$21,704,000 was recognised in 2012. The impairment loss is included in the consolidated statement of comprehensive income.

The fair value of the intangible asset was approximately HK$135,558,000 at 31 March 2012 and is based on the valuation report issued by an independent qualified professional valuer which valued the intangible asset on discounted cash flow method.

The above intangible asset is amortised on a straight-line basis over its useful life of 20 years commencing from the date of granting of the new drug certificate.

19. GOODWILL

	Group HK$'000
Cost	
At 1 April 2010, 31 March 2011, 1 April 2011 and 31 March 2012	**9,935**
Carrying value	
At 31 March 2012	**9,935**
At 31 March 2011	9,935

On 10 February 2010, the Group recognised the equity interest of Ju Xie Chang and a goodwill of approximately HK$9,935,000 was recognised.

At the end of the reporting period, the Group assessed the recoverable amount of goodwill, and determined that no impairment loss should be provided (2011: nil).

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

	2012 HK$'000	2011 HK$'000
Pharmaceutical	**9,935**	9,935

The recoverable amount of the 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 11.11% (2011: 10.02%) 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	
	2012	2011
	HK$'000	*HK$'000*
Unlisted shares, at cost	**–**	–
Less: Provision for impairment	**–**	–
	–	–
Amounts due from subsidiaries	**1,552,221**	1,226,453
Less: Provision for impairment	**(590,674)**	(140,553)
	961,547	1,085,900
Amount due to a subsidiary	**(17,349)**	(17,671)
	944,198	1,068,229

The amounts due from/(to) subsidiaries are unsecured and have no fixed terms of repayment. Included in the amounts due from subsidiaries, approximately HK$136,950,000 (2011: HK$468,147,000) bear interest at an effective interest rate of prime rate plus 1% (2011: range from prime rate to 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$450,121,000 (2011: HK$123,874,000) should be provided as at the end of the reporting period.

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

Particulars of the Company's principal subsidiaries as at 31 March 2012 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	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* (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* (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	
	2012	2011
	HK$'000	*HK$'000*
Raw materials	**6,701**	11,618
Finished goods	**3**	2,561
	6,704	14,179

At 31 March 2012, all inventories were stated at cost.

22. ACCOUNTS AND BILLS RECEIVABLE

	Group	
	2012	2011
	HK$'000	*HK$'000*
Accounts receivable	**21,260**	10,822
Bills receivable	**36,187**	289,720
	57,447	300,542

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	
	2012	2011
	HK$'000	*HK$'000*
Within 30 days	**6,443**	141,675
31 to 60 days	**37,443**	23,784
61 to 90 days	**2,744**	130,025
91 to 180 days	**3,627**	4,125
Over 180 days	**7,190**	933
Total	**57,447**	300,542

A subsidiary of the Group discounted bills receivable amounting to approximately HK$31,169,000 (2011: nil) to banks in exchange for cash as at 31 March 2012.

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

	Group	
	2012	2011
	HK$'000	*HK$'000*
Neither past due nor impaired	**6,443**	141,675
Less than 1 month past due	**37,443**	23,784
1 to 3 months past due	**6,371**	134,150
More than 3 months past due	**7,190**	933
	57,447	300,542

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.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Prepayments and deposits	**12,092**	6,502	**446**	484
Other receivables	**41,810**	56,038	**6,252**	29,980
	53,902	62,540	**6,698**	30,464
Less: Impairment loss recognised	**–**	–	**–**	–
	53,902	62,540	**6,698**	30,464

Movement of impairment losses recognised:

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Balance at beginning of the year	**–**	138	**–**	–
Amounts written off as uncollectible	**–**	(138)	**–**	–
Balance at end of the year	**–**	–	**–**	–

24. LOANS RECEIVABLE

	Group	
	2012	2011
	HK$'000	*HK$'000*
Loans receivable	**66,838**	20,000

The range of effective interest rates (which are equal to contractual interest rates) on the Group's loans receivable is 8% to 24% (2011: 10% to 18%) per annum.

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

25. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2012	2011
	HK$'000	*HK$'000*
Held for trading:		
Equity securities listed in Hong Kong *(note (a))*	**638,626**	487,676
Designated as FVTPL:		
Convertible bonds *(note (b))*	**76,625**	–
	715,251	487,676

Notes:

(a) The listed equity securities investments at 31 March 2012 and 2011 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.

(b) During the current year, the Group acquired convertible bonds with principal amount of HK$60,000,000 which are issued by a Hong Kong listed company and bear fixed interest rate of 5% per annum and will be matured in October 2014 (subject to early redemption). The fair value of the convertible bonds amounted to HK$61,426,000 as at 31 March 2012.

Apart from the convertible bonds mentioned above, the Group also acquired convertible bonds with principal amount of HK$17,000,000 which are issued by another Hong Kong listed company and bear zero interest rate and will be matured in November 2013 (subject to early redemption). The fair value of the convertible bonds amounted to HK$15,199,000 as at 31 March 2012.

The Group is entitled to convert the whole or part(s) of the principal amount of the convertible bonds into shares of the relevant issuers of the convertible bonds at a price with reference to the terms and conditions of the convertible bonds.

The fair value of the convertible bonds are estimated by an independent qualified professional valuer which comprised the sum of the fair value of the debt elements and the conversion options embedded in the convertible bonds less the redemption options as held by the issuers of the convertible bonds. As at 31 March 2012, the fair value of the debt elements is the value equal to the present value of its expected cash flows discounted at the required yield, which was determined with reference to the credit rating of the issuers of the convertible bonds and the remaining time to maturity. The fair value of the debt elements and the conversion options embedded are measured by the Binomial Option Pricing Model, which incorporated assumptions not entirely supported by observable market prices or rates.

26. PLEDGED BANK DEPOSITS AND CASH AND BANK BALANCES

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**314,614**	509,938	**235,107**	330,301
Pledged bank deposits *(note 35)*	**15,008**	248,028	**–**	–
Total	**329,622**	757,966	**235,107**	330,301

Deposits with banks earn interest at floating rates based on bank deposit and saving 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	
	2012	2011
	HK$'000	*HK$'000*
Within 30 days	**2,422**	84,101
31 to 60 days	**3,802**	867
61 to 90 days	**2,118**	126,543
91 to 180 days	**3,767**	2,579
Over 180 days	**10,481**	4,590
	22,590	218,680

The accounts and bills payable are non-interest bearing and are normally settled on 60 days term. As at 31 March 2012, the Group had bills payable of approximately HK$5,482,000 (2011: HK$216,284,000), which were ranged from within 30 days to over 180 days.

28. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Other payables *(note)*	**156,904**	139,401	**–**	–
Accruals	**2,149**	4,549	**1,064**	3,576
	159,053	143,950	**1,064**	3,576

Note: Included in other payables of the Group of approximately HK$114,698,000 (2011: HK$112,159,000) was the balance payment of the consideration for the transfer of intangible asset. For details of the intangible asset, please refer to note 18.

29. BANK LOANS

	Group	
	2012	2011
	HK$'000	*HK$'000*
Bank loans – secured	**28,751**	35,672
Carrying amount repayable:		
On demand or within one year	**28,751**	35,672
Less: Amounts due within one year shown under current liabilities	**(28,751)**	(35,672)
	–	–

The bank loans were secured by the Group's building and prepaid lease payments *(note 35)*. The weighted average effective interest rate on the bank loans is 9.42% (2011: 9.53%) per annum.

During the years ended 31 March 2012 and 31 March 2011, 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$28,751,000 (2011: HK$35,672,000) and HK$19,614,000 (2011: HK$15,042,000) were fully provided and included in the bank loans and other payables respectively.

30. CONVERTIBLE NOTES

	Group and Company	
	2012	2011
	HK$'000	*HK$'000*
Convertible Notes 2010 (as defined below)		
– classified as non-current liabilities	**–**	161,347
	–	161,347

Notes:

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 would be due on 27 January 2013 and was 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.

During the year ended 31 March 2011, there were neither conversion nor redemption of the Convertible Notes 2010 and the outstanding principal amount of the Convertible Notes 2010 was remained at HK$189,100,000 as at 31 March 2011.

The fair value of the liability component of the Convertible Notes 2010 was estimated at their respective issuance dates using an equivalent market interest rate for a similar note without a conversion option. The residual amount was assigned as the equity component and was included in shareholders' equity.

The effective interest rate of the liability component was 10.43%.

During the year ended 31 March 2012, there was no conversion of the Convertible Notes 2010 and the Company repurchased all of the outstanding Convertible Notes 2010 in the aggregate principal amount of HK$189,100,000 (the "Repurchased Notes") at a consideration of HK$187,209,000 on 23 September 2011, which represented a discount of 1% on the aggregate principal amount of the Repurchased Notes. The holders of the Repurchased Notes also agreed that the accrued interests of the Repurchased Notes in the amount of approximately HK$1,233,000 calculated up to the date of repurchase of the Repurchased Notes be waived. The consideration paid was first allocated to the liability component with the residual of approximately HK$19,809,000 being assigned to the repurchase of the equity component. A gain on repurchase of convertible notes of approximately HK$2,159,000 was recognised in the profit or loss. There were no outstanding Convertible Notes 2010 as at 31 March 2012.

30. CONVERTIBLE NOTES (continued)

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

	2012	2011
	HK$'000	*HK$'000*
Liability component at beginning of the year	**161,347**	147,882
Interest expenses for the year *(note 8)*	**7,890**	15,356
Interest paid	**(912)**	(1,891)
Repurchase of convertible notes	**(168,325)**	–
Liability component at end of the year	**–**	161,347

31. 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 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 and 1 April 2011	7,739	8,330	4,579	20,648
Exchange realignment	259	102	–	361
Credit to consolidated statement of comprehensive income *(note 12)*	(185)	(5,292)	(4,579)	(10,056)
At 31 March 2012	**7,813**	**3,140**	**–**	**10,953**

31. DEFERRED TAX (continued)

	Company Convertible notes *HK$'000*
At 1 April 2010	6,801
Credit to statement of comprehensive income	(2,222)
At 31 March 2011 and 1 April 2011	4,579
Credit to statement of comprehensive income	(4,579)
At 31 March 2012	**–**

Deferred tax assets

The Group has tax losses arising in Hong Kong of approximately HK$617,472,000 (2011: HK$126,845,000) 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.

32. SHARE CAPITAL

	Number of shares		Amount	
	2012	2011	**2012**	2011
	'000	*'000*	***HK$'000***	*HK$'000*
Authorised:				
At beginning of the year ordinary shares of HK$0.01 each	**10,000,000**	10,000,000	**100,000**	100,000
Share consolidation *(note (a)(i))*	**(9,000,000)**	–	**–**	–
Increase in ordinary shares *(note (a)(ii))*	**9,000,000**	–	**900,000**	–
At end of the year, Ordinary shares of HK$0.1 each (2011: HK$0.01 each)	**10,000,000**	10,000,000	**1,000,000**	100,000
Issued and fully paid:				
At beginning of the year	**4,118,480**	2,555,480	**41,185**	25,555
Issue of ordinary shares *(note (b))*	**823,696**	1,517,000	**8,237**	15,170
Issue of ordinary shares on exercise of share options	**–**	46,000	**–**	460
Share consolidation *(note (a)(i))*	**(4,447,958)**	–	**–**	–
Rights issue *(note (a)(iii))*	**2,471,088**	–	**247,109**	–
Exercise of warrants *(note (a)(iv))*	**182**	–	**18**	–
At end of the year	**2,965,488**	4,118,480	**296,549**	41,185

32. SHARE CAPITAL (continued)

Notes:

Details of the changes in the Company's share capital for the year ended 31 March 2012 are as follows:

(a) At the special general meeting of the Company held on 1 February 2012, ordinary resolutions in respect of the Share Consolidation, Increase in Authorised Share Capital, Rights Issue and issue of Bonus Warrants (all as defined below) were approved by the shareholders of the Company. Its effects were as follows:

(i) Under the share consolidation, every ten issued and unissued shares of HK$0.01 each were consolidated into one issued and unissued share (the "Consolidated Share") of HK$0.10 each (the "Share Consolidation").

(ii) The authorised share capital of the Company was increased to HK$1,000,000,000 by creation of an additional 9,000,000,000 unissued Consolidated Shares of HK$0.10 each (the "Increase in Authorised Share Capital").

(iii) Upon the Share Consolidation and the Increase in Authorised Share Capital became effective, the Company issued approximately 2,471,088,000 rights shares (the "Rights Shares") by way of a rights issue on the basis of five Rights Shares for every one Consolidated Share held on the record date at the subscription price of HK$0.13 each per Rights Share (the "Rights Issue"). The net proceeds raised from the Rights Issue was approximately HK$311,814,000.

(iv) Bonus warrants were issued by the Company to the successful applicants of the Rights Shares pursuant to the Rights Issue on the basis of one bonus warrant for every five Rights Shares taken up at the exercise price of HK$0.10 per Consolidated Share. The subscription period of bonus warrants commencing from 9 March 2012 to 7 March 2014. The Company issued approximately 494,218,000 bonus warrants (the "Bonus Warrants") to the successful applicants. During the year ended 31 March 2012, approximately 182,000 Bonus Warrants were exercised and approximately 182,000 Consolidated Shares were issued accordingly. The net proceeds from the exercise of the Bonus Warrants was approximately HK$18,000. At 31 March 2012, the Company had approximately 494,036,000 Bonus Warrants outstanding, which represented approximately 16.66% of the Company's shares in issue as at that date.

(b) On 24 October 2011, 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 823,695,952 new shares of the Company at a price of HK$0.093 per share. The placing was completed on 1 November 2011. The net proceeds raised from this placing of approximately HK$74,483,000 (equivalent to a net price of approximately HK$0.090 per share) were used as general working capital of the Group.

33. 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.

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.

33. SHARE OPTION SCHEME (continued)

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 quotations 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 share options are as follows:

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 immediate before the grant date *HK$ per share*
01-09-2009	01-09-2009 to 31-08-2012	1.01 *(notes (c) and (d))*	2.08 *(note (e))*

33. SHARE OPTION SCHEME (continued)

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

Name or category of participant	At 1 April 2011 '000	Number of share options Effect of the Share Consolidation during the year '000 (note (c))	Effect of the Rights Issue during the year '000 (note (d))	At 31 March 2012 '000
Director				
Suen Cho Hung, Paul	16,000	(14,400)	2,712	**4,312**
Employees				
In aggregate	–	–	–	**–**
Total	16,000	(14,400)	2,712	**4,312**

Notes:

(a) The share options 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) Upon the Share Consolidation became effective as mentioned in note 32(a)(i), the exercise price of the share options and the number of Consolidated Shares to be allotted and issued upon exercise in full of the subscription rights attaching to the outstanding share options were adjusted. The number of shares falling to be issued upon exercise of the outstanding share options was adjusted from 16,000,000 shares to 1,600,000 shares and the exercise price was adjusted from HK$0.272 per share to HK$2.72 per share.

(d) Upon the completion of the Rights Issue as mentioned in note 32(a)(iii), the exercise price of the share options and the number of Consolidated Shares to be allotted and issued upon exercise in full of the subscription rights attaching to the outstanding share options were adjusted. The number of shares falling to be issued upon exercise of the outstanding share options was adjusted from 1,600,000 shares to 4,311,864 shares and the exercise price was adjusted from HK$2.72 per share to HK$1.01 per share.

(e) 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$2.08 after adjusted for the effect of the Share Consolidation.

(f) No share options were granted, exercised, cancelled or lapsed during the year ended 31 March 2012.

33. SHARE OPTION SCHEME (continued)

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

Name or category of participant	Number of share options At 1 April 2010 '000	Exercised during the year '000	At 31 March 2011 '000
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 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.

Subsequent to the year ended 31 March 2012 and up to the reporting date, no share options 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 4,311,864 shares, which represented approximately 0.15% of the Company's shares in issue as at that date.

34. 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.

(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 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 and 1 April 2011	1,392,211	3,085	33,238	2,692	(212,820)	1,218,406
Loss for the year	–	–	–	–	(441,111)	(441,111)
Total comprehensive expense for the year	–	–	–	–	(441,111)	(441,111)
Issue of shares	68,367	–	–	–	–	68,367
Rights issue of share	74,133	–	–	–	–	74,133
Transaction costs attributable to issue of shares	(11,549)	–	–	–	–	(11,549)
Repurchase of convertible notes	–	–	(33,238)	–	13,429	(19,809)
At 31 March 2012	**1,523,162**	**3,085**	**–**	**2,692**	**(640,502)**	**888,437**

35. PLEDGE OF ASSETS

At 31 March 2012, time deposits of approximately HK$15,008,000 (2011: HK$248,028,000) were pledged to secure banking facilities to the Group.

At 31 March 2012, the buildings and prepaid lease payments of approximately HK$30,114,000 (2011: HK$30,127,000) and HK$33,974,000 (2011: HK$33,643,000) respectively were pledged to secure for bank loans of the Group.

36. CAPITAL COMMITMENTS

	Group	
	2012	2011
	HK$'000	*HK$'000*
Commitments for acquisition of property, plant and equipment	**–**	105

37. 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 2012 and 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2012	2011
	HK$'000	*HK$'000*
Within one year	**3,120**	3,212
In the second to fifth years, inclusive	**2,314**	4,769
	5,434	7,981

38. 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 2012 and 2011.

(i) Compensation of key management personnel of the Group

	2012	2011
	HK$'000	*HK$'000*
Short term employee benefits	**4,355**	5,117
Post-employment benefits	**185**	244
Total compensation paid to key management personnel	**4,540**	5,361

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

(ii) Underwriting commission

	2012	2011
	HK$'000	*HK$'000*
Underwriting commission in respect of Rights Issue of the Company, paid to the immediate holding company of the Company	**1,953**	–

Save as disclosed in note 38(ii) above, no other related party transactions constitutes a discloseable connected transaction as defined under the Listing Rules.

39. EVENTS AFTER THE REPORTING PERIOD

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

40. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 27 June 2012.

Five-Year Financial Summary

RESULTS

	Year ended 31 March				
	2012	2011	2010	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**1,114,563**	1,878,475	859,758	350,146	129,582
Loss before taxation	**(478,765)**	(122,788)	(16,971)	(3,712)	(9,486)
Taxation	**9,895**	1,618	224	(1,773)	(655)
Loss for the year	**(468,870)**	(121,170)	(16,747)	(5,485)	(10,141)
Attributable to:					
Owners of the Company	**(467,851)**	(120,373)	(16,762)	(4,907)	(12,854)
Non-controlling interests	**(1,019)**	(797)	15	(578)	2,713
	(468,870)	(121,170)	(16,747)	(5,485)	(10,141)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 March				
	2012	2011	2010	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**1,450,517**	1,877,569	1,362,814	275,269	290,849
Total liabilities	**(252,568)**	(580,744)	(416,088)	(47,236)	(113,678)
Non-controlling interests	**1,793**	734	(47)	(11)	(608)
Equity attributable to owners of the Company	**1,199,742**	1,297,559	946,679	228,022	176,563