# Annual Report 2010

**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

# Contents

# Corporate Information

御生堂

## BOARD OF DIRECTORS

### Executive Directors

Mr. Suen Cho Hung, Paul *(Chairman)*
Mr. Sue Ka Lok *(Chief Executive Officer)*
Mr. Bai Jianjiang
Mr. Chau Chung Tak

### Independent Non-executive Directors

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

## AUDIT COMMITTEE

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

## REMUNERATION COMMITTEE

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

## 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
Fortis Bank, Hong Kong Branch
Rabobank International Hong Kong Branch
Standard Bank Asia Limited

## LEGAL ADVISERS

Richards Butler
Troutman Sanders

## AUDITORS

HLB Hodgson Impey Cheng
*Chartered Accountants*
*Certified Public Accountants*

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## WEBSITE

www.beijingyst.com

## Chairman's Statement

### BUSINESS REVIEW

I am pleased to report that the Group's results for the year demonstrated the management's continuous efforts in developing the businesses of the Group. The Group's revenue for the year ended 31 March 2010 amounted to HK$859,758,000, representing a 146% growth from last year (2009: HK$350,146,000) whereas gross profit of the Group was HK$21,887,000, which also shows an increase of 54% over the previous year (2009: HK$14,170,000). The sharp increases in the Group's revenue and gross profit were mainly attributed to the strong business growth of the Group's supply and procurement division.

During the year, the supply and procurement division has significantly expanded its network of suppliers and customers for trading of metal minerals with the results that the trade volume of the division has increased substantially. The revenue and operating profit of this division was HK$853,816,000 (2009: HK$348,127,000) and HK$14,879,000 (2009: HK$9,718,000) respectively, jumped by 145% and 53% over last year. As most of the customers of this division are in Mainland China and it is common consensus that economic growth of China will sustain, the management expects that this division will continue to perform well in the coming years. The financing division of the Group continued to contribute a stable income to the Group's results for the year. The operating profit of the division was HK$1,830,000, increased by 16% (2009: HK$1,571,000) which was mainly due to the comparatively higher average amount of loans advanced to customers when compared to last year. The management is progressively expanding the operation scale of the financing division. The Group's securities division incurred an overall operating loss of HK$9,811,000 for the year (2009: HK$1,103,000). The Group mainly invested in listed equity securities in Hong Kong and loss incurred comprised mainly unrealised loss of HK$12,381,000 from securities holding at the financial year end.

For the year ended 31 March 2010, the Group recorded loss attributed to owners of the Company of HK$16,762,000 (2009: HK$4,907,000) and basic loss per share of HK0.92 cent (2009: HK0.40 cent). Such loss was mainly attributable to the loss incurred by the Group's securities investment division and the non-cash equity settled share-based payment expenses of HK$20,958,000 (2009: HK$ 2,931,000). The equity settled share-based payment expenses represented expenses recognised for fair value of share options granted to directors and employees of the Company which involved no cash outlays. If the effect of such expenses were excluded from the Group's results, the Group would have, for reference purposes, reported a profit attributable to owners of the Company of HK$4,196,000 for the year and a comparable loss of HK$1,976,000 in the previous year.

In January 2010, the Group acquired a group of companies whose major asset is the intellectual property rights to Jinhua Qinggan - a Chinese medicine aiming at treating patients who have been infected with Influenza A (H1N1) and other types of influenza. Jinhua Qinggan is currently used as a prescription drug in designated medical institutions in Beijing, upon obtaining of the new drug certificate from the relevant authorities in Mainland China, the Group will be able to market Jinhua Qinggan as a non-prescription drug to the general public. In February 2010, the Group further acquired a company whose major asset is a Good Manufacturing Practices (GMP) compliant medicine production plant in Beijing. The acquisitions reflected the Group's plan to diversify into the Chinese medicine field with an aim to enhance the Group's revenue and profit base. The revenue of the pharmaceutical division of HK$267,000 mainly represented sales income of Jinhua Qinggan selling as a prescription drug to designated medical institutions in Beijing since February 2010 and the operating loss of the division of HK$1,652,000 was primarily attributed to the set up and administrative costs of the division. An excess of acquirer's interest in fair value of acquiree's identifiable net assets over costs of HK$10,688,000 was recorded upon the Group's acquisition of the group of companies which holds the intellectual property rights to Jinhua Qinggan. Such excess was primarily related to upward adjustment of fair value of the intellectual property rights to Jinhua Qinggan at the date of acquisition.

## PROSPECTS

There are signs that global major economies are gradually recover from the financial tsunami and data released by the Chinese government also give support to the common expectation that the growth momentum of China economy will continue. In light of these positive indicators, the management is optimistic about the future prospects of the Group's businesses. In May 2010, the Group entered into a memorandum of understanding with Corporation PURE in respect of the possible acquisition of the 70% equity interest in Nihon Seiyaku Kogyo Co., Ltd. ("NSK"). NSK has over 60 years of experience in and is a leading producer of Kampo Medicine in Japan. NSK produces over 150 types of drugs, herbal medicines and health care products which are distributed to nationwide pharmacies and drug stores in Japan. The proposed transaction is subject to signing of formal agreement and further announcements relating to progress of the proposed transaction will be made in due course.

## APPRECIATION

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

**Suen Cho Hung, Paul**
*Chairman*

Hong Kong, 20 July 2010

# Management Discussion and Analysis

## OPERATIONS REVIEW

The Group is principally engaged in the businesses of supply and procurement, pharmaceutical, provision of finance and securities investment.

For the year ended 31 March 2010, the supply and procurement division continued to focus on the sourcing and sales of metal minerals and recyclable metal materials to customers based in Mainland China. The division delivered impressive results by posting revenue of HK$853,816,000 (2009: HK$348,127,000) and operating profit of HK$14,879,000 (2009: HK$9,718,000), showing sharp increases of 145% and 53% respectively over last year. The substantial increase in trade volume of the division was mainly attributed to the new group of suppliers and customers of metal minerals successfully solicited by the division's management which facilitated a much larger deal flows during the year. On the Group level, the surge in the division's trade volume was the main cause that led to the 3.7 times increase in accounts and bills receivable to HK$94,564,000 (2009: HK$20,001,000) and the 3.6 times increase in accounts and bills payable to HK$60,028,000 (2009: HK$12,967,000) from last year. The division will continue to focus on the sales of metal minerals and recyclable metal materials in the coming years, in order to better allocate the resources of the division, the management has decided to cease the business of supplying office equipment and supplies, machinery and parts, lubricating oil and bunkerage for vessels based in Singapore primarily due to low profitability of such business.

The Group has diversified into the pharmaceutical business through acquisition of a group of companies in January and February 2010. The major assets own by these companies include the intellectual property rights to Jinhua Qinggan – a Chinese medicine aiming at 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 acquisitions reflected the Group's plan to diversify into the Chinese medicine field with an aim to enhance the Group's revenue and profit base. Jinhua Qinggan is currently used as a prescription drug in designated medical institutions in Beijing and is a prescribed medicine cover under the government medical insurance scheme as announced by the Beijing Municipal Human Resources and Social Security Bureau (北京市人力資源和社會保障局). Jinhua Qinggan is also referred by the Beijing Municipal Administration of Traditional Chinese Medicine (北京市中醫管理局) to designated medical institutions in Beijing municipal area as one of the recommended Chinese medicine for the treatment of ordinary type of Hand, Foot and Mouth Disease. The Group is in the process of applying a new drug certificate for Jinhua Qinggan from the relevant authorities in Mainland China, upon receipt of the new drug certificate, the Group will be able to market Jinhua Qinggan as a non-prescription drug to the general public. The medicine production plant acquired by the Group holds a GMP Certificate issued by Beijing Drug Administration (北京市藥品監督管理局) which covers the manufacture of various forms of medicine products including tablets, granules, capsules, oral solution, syrup, tincture and medicinal teas. It is intended that the medicine production plant will serve to build up the Group's production capacity for the manufacture of Jinhua Qinggan in an expedient and efficient manner. The revenue of the pharmaceutical division of HK$267,000 mainly represented sales income of Jinhua Qinggan selling as a prescription drug to designated medical institutions in Beijing since February 2010. The operating loss of the pharmaceutical division of HK$1,652,000 was primarily attributed to the set up and administrative costs of the division. An excess of acquirer's interest in fair value of acquiree's identifiable net assets over costs of HK$10,688,000 was recorded upon the Group's acquisition of the group of companies which holds the intellectual property rights to Jinhua Qinggan. Such excess was primarily related to upward adjustment of fair value of the intellectual property rights to Jinhua Qinggan at the date of acquisition. The fair value of such intellectual property rights, classified as intangible asset, amounted to HK$146,286,000 at the year end. The intellectual property rights were acquired from the Institute of Clinical Pharmacy of Beijing Municipal Health Bureau* (北京市衛生局臨床藥學研究所), the consideration for the acquisition would be settled by stages, at the year end, the balance payment of the consideration included as other payables amounted to HK$107,714,000. Through acquisition of the company which holds the GMP compliant medicine production plant, the Group acquired factory buildings and land use rights, classified as prepaid lease payments, with carrying value of HK$29,832,000 and HK$33,053,000 respectively at the year end.

The financing division continued to provide 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 were up by 14% and 16% to HK$1,920,000 (2009: HK$1,681,000) and HK$1,830,000 (2009: HK$1,571,000) respectively. Such increases were primarily attributed to the higher average amount of loans advanced to customers over the previous year. The loan portfolio held by the Group amounted to HK$13,000,000 (2009: HK$10,500,000) at the financial year end. The management is progressively expanding the operation scale of the financing division.

The Group's securities investment division recorded revenue of HK$3,755,000, increased by 10 times when compared to last year (2009: HK$338,000). The revenue of the division represented mainly dividend income and interest income from equity-linked notes. The Group has taken a more proactive approach in securities investment during the year due to improvement in general investment sentiments which come along with the gradual recovery of global major economies from the financial tsunami. The market value of the Group's securities portfolio, comprising Hong Kong listed equity securities amounting to HK$176,990,000, increased by 112% when compared to the prior year (2009: HK$83,398,000). The division incurred an overall loss of HK$9,811,000 (2009: HK$1,103,000) for the year, primarily resulting from unrealised loss of HK$12,381,000 recorded for the Group's listed securities holding at the financial year end.

The Group's other income and gains for the year included an amount of HK$8,176,000, being the reimbursement from counterparties for legal and other professional fees incurred (which have been included and mainly accounted for the increase of administrative expenses for the year) due to termination of an investment project and an amount of HK$2,040,000 being the reversal of impairment loss recognised in respect of an other receivable which has been subsequently recovered by the Group. The Group recorded a non-cash equity settled share-based payment expenses of HK$20,958,000 (2009: HK$2,931,000) for the year. The equity settled share-based payment expenses represented expenses recognised for fair value of share options granted to directors and employees of the Company which involved no cash outlays. If the effect of such expenses were excluded from the Group's results, the Group would have, for reference purposes, reported a profit attributable to owners of the Company of HK$4,196,000 for the year and a comparable loss of HK$1,976,000 in the previous year.

# Management Discussion and Analysis

## FINANCIAL REVIEW

### Liquidity, Financial Resources and Capital Structure

At 31 March 2010, the Group had current assets of HK$1,136,736,000 (2009: HK$273,967,000) and liquid assets comprising cash and short-term securities investment of HK$846,143,000 (2009: HK$201,448,000) (excluding pledged bank deposits). The Group's current ratio, calculated based on current assets of HK$1,136,736,000 (2009: HK$273,967,000) over current liabilities of HK$245,802,000 (2009: HK$47,236,000), was at a strong ratio of 4.62 at the year end (2009: 5.80).

The Company issued approximately 1,160 million new shares during the year as a result of placings of new shares, conversion of convertible notes issued and exercise of share options granted. At the year end, equity attributable to owners of the Company amounting to HK$946,679,000 (2009: HK$228,022,000) and is equivalent to an attributable amount of HK$0.37 per share of the Company (2009: HK$0.16). The 3.2 times increase in equity attributable to owners of the Company was mainly contributed by proceeds raised from new shares issued during the year.

In January 2010, the Company issued convertible notes with total principal amount of HK$244,900,000 which could be converted into ordinary shares of the Company at an initial conversion price of HK$0.62 per share. Up to the year end, convertible notes with aggregate principal amount of HK$55,800,000 were converted into shares of the Company and thus convertible notes with aggregate principal amount of HK$189,100,000 were outstanding. At 31 March 2010, the Group's total indebtedness comprised fair value of outstanding convertible notes and bank loans with aggregate amount of HK$183,284,000 (2009: HK$30,563,000). The Group's gearing ratio, calculated on the basis of total indebtedness divided by total indebtedness and total equity, was at a low level of 16% at the year end (2009: 12%). The convertible notes, if not converted, would be due for repayment in January 2013 whereas the bank loans were all repayable within one year. The convertible notes were denominated in Hong Kong dollars and bore fixed interest rate at 1% per annum whereas the bank loans were denominated in Renminbi and bore interest at floating rate.

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

### Foreign Currency Management

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

### Pledge of Assets

At 31 March 2010, bank deposits of HK$131,099,000 (2009: HK$37,626,000) were pledged to secure banking facilities granted to the Group.

At 31 March 2010, carrying amount of buildings and prepaid lease payments of HK$29,832,000 (2009: nil) and HK$33,053,000 (2009: nil) respectively were pledged to secure bank loans of the Group.

### Contingent Liability

At 31 March 2010, the Group had no significant contingent liability.

### Capital Commitment

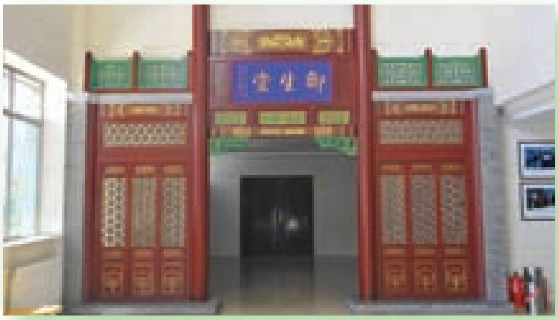
At 31 March 2010, the Group had no significant capital commitment.

## EMPLOYEES AND REMUNERATION POLICY

At 31 March 2010, the Group had about 60 (2009: 20) employees including directors. Total staff costs for the year, including directors' remuneration but excluding equity settled share-based payment expenses, was HK$7,453,000 (2009: HK$4,110,000). The increases in headcount and staff costs were mainly due to the acquisition of subsidiaries which hold the intellectual property rights to Jinhua Qinggan and the medicine production plant in Beijing. The equity settled share-based payment expenses of HK$20,958,000 (2009: HK$2,931,000) represented fair value of share options granted to directors and employees of the Group and were not associated with any cash outlays. Remuneration packages for directors and employees are structured by reference to market conditions and individual performance. Benefits plans maintained by the Group include mandatory provident fund scheme, medical insurance, share option scheme and discretionary bonuses.

* *For identification purpose only*

# Jinhua Qinggan Event Highlights



The origin of Yu Sheng Tang can be traced back to 1608 with over 400 years of long history.

**June 2009**
The Beijing Municipal Government commenced a clinical research project for developing an effective traditional Chinese medicine prescription for Influenza A (H1N1).

**November 2009**
"Jinhua Qinggan" received an "Acceptance Notice of Patent Application" by the State Intellectual Property Office.

**December 2009**
The State Administration of Traditional Chinese Medicine and Beijing Municipal Government held a press conference for presenting the effectiveness of "Jinhua Qinggan" in curing Influenza A (H1N1). It was attended by representatives of World Health Organization, and widely reported by international and local media, including the Associated Press and Reuters.

Dr. Lam Pin-Yan, Director of Health (left), Mr. Anthony Wu Ting-Yuk, Chairman of the Hospital Authority (middle) attended the forum – Effectiveness and Application of "Jinhua Qinggan" held by the Company. Mr. Bai Jianjiang (right), Executive Director of the Company.

Jinhua Qinggan received the approval – Jing Yao Zhi Zi Z20090009 (京藥制字Z20090009) as a prescription drug for use in designated medical institutions.

**January 2010**
"Jinhua Qinggan" was used as a prescription drug in second tier or above Traditional Chinese Medicine Hospital (中醫院), Traditional Chinese and Western Medicine Hospital (中西醫結合醫院) and the Chinese medicine demonstration unit of General Hospital (綜合醫院中醫示範科) in Beijing.

"Jinhua Qinggan" has been accepted for use by 49 medical institutions in Beijing.

**March 2010**
"Jinhua Qinggan" has been included in the list of approved medicine cover under government medical insurance scheme in Beijing.

**May 2010**
A group of state-level Chinese medicine specialists and government officials of health care departments of both Mainland China and Hong Kong attended the forum entitled "New Era of Traditional Chinese Medicine" held by the Company.

**June 2010**
Beijing Municipal Administration of Traditional Chinese Medicine (北京市中醫管理局) has referred Jinhau Qinggan as one of the recommended Chinese medicine for the treatment of ordinary type of Hand, Foot and Mouth Disease.

Mr. Bai (left), and Professor Zhou Ping-An (right), a Chinese medicine specialist from Beijing University of Chinese Medicine who had participated in the development of Jinhua Qingang, gave a speech at the Company's forum – Effectiveness and Application of "Jinhua Qinggan".

# Media Coverage of Jinhua Qinggan

China Securities Journal (17 May 2010)


北京御生堂药业集团签署意向协议将收购日本制药

HKET (18 May 2010)


國家級資源研發
金花清感帶領中醫藥邁向世界

SCMP (19 May 2010)


Pathing the road to internationalization through evolution of ancient Chinese prescription

# Biographical Details of Directors and Senior Management

## EXECUTIVE DIRECTORS

**Mr. Suen Cho Hung, Paul,** *Chairman*

Aged 49, joined the Company as an Executive Director and the Chairman of the Company in November 2007 and is also a director of various members of the Group. Mr. Suen holds a Master of Business Administration degree from the University of South Australia. Mr. Suen has extensive experience in managing metal, minerals and raw materials, energy and property business ventures as well as in strategic planning and corporate management of business enterprises in Hong Kong and the People's Republic of China (the "PRC"). Mr. Suen is a substantial shareholder of the Company as disclosed in the section headed "Interests and short positions of shareholders discloseable under the SFO" in the Report of the Directors. Mr. Suen is also an executive director and the chairman of BEP International Holdings Limited (stock code: 2326), a listed company in Hong Kong and was an executive director and the chairman of China Yunnan Tin Minerals Group Company Limited (stock code: 263), a listed company in Hong Kong, until 15 September 2009.

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

Aged 45, joined the Company as an Executive Director in November 2007 and appointed as the Chief Executive Officer of the Company in November 2009. Mr. Sue is also a director of various members of the Group. Mr. Sue holds a Bachelor of Economics degree from the University of Sydney in Australia and a Master of Science in Finance degree from the City University of Hong Kong. Mr. Sue is a fellow member of the Hong Kong Institute of Certified Public Accountants, a certified practising accountant of the CPA Australia, a fellow member of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators and a member of the Hong Kong Securities Institute. Mr. Sue has extensive experience in corporate management, finance, accounting and company secretarial practice. Mr. Sue is also an executive director and the chief executive officer of BEP International Holdings Limited (stock code: 2326) and a non-executive director and the chairman of Sewco International Holdings Limited (stock code: 209), both are listed companies in Hong Kong. Mr. Sue was an executive director and the chief executive officer of China Yunnan Tin Minerals Group Company Limited (stock code: 263), a listed company in Hong Kong, until 17 January 2010.

**Mr. Bai Jianjiang**

Aged 47, 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. Chau Chung Tak**

Aged 58, joined the Company as an Executive Director in November 2009 and is also a director of various members of the Group. Mr. Chau graduated from Northwest Telecommunication Engineering College (西北電訊工程學院) (currently known as Xidian University) in the PRC with a bachelor's degree in engineering. Mr. Chau has over 20 years of experience in trading and project investments in the PRC.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Aged 71, joined the Company as an Independent Non-executive Director in August 2001. Mr. Wong graduated from the Deakin University in Geelong, Australia and holds a Diploma of Commerce. Mr. Wong is a Practising Certified Public Accountant and a fellow member of the CPA Australia and the Hong Kong Institute of Certified Public Accountants. Mr. Wong is the principal of W. Wong & Co., C.P.A. and has more than 44 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), Sewco International Holdings Limited (stock code: 209) and Takson Holdings Limited (stock code: 918), all being listed companies in Hong Kong.

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

Aged 51, joined the Company as an Independent Non-executive Director in October 2007. Mr. Weng graduated from China Central Radio and TV University specializing in law and is also qualified as a senior economist in the PRC. Mr. Weng has over 20 years of experience in banking, investment and finance and had served as senior executive in government authorities and financial institutions in the PRC. Mr. Weng is the general manager of an investment management and consulting company in the PRC.

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

Aged 43, joined the Company as an Independent Non-executive Director in October 2007. Mr. Lu graduated from Sichuan University with a Bachelor of Science degree specializing 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.

**Mr. Xiong Wei,** *Member of the Audit Committee and the Remuneration Committee*

Aged 36, joined the Company as an Independent Non-executive Director in October 2007. Mr. Xiong graduated from Chongqing Workers and Staff Members College (重慶市職工大學) specializing in economics management. Mr. Xiong has over 15 years of experience of advertising and public communication and has held senior positions in advertising and media companies in the PRC.

## SENIOR MANAGEMENT

**Ms. Chan Yuk Yee,** *Company Secretary*

Aged 42, joined the Company as Company Secretary in November 2008. She holds a Master of Business Law degree from Monash University in Australia and is an associate member of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators. Ms. Chan has over 10 years of experience in company secretarial practice.

The directors of the Company present their report and the audited consolidated financial statements of the Company for the year ended 31 March 2010.

## 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 2010 are set out in the consolidated statement of comprehensive income on page 28.

## FINAL DIVIDEND

The Board of Directors (the "Board") of the Company does not recommend the payment of a final dividend for the year ended 31 March 2010 (2009: nil).

## FIVE-YEAR FINANCIAL SUMMARY

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

## PROPERTY, PLANT AND EQUIPMENT

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

## SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE NOTES

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

## CHANGE OF COMPANY NAME

Pursuant to a special resolution passed by the shareholders of the Company at the special general meeting held on 29 March 2010 and the subsequent approval of the Registrar of Companies in Bermuda and the Registrar of Companies in Hong Kong, the name of the Company has been changed from "Poly Development Holdings Limited" to "Beijing Yu Sheng Tang Pharmaceutical Group Limited" and "北京御生堂藥業集團有限公司" has been adopted as the Chinese name of the Company for identification purpose only.

## 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 35(b) to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

At 31 March 2010, 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$933,278,000 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 83% of the total sales for the year and sales to the largest customer accounted for approximately 46%. Purchases from the Group's five largest suppliers accounted for approximately 56% of the total purchases for the year and purchases from the largest supplier accounted for approximately 23%.

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 were:

### Executive Directors:

| | |
|---|---|
| Mr. Suen Cho Hung, Paul | |
| Mr. Sue Ka Lok | |
| Mr. Bai Jianjiang | *(appointed on 3 February 2010)* |
| Mr. Chau Chung Tak | *(appointed on 19 November 2009)* |
| Mr. Wong Danny F. | *(appointed on 16 June 2009 and resigned on 24 August 2009)* |
| Mr. Li Rongsheng | *(appointed on 17 June 2009 and resigned on 3 September 2009)* |
| Mr. Zhang Zhidong | *(resigned on 1 April 2009)* |
| Mr. Lo Ming Chi, Charles | *(resigned on 19 November 2009)* |

### Independent Non-executive Directors:

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

In accordance with bye-law 86(2) of the Company's Bye-laws, Mr. Bai Jianjiang and Mr. Chau Chung Tak will hold office until the forthcoming annual general meeting (the "AGM") and, being eligible, offer themselves for re-election at the forthcoming AGM.

In accordance with bye-law 87 of the Company's Bye-laws, Mr. Sue Ka Lok and Mr. Lu Xinsheng will retire by rotation at the 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 Company 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.

## DIRECTORS' INTERESTS IN CONTRACTS

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 2010, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

**Long positions in shares of the Company:**

| Name of director | Capacity and nature of interest | Number of shares held | Total interests | Approximate percentage of the Company's issued share capital |
|---|---|---|---|---|
| Mr. Suen Cho Hung, Paul | Interest held by controlled corporation | 437,433,866 *(Note 1)* | – | – |
| | Directly beneficially owned | 10,000,000 | 447,433,866 | 17.51% |

**Long positions in share options of the Company:**

| Name of director | Capacity and nature of interest | Number of underlying shares | Approximate percentage of the Company's issued share capital |
|---|---|---|---|
| Mr. Suen Cho Hung, Paul | Directly beneficially owned | 16,000,000 *(Note 2)* | 0.63% |
| Mr. Sue Ka Lok | Directly beneficially owned | 16,000,000 *(Note 3)* | 0.63% |

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

*Notes:*

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

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

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

Save as disclosed above, as at 31 March 2010, none of the directors or chief executive of the Company had registered an interest or short positions in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

## SHARE OPTION SCHEME

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

## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 March 2010, the following interests of more than 5% of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

**Long positions in shares and underlying shares of the Company:**

| Name of shareholder | Capacity and nature of interest | Number of shares held | Number of underlying shares | Total interests | Approximate percentage of the Company's issued share capital |
|---|---|---|---|---|---|
| Mr. Suen Cho Hung, Paul | Interest held by controlled corporation | 437,433,866 *(Note 1)* | – | – | – |
| | Directly beneficially owned | 10,000,000 | 16,000,000 *(Note 2)* | 463,433,866 | 18.14% |
| Excelsior Kingdom Limited | Interest held by controlled corporation | 437,433,866 *(Note 1)* | – | 437,433,866 | 17.12% |
| Global Wealthy Limited | Directly beneficially owned | 437,433,866 *(Note 1)* | – | 437,433,866 | 17.12% |

*Notes:*

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

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

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

Save as disclosed above, the Company had not been notified of other relevant interests or short positions in the shares and underlying shares of the Company as at 31 March 2010 as required pursuant to section 336 of the SFO.

## RELATED PARTY TRANSACTIONS

Details of the significant related party transactions undertaken in the usual course of business are set out in note 39 to the consolidated financial statements. None of these related party transactions constitutes a discloseable connected transaction as defined under the Listing Rules.

## EMOLUMENT POLICY

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

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

## SUFFICIENCY OF PUBLIC FLOAT

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

## AUDITORS

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

The consolidated financial statements for the year ended 31 March 2010 have been audited by Messrs. HLB Hodgson Impey Cheng.

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

On behalf of the Board

**Suen Cho Hung, Paul**
*Chairman*

Hong Kong, 20 July 2010

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

## CORPORATE GOVERNANCE PRACTICES

The Company has adopted the principles and complied with all the applicable provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 March 2010, except for a deviation relating to code provision A.4.1 with considered reason as explained below:

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

### Deviation

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

## DIRECTORS' SECURITIES TRANSACTIONS

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

## BOARD OF DIRECTORS

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

## BOARD OF DIRECTORS (continued)

As at the date of this report, the Board comprises eight directors, four of which are Executive Directors, namely Mr. Suen Cho Hung, Paul (Chairman), Mr. Sue Ka Lok (Chief Executive Officer), Mr. Bai Jianjiang, Mr. Chau Chung Tak; and four are Independent Non-executive Directors, namely Mr. Wong Kwok Tai, Mr. Weng Yixiang, Mr. Lu Xinsheng and Mr. Xiong Wei. 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 12 to 13 of this annual report.

During the year, seven 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 | 5/7 |
| Mr. Sue Ka Lok | 7/7 |
| Mr. Bai Jianjiang (appointed on 3 February 2010) | 1/7 |
| Mr. Chau Chung Tak (appointed on 19 November 2009) | 2/7 |
| Mr. Wong Danny F. (appointed on 16 June 2009 and resigned on 24 August 2009) | 0/7 |
| Mr. Li Rongsheng (appointed on 17 June 2009 and resigned on 3 September 2009) | 0/7 |
| Mr. Lo Ming Chi, Charles (resigned on 19 November 2009) | 5/7 |
| **Independent Non-executive Directors** | |
| Mr. Wong Kwok Tai | 7/7 |
| Mr. Weng Yixiang | 7/7 |
| Mr. Lu Xinsheng | 6/7 |
| Mr. Xiong Wei | 5/7 |

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

## REMUNERATION COMMITTEE

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

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

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

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

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

| **Members** | **Number of attendance** |
|---|---|
| Mr. Sue Ka Lok (appointed Chairman of the Remuneration Committee on 19 November 2009) | 2/2 |
| Mr. Wong Kwok Tai | 2/2 |
| Mr. Weng Yixiang | 2/2 |
| Mr. Lu Xinsheng | 2/2 |
| Mr. Xiong Wei | 2/2 |
| Mr. Lo Ming Chi, Charles (resigned on 19 November 2009) | 1/2 |

## NOMINATION OF DIRECTORS

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

## AUDITORS AND AUDITORS' REMUNERATION

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 26 to 27 of this annual report.

For the year ended 31 March 2010, remuneration payable to the Company's auditors, HLB Hodgson Impey Cheng, for the provision of audit services was HK$850,000. During the year, HK$80,000 was paid as remuneration to HLB Hodgson Impey Cheng for the provision of non-aduit related services to the Group.

## AUDIT COMMITTEE

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

The major roles and functions of the Audit Committee are:

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

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

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

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

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

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

| Members | Number of attendance |
|---|---|
| Mr. Wong Kwok Tai (Chairman of the Audit Committee) | 2/2 |
| Mr. Weng Yixiang | 2/2 |
| Mr. Lu Xinsheng | 2/2 |
| Mr. Xiong Wei | 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 2009 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 2009 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 2010.

## INTERNAL CONTROL

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

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

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**
**(FORMERLY KNOWN AS POLY DEVELOPMENT HOLDINGS 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 28 to 107, which comprise the consolidated and company statements of financial position as at 31 March 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made 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 as to 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 and true and fair presentation of the consolidated financial statements 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 2010 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, 20 July 2010

# Consolidated Statement of Comprehensive Income

For the year ended 31 March 2010

| | Notes | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| Revenue | 7 | **859,758** | 350,146 |
| Cost of sales | | **(837,871)** | (335,976) |
| Gross profit | | **21,887** | 14,170 |
| Net losses on investments at fair value through profit or loss | 9 | **(13,561)** | (1,441) |
| Other income and gains | 7 | **13,034** | 4,154 |
| Selling and distribution costs | | **(900)** | (245) |
| Administrative expenses | | **(23,310)** | (12,464) |
| Other expenses | 9 | **–** | (1,940) |
| Excess of acquirer's interest in fair value of acquiree's identifiable net assets over costs | 36(a) | **10,688** | – |
| Finance costs | 8 | **(3,851)** | (3,015) |
| Equity settled share-based payment expenses | 9, 10 | **(20,958)** | (2,931) |
| Loss before taxation | 9 | **(16,971)** | (3,712) |
| Taxation | 12 | **224** | (1,773) |
| Loss for the year | | **(16,747)** | (5,485) |
| **Other comprehensive expense** | | | |
| Exchange difference on translating foreign operations | | **–** | (116) |
| Other comprehensive expense for the year, net of tax | | **–** | (116) |
| **Total comprehensive expense for the year** | | **(16,747)** | (5,601) |

# Consolidated Statement of Comprehensive Income

For the year ended 31 March 2010

| | Notes | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| **Loss for the year attributable to:** | | | |
| Owners of the Company | 13 | **(16,762)** | (4,907) |
| Minority interests | | **15** | (578) |
| | | **(16,747)** | (5,485) |
| **Total comprehensive expense attributable to:** | | | |
| Owners of the Company | | **(16,762)** | (5,004) |
| Minority interests | | **15** | (597) |
| | | **(16,747)** | (5,601) |
| **Loss per share attributable to owners of the Company** | 15 | | |
| Basic and diluted (HK cent(s) per share) | | **(0.92)** | (0.40) |

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

# Consolidated Statement of Financial Position

As at 31 March 2010

| | Notes | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | **36,705** | 1,302 |
| Prepaid lease payments | 17 | **32,310** | – |
| Other deposits | | **842** | – |
| Intangible asset | 18 | **146,286** | – |
| Goodwill | 19 | **9,935** | – |
| Total non-current assets | | **226,078** | 1,302 |
| **Current assets** | | | |
| Inventories | 21 | **13,100** | – |
| Accounts and bills receivable | 22 | **94,564** | 20,001 |
| Prepayments, deposits and other receivables | 23 | **38,830** | 4,392 |
| Loans receivable | 24 | **13,000** | 10,500 |
| Investments at fair value through profit or loss | 25 | **176,990** | 83,398 |
| Pledged bank deposits | 26 | **131,099** | 37,626 |
| Cash and bank balances | 26 | **669,153** | 118,050 |
| Total current assets | | **1,136,736** | 273,967 |
| **Current liabilities** | | | |
| Accounts and bills payable | 27 | **60,028** | 12,967 |
| Other payables and accruals | 28 | **149,872** | 3,288 |
| Tax payable | | **199** | 418 |
| Bank loans | 29 | **35,402** | – |
| Amount due to a director | 30 | **301** | – |
| Convertible notes | 31 | **–** | 30,563 |
| Total current liabilities | | **245,802** | 47,236 |
| **Net current assets** | | **890,934** | 226,731 |
| **Total assets less current liabilities** | | **1,117,012** | 228,033 |

# Consolidated Statement of Financial Position

As at 31 March 2010

| | Notes | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Convertible notes | 31 | **147,882** | – |
| Deferred tax liabilities | 32 | **22,404** | – |
| Total non-current liabilities | | **170,286** | – |
| **Net assets** | | **946,726** | 228,033 |
| **Capital and reserves** | | | |
| Share capital | 33 | **25,555** | 13,957 |
| Reserves | 35(a) | **921,124** | 214,065 |
| Equity attributable to owners of the Company | | **946,679** | 228,022 |
| Minority interests | | **47** | 11 |
| **Total equity** | | **946,726** | 228,033 |

The consolidated financial statements on pages 28 to 107 were approved and authorised for issue by the Board of Directors on 20 July 2010 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 2010

| | Notes | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | **385** | 830 |
| Investments in subsidiaries | 20 | **–** | – |
| Total non-current assets | | **385** | 830 |
| **Current assets** | | | |
| Prepayments, deposits and other receivables | 23 | **13,715** | 3,293 |
| Amounts due from subsidiaries | 20 | **477,869** | 114,943 |
| Investments at fair value through profit or loss | 25 | **4,752** | 46,271 |
| Cash and bank balances | 26 | **599,028** | 92,229 |
| Total current assets | | **1,095,364** | 256,736 |
| **Current liabilities** | | | |
| Amount due to a subsidiary | 20 | **18,033** | 18,305 |
| Other payables and accruals | 28 | **6,494** | 643 |
| Convertible notes | 31 | **–** | 30,563 |
| Total current liabilities | | **24,527** | 49,511 |
| **Net current assets** | | **1,070,837** | 207,225 |
| **Total assets less current liabilities** | | **1,071,222** | 208,055 |
| **Non-current liabilities** | | | |
| Convertible notes | 31 | **147,882** | – |
| Deferred tax liabilities | 32 | **6,801** | – |
| Total non-current liabilities | | **154,683** | – |
| **Net assets** | | **916,539** | 208,055 |
| **Capital and reserves** | | | |
| Share capital | 33 | **25,555** | 13,957 |
| Reserves | 35(b) | **890,984** | 194,098 |
| **Total equity** | | **916,539** | 208,055 |

**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 2010

| | | Attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Share capital HK$'000 | Share premium HK$'000 | Contributed surplus HK$'000 | Convertible notes equity reserve HK$'000 | Translation reserve HK$'000 | Share option reserve HK$'000 | Accumulated losses HK$'000 | Sub-total HK$'000 | Minority interests HK$'000 | Total HK$'000 |
| At 1 April 2008 | | 10,699 | 186,571 | 3,085 | 12,287 | 1,526 | – | (37,605) | 176,563 | 608 | 177,171 |
| Loss for the year | | – | – | – | – | – | – | (4,907) | (4,907) | (578) | (5,485) |
| Other comprehensive expense for the year | | – | – | – | – | (97) | – | – | (97) | (19) | (116) |
| Total comprehensive expense for the year | | – | – | – | – | (97) | – | (4,907) | (5,004) | (597) | (5,601) |
| Conversion of convertible notes | | 1,696 | 47,096 | – | (7,295) | – | – | – | 41,497 | – | 41,497 |
| Issue of shares | | 1,500 | 9,750 | – | – | – | – | – | 11,250 | – | 11,250 |
| Transaction costs attributable to issue of shares | | – | (382) | – | – | – | – | – | (382) | – | (382) |
| Recognition of equity settled share-based payment expenses | | – | – | – | – | – | 2,931 | – | 2,931 | – | 2,931 |
| Share options exercised during the year | | 62 | 1,389 | – | – | – | (284) | – | 1,167 | – | 1,167 |
| At 31 March 2009 and 1 April 2009 | | 13,957 | 244,424 | 3,085 | 4,992 | 1,429 | 2,647 | (42,512) | 228,022 | 11 | 228,033 |
| Loss for the year | | – | – | – | – | – | – | (16,762) | (16,762) | 15 | (16,747) |
| Total comprehensive expense for the year | | – | – | – | – | – | – | (16,762) | (16,762) | 15 | (16,747) |
| Voluntary winding up of a subsidiary | | – | – | – | – | (1,429) | – | – | (1,429) | (56) | (1,485) |
| Issue of convertible notes | 31 | – | – | – | 53,148 | – | – | – | 53,148 | – | 53,148 |
| Direct transaction costs attributable to the equity component of convertible notes | | – | – | – | (834) | – | – | – | (834) | – | (834) |
| Deferred tax arising on issue of convertible notes | 32 | – | – | – | (9,266) | – | – | – | (9,266) | – | (9,266) |
| Conversion of convertible notes | 31 | 2,086 | 89,203 | – | (16,912) | – | – | – | 74,377 | – | 74,377 |
| Reversal of deferred tax due to conversion of convertible notes | 32 | – | – | – | 2,110 | – | – | – | 2,110 | – | 2,110 |
| Issue of shares | 33 | 8,387 | 573,514 | – | – | – | – | – | 581,901 | – | 581,901 |
| Transaction costs attributable to issue of shares | | – | (11,948) | – | – | – | – | – | (11,948) | – | (11,948) |
| Acquisition of subsidiaries | 36(b) | – | – | – | – | – | – | – | – | 77 | 77 |
| Recognition of equity settled share-based payment expenses | 34 | – | – | – | – | – | 20,958 | – | 20,958 | – | 20,958 |
| Lapse of share options | 34 | – | – | – | – | – | (366) | 366 | – | – | – |
| Share options exercised during the year | 34 | 1,125 | 38,085 | – | – | – | (12,808) | – | 26,402 | – | 26,402 |
| **At 31 March 2010** | | **25,555** | **933,278** | **3,085** | **33,238** | **–** | **10,431** | **(58,908)** | **946,679** | **47** | **946,726** |

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

# Consolidated Statement of Cash Flows

For the year ended 31 March 2010

| | Notes | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before taxation | | **(16,971)** | (3,712) |
| Adjustments for: | | | |
| Finance costs | 8 | **3,851** | 3,015 |
| Bank interest income | 7 | **(365)** | (3,483) |
| Interest income from provision of finance | 7 | **(1,920)** | (1,681) |
| Impairment loss recognised in respect of other receivable | 9 | **138** | 2,040 |
| Reversal of impairment loss recognised in respect of other receivable | 7 | **(2,040)** | – |
| Unrealised losses on investment in listed equity securities | 9 | **12,381** | 1,109 |
| Unrealised gain on investment in equity-linked notes | 9 | **–** | (1,303) |
| Depreciation of property, plant and equipment | 9 | **880** | 445 |
| Loss on disposal of property, plant and equipment | 9 | **–** | 13 |
| Amortisation of prepaid lease payments | 9 | **124** | – |
| Excess of acquirer's interest in fair value of acquiree's identifiable net assets over costs | 36(a) | **(10,688)** | – |
| Net gain on voluntary winding up of a subsidiary | 7 | **(1,420)** | – |
| Equity settled share-based payment expenses | 9, 10 | **20,958** | 2,931 |
| **Operating cash flows before movements in working capital** | | **4,928** | (626) |
| (Increase)/decrease in inventories | | **(12,679)** | 1,234 |
| (Increase)/decrease in accounts and bills receivable | | **(74,701)** | 16,467 |
| Increase in prepayments, deposits and other receivables | | **(21,372)** | (2,396) |
| Increase in loans receivable | | **(2,500)** | (2,500) |
| Increase in investments at fair value though profit or loss | | **(105,973)** | (77,864) |
| Increase in accounts and bills payable | | **47,061** | 6,083 |
| Increase in other payables and accruals | | **13,213** | 1,434 |
| Decrease in amount due to a minority shareholder | | **–** | (34,255) |
| Decrease in amounts due from related companies | | **–** | 1,204 |
| Increase in amount due to a director | | **301** | – |
| Exchange realignment | | **(216)** | (113) |

# Consolidated Statement of Cash Flows

For the year ended 31 March 2010

| | Notes | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| Cash used in operations | | **(151,938)** | (91,332) |
| Interest on loans receivable received | 7 | **1,920** | 1,681 |
| Interest paid for convertible notes | 31 | **(323)** | – |
| Hong Kong Profits Tax paid | | **(316)** | – |
| Overseas taxes paid | | **(72)** | (2,872) |
| **Net cash outflow from operating activities** | | **(150,729)** | (92,523) |
| **Cash flows from investing activities** | | | |
| Interest received | 7 | **365** | 3,483 |
| Purchases of property, plant and equipment | 16 | **(1,698)** | (1,736) |
| Proceeds from disposal of property, plant and equipment | | **–** | 2 |
| Net cash outflow on acquisition of subsidiaries | 36(a) and (b) | **(40,201)** | – |
| Increase in other deposit | | **(732)** | – |
| Net proceeds from voluntary winding up of a subsidiary | | **160** | – |
| Increase in time deposit | | **–** | (48,860) |
| (Increase)/decrease in pledged bank deposits | | **(93,473)** | 10,630 |
| **Net cash outflow from investing activities** | | **(135,579)** | (36,481) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of convertible notes | | **241,056** | – |
| Proceeds from issue of shares, net of share issue expenses paid | 33(a), (b) and (c) | **569,953** | 10,868 |
| Proceeds from exercise of share options | 33(d) | **26,402** | 1,167 |
| Interest paid | | **–** | (29) |
| **Net cash inflow from financing activities** | | **837,411** | 12,006 |
| **Net increase/(decrease) in cash and cash equivalents** | | **551,103** | (116,998) |
| Cash and cash equivalents at beginning of year | | **68,050** | 185,145 |
| Effect of foreign exchange rate changes, net | | **–** | (97) |
| **Cash and cash equivalents at end of year** | 26 | **619,153** | 68,050 |

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

## 1. GENERAL INFORMATION

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

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

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

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

In the current year, the Company and its subsidiaries (the "Group") have applied, for the first time, the following 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 financial year beginning 1 April 2009. A summary of the effect on initial adoption of these new and revised HKFRSs is set out below.

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009 |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39 |
| HKAS 1 (Revised) | Presentation of Financial Statements |
| HKAS 23 (Revised) | Borrowing Costs |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations |
| HKFRS 7 (Amendment) | Improving Disclosures about Financial Instruments |
| HKFRS 8 | Operating Segments |

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

| | |
|---|---|
| HK(IFRIC) – Int 9 & HKAS 39 (Amendments) | Embedded Derivatives |
| HK(IFRIC) – Int 13 | Customer Loyalty Programmes |
| HK(IFRIC) – Int 15 | Agreements for the Construction of Real Estate |
| HK(IFRIC) – Int 16 | Hedges of a Net Investment in a Foreign Operation |
| HK(IFRIC) – Int 18 | Transfers of Assets from Customers |

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

### HKAS 1 (Revised) "Presentation of Financial Statements"

HKAS 1 (Revised) has introduced terminology changes (including revised titles for the consolidated financial statements) and changes in the format and content of the consolidated financial statements.

### HKFRS 8 "Operating Segments"

HKFRS 8 is a disclosure standard that has not resulted in a redesignation of the Group's reportable segments (see note 6), and has had no impact on the reported results or financial position of the Group.

### Improving Disclosures about Financial Instruments (Amendments to HKFRS 7 "Financial Instruments: Disclosures")

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements and liquidity risk. The Group has not provided comparative information for the expanded disclosures in respect of fair value measurements of financial instruments in accordance with the transitional provision set out in the amendments.

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

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

| | |
|---|---|
| HKFRSs (Amendments) | Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008[1] |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2009[2] |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2010[3] |
| HKAS 24 (Revised) | Related Party Disclosures[7] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[1] |
| HKAS 32 (Amendments) | Classification of Rights Issues[5] |
| HKAS 39 (Amendments) | Eligible Hedged Items[1] |
| HKFRS 1 (Amendments) | Additional Exemptions for First-time Adopters[4] |
| HKFRS 1 (Amendments) | Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[6] |
| HKFRS 2 (Amendments) | Group Cash-settled Share-based Payment Transactions[4] |
| HKFRS 3 (Revised) | Business Combinations[1] |
| HKFRS 9 | Financial Instruments (relating to the classification and measurement of financial assets)[8] |
| HK(IFRIC) – Int 14 (Amendments) | Prepayments of a Minimum Funding Requirement[7] |
| HK(IFRIC) – Int 17 | Distributions of Non-cash Assets to Owners[1] |
| HK(IFRIC) – Int 19 | Extinguishing Financial Liabilities with Equity Instruments[6] |

1 Effective for annual periods beginning on or after 1 July 2009.
2 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.
3 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
4 Effective for annual periods beginning on or after 1 January 2010.
5 Effective for annual periods beginning on or after 1 February 2010.
6 Effective for annual periods beginning on or after 1 July 2010.
7 Effective for annual periods beginning on or after 1 January 2011.
8 Effective for annual periods beginning on or after 1 January 2013.

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

The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 April 2010. HKAS 27 (Revised) will affect the Group's accounting treatment for changes in the parent's ownership interest in a subsidiary.

HKFRS 9 "Financial Instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (a) are held within a business model whose objective is to collect the contractual cash flows and (b) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 will affect the classification and measurement of the Group's financial assets.

In addition, as part of Improvements to HKFRSs issued in 2009, HKAS 17 "Leases" has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, lessees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification of the Group's leasehold land.

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

### Basis of consolidation

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

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

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

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

### Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at fair values at the acquisition date, except for non-current 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", which are recognised and measured at fair value less costs to sell.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Business combinations (continued)

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised, if after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

### Goodwill

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

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefits from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever where is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated statement of comprehensive income. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of relevant cash-generating unit or a jointly controlled entity, the attributable amount of goodwill capitalised is included in the determination of the amount of 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 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 definite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments**

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

*Financial assets*

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

Effective interest method

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

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

Financial assets at fair value through profit or loss

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments (continued)**

*Financial assets (continued)*

Financial assets at fair value through profit or loss (continued)

A financial asset is classified as held for trading if:

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

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

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

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

Loan and receivables

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments (continued)**

*Financial assets (continued)*

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

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

*Financial liabilities and equity*

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments (continued)**

*Financial liabilities and equity (continued)*

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

Convertible notes

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

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments (continued)**

*Financial liabilities and equity (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 charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and amortised over the period of the convertible notes using the effective interest method.

Equity instruments

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

Financial guarantee contracts

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

*Derecognition*

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Inventories

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

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

### Cash and cash equivalents

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

### Share-based payment transactions

*Equity settled share-based payment transactions*

Share options granted to employees

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

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

At the time when the share options are exercised, the amount previously recognised in share options 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 options reserve will be transferred to accumulated losses.

Share options granted to other participants

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment

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

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

### Provisions

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

### Contingent liabilities acquired in a business combination

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

### Revenue recognition

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

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

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition (continued)

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

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

### Taxation

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

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

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

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Taxation (continued)

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

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

### Foreign currencies

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

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leasing

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

*The Group as lessor*

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

*The Group as lessee*

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

### Borrowing costs

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

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

### Employee benefits

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

### Critical accounting estimates and assumptions

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

*(a) Income taxes*

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

*(b) Impairment of assets*

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

*(c) Impairment loss recognised on intangible asset*

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

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

*(d) Impairment loss recognised on goodwill*

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

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### Critical accounting estimates and assumptions (continued)

(e) *Estimate of fair value of financial instruments*

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

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

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

(f) *Measurement of convertible notes*

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

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

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

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## 5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

### (a) Categories of financial instruments

**Group**

*Financial assets*

| | 2010 | | | 2009 | | | |
|---|---|---|---|---|---|---|---|
| | Loan and receivables HK$'000 | Held for trading HK$'000 | Total HK$'000 | Loan and receivables HK$'000 | Held for trading HK$'000 | Financial assets at fair value through profit or loss HK$'000 | Total HK$'000 |
| Accounts and bills receivable | 94,564 | – | 94,564 | 20,001 | – | – | 20,001 |
| Other receivables | 32,432 | – | 32,432 | 3,949 | – | – | 3,949 |
| Loans receivable | 13,000 | – | 13,000 | 10,500 | – | – | 10,500 |
| Investments at fair value through profit or loss | – | 176,990 | 176,990 | – | 37,127 | 46,271 | 83,398 |
| Pledged bank deposits | 131,099 | – | 131,099 | 37,626 | – | – | 37,626 |
| Cash and bank balances | 669,153 | – | 669,153 | 118,050 | – | – | 118,050 |
| | 940,248 | 176,990 | 1,117,238 | 190,126 | 37,127 | 46,271 | 273,524 |

*Financial liabilities*

| | 2010 Financial liabilities at amortised cost HK$'000 | 2009 Financial liabilities at amortised cost HK$'000 |
|---|---|---|
| Accounts and bills payable | 60,028 | 12,967 |
| Other payables | 144,952 | 2,092 |
| Bank loans | 35,402 | – |
| Amount due to a director | 301 | – |
| Convertible notes | 147,882 | 30,563 |
| | 388,565 | 45,622 |

## 5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (continued)

### (a) Categories of financial instruments (continued)

**Company**

*Financial assets*

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | **Loans and receivables HK$'000** | **Held for trading HK$'000** | **Total HK$'000** | Loans and receivables HK$'000 | Financial assets at fair value through profit or loss HK$'000 | Total HK$'000 |
| Other receivables | **13,486** | **–** | **13,486** | 3,079 | – | 3,079 |
| Amounts due from subsidiaries | **477,869** | **–** | **477,869** | 114,943 | – | 114,943 |
| Investments in fair value through profit or loss | **–** | **4,752** | **4,752** | – | 46,271 | 46,271 |
| Cash and bank balances | **599,028** | **–** | **599,028** | 92,229 | – | 92,229 |
| | **1,090,383** | **4,752** | **1,095,135** | 210,251 | 46,271 | 256,522 |

*Financial liabilities*

| | **2010 Financial liabilities at amortised cost HK$'000** | 2009 Financial liabilities at amortised cost HK$'000 |
|---|---|---|
| Amount due to a subsidiary | **18,033** | 18,305 |
| Other payables | **4,753** | – |
| Convertible notes | **147,882** | 30,563 |
| | **170,668** | 48,868 |

## 5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (continued)

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

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

*Credit risk*

The Group's principal financial assets include accounts and bills receivable, other receivables, loans receivable, investments at fair value through profit or loss, pledged bank deposits and cash and bank balances. The Group's maximum exposure to credit risk in the event of counterparties' failure to perform their obligations as at 31 March 2010 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 reputable banks with high credit ratings assigned by international credit-rating agency. 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 monitor foreign exchange exposure 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 reporting date are as follows:

*Assets*

| | **2010**<br>**HK$'000** | 2009<br>HK$'000 |
|---|---|---|
| Renminbi | **242,252** | 4 |
| US Dollars | **171,066** | 43,570 |

*Liabilities*

| | **2010**<br>**HK$'000** | 2009<br>HK$'000 |
|---|---|---|
| Renminbi | **189,731** | – |
| US Dollars | **54,804** | 12,967 |

## 5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (continued)

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

*Market risk (continued)*

(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 reporting date.

If equity prices had been 5% higher/lower:

- net loss for the year ended 31 March 2010 would decrease/increase by approximately HK$8,850,000 (2009: decrease/increase by HK$1,856,000). This is mainly due to the changes in fair value of investments at fair value through profit or loss; and

- other equity reserves would not increase/decrease

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

(iii) Interest rate risk

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

*Sensitivity analysis*

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 31 March 2010 would decrease/increase by approximately HK$560,000 (2009: decrease/increase by approximately HK$336,000). This is mainly attributable to the Group's exposure to interest rates on its bank saving balances and bank loans.

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## 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 capital investments and repayment of related debts. The Group finances its working capital requirements through a combination of funds generated from operations.

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**

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

| | On demand HK$'000 | Less than 3 months HK$'000 | 3 to 12 months HK$'000 | Over 1 year HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| As at 31 March 2009 | | | | | |
| Accounts and bills payable | – | 12,967 | – | – | 12,967 |
| Other payables | – | 2,092 | – | – | 2,092 |
| Convertible notes | – | – | 32,500 | – | 32,500 |
| | – | 15,059 | 32,500 | – | 47,559 |

## 5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (continued)

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

*Liquidity risk (continued)*

**Company**

| | **On demand HK$'000** | **Less than 3 months HK$'000** | **3 to 12 months HK$'000** | **Over 1 year HK$'000** | **Total HK$'000** |
|---|---|---|---|---|---|
| **As at 31 March 2010** | | | | | |
| Amount due to a subsidiary | **18,033** | **–** | **–** | **–** | **18,033** |
| Other payables | **4,753** | **–** | **–** | **–** | **4,753** |
| Convertible notes | **–** | **–** | **–** | **189,100** | **189,100** |
| | **22,786** | **–** | **–** | **189,100** | **211,886** |

| | On demand HK$'000 | Less than 3 months HK$'000 | 3 to 12 months HK$'000 | Over 1 year HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| As at 31 March 2009 | | | | | |
| Amount due to a subsidiary | 18,305 | – | – | – | 18,305 |
| Convertible notes | – | – | 32,500 | – | 32,500 |
| | 18,305 | – | 32,500 | – | 50,805 |

*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.

## 5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (continued)

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

*Fair value of financial instruments (continued)*

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

**Fair value measurements recognised in the consolidated statements of financial position**

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

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

| | Level 1<br>HK$'000 | Level 2<br>HK$'000 | Level 3<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Investments at fair value through profit or loss - held for trading | 176,990 | – | – | 176,990 |

There were no transfers between Level 1 and Level 2 in the current year.

### (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 and equity attributable to owners of the Company, comprising issued share capital and reserves.

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

## 5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (continued)

### (c) Capital risk management (continued)

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. The gearing ratio is calculated as total debt divided by capital and total debt. During the years ended 31 March 2010 and 2009, the Group's strategy was to maintain a reasonable gearing ratio. The gearing ratio at 31 March 2010 and 2009 were as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Convertible notes, the liability component | **147,882** | 30,563 |
| Bank loans | **35,402** | – |
| Total debt | **183,284** | 30,563 |
| Total equity | **946,726** | 228,033 |
| Capital and total debt | **1,130,010** | 258,596 |
| Gearing ratio | **0.16** | 0.12 |

The increased in gearing ratio was due to the issuance of convertible notes for general capital and bank loans arising from acquisition of subsidiary during the year (2009: decreased).

The Group overall strategy remains unchanged during the year.

## 6. SEGMENT INFORMATION

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1 April 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the "CODM"), which is a group of executive directors of the Company, for the purpose of allocating resources to segments and to assessing their performance. In contrast, the predecessor standard (HKAS 14 "Segment Reporting") required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. In the past, the Group's primary reporting format was business segment.

In a manner consistent with the way in which information is reported internally to CODM 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 office equipment and office supplies, machinery, machinery parts, lubricating oil and bunkerage for vessels, fuel, metal minerals and recyclable metal materials;

- the pharmaceutical segment represents production and sale of Chinese medicine;

- the provision of finance segment represents provision of short-term loan financing activities; and

- the securities investment segment represents investment activities in equity securities and equity-linked notes.

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## 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 2010**

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

## 6. SEGMENT INFORMATION (continued)

For the year ended 31 March 2009

| | Supply and procurement HK$'000 | Provision of finance HK$'000 | Securities investment HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| **Segment revenue** | | | | |
| Sales to external customers | 348,127 | 1,681 | 338 | 350,146 |
| **Segment results** | 9,718 | 1,571 | (1,103) | 10,186 |
| Interest income and unallocated revenue and gains | | | | 2,853 |
| Unallocated expenses | | | | (10,805) |
| Finance costs | | | | (3,015) |
| Equity settled share-based payment expenses | | | | (2,931) |
| Loss before taxation | | | | (3,712) |
| Taxation | | | | (1,773) |
| Loss for the year | | | | (5,485) |
| **Assets and liabilities** | | | | |
| Segment assets | 84,264 | 10,732 | 83,398 | 178,394 |
| Unallocated assets | | | | 96,875 |
| Total assets | | | | 275,269 |
| Segment liabilities | 15,811 | 140 | – | 15,951 |
| Unallocated liabilities | | | | 31,285 |
| Total liabilities | | | | 47,236 |
| **Other segment information** | | | | |
| Impairment loss recognised in respect of other receivable – unallocated | | | | 2,040 |
| Depreciation of property, plant and equipment | | | | |
| – allocated | 5 | – | – | 5 |
| – unallocated | | | | 440 |
| | | | | 445 |
| Capital expenditure – unallocated | | | | 1,736 |

## 6. SEGMENT INFORMATION (continued)

### Geographical information

The following table presents revenue and certain asset and expenditure information for the Group's geographical location for the years ended 31 March 2010 and 2009:

| | Singapore | | The People's Republic of China (including Hong Kong and Mainland China) | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2010 HK$'000** | 2009 HK$'000 | **2010 HK$'000** | 2009 HK$'000 | **2010 HK$'000** | 2009 HK$'000 |
| **Segment revenue** | | | | | | |
| Sales to external customers | **–** | 49,135 | **859,758** | 301,011 | **859,758** | 350,146 |
| **Other segment information** | | | | | | |
| Segment assets | **–** | 305 | **1,362,814** | 274,964 | **1,362,814** | 275,269 |
| Capital expenditure | **–** | – | **1,698** | 1,736 | **1,698** | 1,736 |

### Information about major customers

Revenue from customers contributing over 10% of the total sales of the Group are mainly derived from the supply and procurement segment in both years. For the year 2010, there are two major customers contributing over 10% of the total sales amounting to HK$399,347,000 and HK$151,947,000 respectively. For the year 2009, there were four major customers contributing over 10% of the total sales amounting to HK$114,629,000, HK$109,710,000, HK$55,460,000 and HK$42,087,000 respectively.

## 7. REVENUE, OTHER INCOME AND GAINS

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

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

| | **2010**<br>**HK$'000** | 2009<br>HK$'000 |
|---|---|---|
| **Revenue** | | |
| Sale of goods | **854,083** | 348,127 |
| Interest income from provision of finance | **1,920** | 1,681 |
| Dividend income on investment in listed equity securities | **1,310** | 89 |
| Interest income on investment in equity-linked notes | **2,445** | 249 |
| | **859,758** | 350,146 |
| **Other income and gains** | | |
| Bank interest income | **365** | 3,483 |
| Other interest income | **115** | – |
| Rental income | **120** | 154 |
| Exchange gains | **181** | – |
| Reversal of impairment loss recognised in respect of other receivable | **2,040** | – |
| Net gain on voluntary winding up of a subsidiary | **1,420** | – |
| Reimbursement on legal and professional fees upon termination of acquisition of subsidiaries | **8,176** | – |
| Sundry income | **617** | 517 |
| | **13,034** | 4,154 |

## 8. FINANCE COSTS

| | **2010**<br>**HK$'000** | 2009<br>HK$'000 |
|---|---|---|
| Interest on: | | |
| Bank loans and other loan wholly repayable within five years | **574** | 29 |
| Convertible notes | **3,277** | 2,986 |
| | **3,851** | 3,015 |

## 9. LOSS BEFORE TAXATION

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **The Group's loss before taxation is arrived at after charging:** | | |
| Staff costs (excluding directors' remuneration – note 10): | | |
| Wages and salaries | **4,639** | 1,921 |
| Pension scheme contributions | **150** | 99 |
| Equity settled share-based payment expenses | **15,574** | 1,834 |
| Total staff cost | **20,363** | 3,854 |
| Impairment loss recognised in respect of other receivable | **138** | 2,040 |
| Auditors' remuneration | **850** | 710 |
| Cost of inventories sold | **795,981** | 305,411 |
| Depreciation of property, plant and equipment *(note 16)* | **880** | 445 |
| Amortisation of prepaid lease payments | **124** | – |
| Exchange losses, net | **–** | 1,940 |
| Minimum lease payments in respect of land and buildings | **1,260** | 1,300 |
| Loss on disposal of property, plant and equipment | **–** | 13 |
| **Net losses on investments at fair value through profit or loss:** | | |
| Proceeds on sales of listed equity securities investments | **(15,363)** | (3,843) |
| Less: cost of sales | **16,543** | 5,478 |
| Net realised loss on investment in listed equity securities | **1,180** | 1,635 |
| Unrealised loss on investment in listed equity securities | **12,381** | 1,109 |
| Unrealised gain on investment in equity-linked notes | **–** | (1,303) |
| Net losses on investments at fair value through profit or loss | **13,561** | 1,441 |

At 31 March 2010, the Group had no forfeited contributions available to reduce its contributions to pension schemes in future years (2009: 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:

| | **2010 HK$'000** | 2009 HK$'000 |
|---|---|---|
| Fees: | | |
| Executive directors | **–** | – |
| Independent non-executive directors | **300** | 300 |
| | **300** | 300 |
| Other emoluments of executive directors: | | |
| Salaries, other allowances and benefits in kind | **1,775** | 1,605 |
| Discretionary bonuses | **500** | 100 |
| Pension scheme contributions | **89** | 85 |
| Equity settled share-based payment expenses | **5,384** | 1,097 |
| | **7,748** | 2,887 |
| | **8,048** | 3,187 |

### (a) Independent non-executive directors

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

| | **Group** | |
|---|---|---|
| | **2010 HK$'000** | 2009 HK$'000 |
| Mr. Wong Kwok Tai | **120** | 120 |
| Mr. Weng Yixiang | **60** | 60 |
| Mr. Lu Xinsheng | **60** | 60 |
| Mr. Xiong Wei | **60** | 60 |
| | **300** | 300 |

There were no other emoluments payable to the independent non-executive directors during the year (2009: 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$'000 | Equity settled share-based payment expenses HK$'000 | Total remuneration HK$'000 |
|---|---|---|---|---|---|
| **2010** | | | | | |
| Mr. Suen Cho Hung, Paul | **917** | **–** | **46** | **2,692** | **3,655** |
| Mr. Sue Ka Lok | **226** | **500** | **11** | **2,692** | **3,429** |
| Mr. Chau Chung Tak | **176** | **–** | **9** | **–** | **185** |
| Mr. Lo Ming Chi, Charles | **456** | **–** | **23** | **–** | **479** |
| | **1,775** | **500** | **89** | **5,384** | **7,748** |
| 2009 | | | | | |
| Mr. Suen Cho Hung, Paul | – | – | – | 457 | 457 |
| Mr. Sue Ka Lok | – | – | – | 457 | 457 |
| Mr. Lo Ming Chi, Charles | 720 | 60 | 39 | 137 | 956 |
| Mr. Yu Wai Man | 285 | 40 | 16 | 46 | 387 |
| Mr. Zhang Zhidong | 600 | – | 30 | – | 630 |
| | 1,605 | 100 | 85 | 1,097 | 2,887 |

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

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## 11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2009: four) directors, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining three (2009: one) non-director, highest paid employee for the year is as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Salaries, other allowances and benefits in kind | **1,927** | 442 |
| Pension scheme contributions | **51** | 21 |
| Equity settled share-based payment expenses | **7,578** | 33 |
| | **9,556** | 496 |

The remuneration of all non-director, two of the highest paid employees fell within the band of HK$2,000,000 to HK$3,000,000 and one of the highest paid employees fell within the band of HK$4,000,000 to HK$5,000,000 for the year ended 31 March 2010. All highest paid employees fell within the band of nil to HK$1,000,000 for the year ended 31 March 2009.

During the year, discretionary bonuses of HK$1,410,000 were paid to or receivable by four of the five highest paid employees of the Group (2009: HK$100,000 were paid to or receivable by two 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 (2009: nil).

## 12. TAXATION

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Current – Hong Kong | | |
| Charge for the year | **339** | 221 |
| Over provision in prior years | **(48)** | – |
| Current – Elsewhere | | |
| Charge for the year | **–** | – |
| (Over)/under provision in prior years | **(131)** | 1,552 |
| | **160** | 1,773 |
| Deferred tax *(note 32)* | | |
| Current year | **(384)** | – |
| | **(224)** | 1,773 |

Hong Kong Profits Tax for the year ended 31 March 2010 was calculated at 16.5% (2009: 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.

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## 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 – 2010**

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

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## 12. TAXATION (continued)

Group – 2009

| | Hong Kong HK$'000 | Singapore HK$'000 | Mainland China HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Loss before taxation | (2,950) | (762) | – | (3,712) |
| Tax at the applicable tax rate | (487) | (137) | – | (624) |
| Tax effect of income not taxable for tax purpose | (587) | (2) | – | (589) |
| Tax effect of expenses not deductible for tax purpose | 1,220 | – | – | 1,220 |
| Tax effect of tax losses not recognised | 229 | 139 | – | 368 |
| Under provision in prior years | – | 1,552 | – | 1,552 |
| Effect of utilisation of tax losses previously not recognised | (186) | – | – | (186) |
| Others | 32 | – | – | 32 |
| Taxation charge at the Group's effective rate | 221 | 1,552 | – | 1,773 |

## 13. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The net loss for the year dealt with in the financial statements of the Company amounted to HK$28,364,000 (2009: HK$7,394,000).

## 14. DIVIDEND

The Directors do not recommend the payment of any dividend for the year ended 31 March 2010 (2009: nil).

## 15. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Loss** | | |
| Loss attributable to owners of the Company for the purpose of basic loss per share | **16,762** | 4,907 |

| | **2010** | 2009 |
|---|---|---|
| | **'000** | '000 |
| **Number of shares** | | |
| Weighted average number of shares for the purpose of basic loss per share | **1,826,341** | 1,232,351 |

Basic and diluted loss per share for the years ended 31 March 2010 and 2009 have been presented as equal because conversion of convertible notes would decrease the loss per share, therefore, anti-dilutive.

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## 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 2008 | 27 | 1,709 | – | – | 1,736 |
| Exchange realignment | – | (23) | – | – | (23) |
| Additions | 1,082 | 174 | 480 | – | 1,736 |
| Disposals | (27) | (1,686) | – | – | (1,713) |
| At 31 March 2009 and 1 April 2009 | 1,082 | 174 | 480 | – | 1,736 |
| Additions | – | 14 | 1,684 | – | 1,698 |
| Acquisition of subsidiaries | 1,034 | 3,645 | – | 29,906 | 34,585 |
| **At 31 March 2010** | **2,116** | **3,833** | **2,164** | **29,906** | **38,019** |
| **Accumulated depreciation and impairment** | | | | | |
| At 1 April 2008 | 24 | 1,686 | – | – | 1,710 |
| Exchange realignment | – | (23) | – | – | (23) |
| Provided for the year | 400 | 37 | 8 | – | 445 |
| Elimination an disposals | (26) | (1,672) | – | – | (1,698) |
| At 31 March 2009 and 1 April 2009 | 398 | 28 | 8 | – | 434 |
| Provided for the year | 445 | 40 | 321 | 74 | 880 |
| **At 31 March 2010** | **843** | **68** | **329** | **74** | **1,314** |
| **Carrying value** | | | | | |
| **At 31 March 2010** | **1,273** | **3,765** | **1,835** | **29,832** | **36,705** |
| At 31 March 2009 | 684 | 146 | 472 | – | 1,302 |

The buildings with the carrying amount of approximately HK$29,832,000 have been pledged to secure for the bank loans (note 37).

## 16. PROPERTY, PLANT AND EQUIPMENT (continued)

### Company

| | Leasehold improvements HK$'000 | Furniture, fixtures and equipment HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 April 2008 | 8 | 1,229 | 1,237 |
| Additions | 1,082 | 174 | 1,256 |
| Disposals | (8) | (1,229) | (1,237) |
| **At 31 March 2009, 1 April 2009 and 31 March 2010** | **1,082** | **174** | **1,256** |
| **Accumulated depreciation and impairment** | | | |
| At 1 April 2008 | 5 | 1,214 | 1,219 |
| Provided for the year | 400 | 32 | 432 |
| Elimination on disposals | (7) | (1,218) | (1,225) |
| At 31 March 2009 and 1 April 2009 | 398 | 28 | 426 |
| Provided for the year | 410 | 35 | 445 |
| **At 31 March 2010** | **808** | **63** | **871** |
| **Carrying value** | | | |
| **At 31 March 2010** | **274** | **111** | **385** |
| At 31 March 2009 | 684 | 146 | 830 |

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 | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Carrying amount at 1 April | **–** | – |
| Addition arising from acquisition of subsidiaries *(note 36(b))* | **33,177** | – |
| Amortisation for the year | **(124)** | – |
| Carrying amount at 31 March | **33,053** | – |
| Analysed for reporting purposes as: | | |
| Current assets (included in prepayments, deposits and other receivables) | **743** | – |
| Non-current assets | **32,310** | – |
| | **33,053** | – |

The prepaid lease payments were paid for the right to use certain lands under medium term leases in the Mainland China.

The prepaid lease payments with the carrying amount of HK$33,053,000 have been pledged to secure for the bank loans (note 37).

## 18. INTANGIBLE ASSET

| | Group HK$'000 |
|---|---|
| **Cost** | |
| At 1 April 2008, 31 March 2009 and 1 April 2009 | – |
| Addition arising from acquisition of subsidiaries *(note (b))* | 146,286 |
| **At 31 March 2010** | **146,286** |
| **Carrying value** | |
| **At 31 March 2010** | **146,286** |
| At 31 March 2009 | – |

*Notes:*

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

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

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

## 19. GOODWILL

| | Group HK$'000 |
|---|---|
| **Cost** | |
| At 1 April 2008, 31 March 2009 and 1 April 2009 | – |
| Addition arising from acquisition of subsidiaries *(note)* | 9,935 |
| **At 31 March 2010** | **9,935** |
| **Carrying value** | |
| **At 31 March 2010** | **9,935** |
| At 31 March 2009 | – |

*Note:* On 10 February 2010, the Group acquired Jinhua Qinggan (Beijing) Pharmaceutical Company Limited* ("Jinhua Qinggan (Beijing) Pharmaceutical") (金花清感（北京）藥業有限公司) (formerly known as 北京協和康友製藥有限公司), goodwill of approximately HK$9,935,000 was recognised. For further details on the acquisition, please refer to note 36(b).

* *For identification purpose only*

At the end of the reporting period, the Group assessed the recoverable amount of goodwill, and determined that no impairment loss should be provided (2009: nil).

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

| | **2010 HK$'000** | 2009 HK$'000 |
|---|---|---|
| Pharmaceutical | **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 a discount rate of 12.37% per annum. The cash flows beyond that five-year period have been extrapolated using a zero growth rate.

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

| | Company | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **–** | – |
| Less: Provision for impairment | **–** | – |
| | **–** | – |
| Amounts due from subsidiaries | **494,548** | 119,595 |
| Less: Provision for impairment | **(16,679)** | (4,652) |
| | **477,869** | 114,943 |
| Amount due to a subsidiary | **(18,033)** | (18,305) |
| | **459,836** | 96,638 |

The amounts due from/(to) subsidiaries are unsecured and have no fixed terms of repayment. Of the balances, approximately HK$237,865,000 (2009: HK$69,070,000) of the amounts due from subsidiaries bear interest at an effective interest rate of prime rate plus 1% (2009: prime rate plus 4.5%) 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$12,027,000 (2009: HK$4,531,000) should be provided as at the end of the reporting period.

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

Particulars of the Company's principal subsidiaries as at 31 March 2010 are as follows:

| Name | Place of incorporation and operations | Nominal value of issued ordinary share capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Able Market Profits Limited | British Virgin Islands ("BVI") | Ordinary US$1 | 100 | – | Investment holding |
| Poly Resources (Asia) Limited | Hong Kong | Ordinary HK$7,800,000 | – | 100 | Supply and procurement |
| Poly Development Group Limited (Formerly known as Wealth Fame International Limited) | BVI | Ordinary US$1 | 100 | – | Investment holding |
| Xin Corporation (HK) Limited | Hong Kong | Ordinary HK$2 | – | 100 | Provision of management service |
| Xin Credit Services Limited | Hong Kong | Ordinary HK$1 | – | 100 | Provision of finance |
| Beijing Yu Sheng Tang Cultural Broadcasting Company Limited* ("Yu Sheng Tang") (北京御生堂文化傳播有限公司) | Mainland China | Paid up capital RMB100,000 | – | 100 | Holding of intellectual property relating to production and sale of Jinhua Qinggan |
| Beijing Yu Sheng Tang Chinese Medicine Clinic Company Limited* ("Yu Sheng Tang Clinic") (北京御生堂中醫門診部有限公司) | Mainland China | Paid up capital RMB600,000 | – | 70 | Trading of Chinese medicines and health care products |
| Jinhua Qinggan (Beijing) Pharmaceutical | Mainland China | Paid up capital RMB25,000,000 | – | 95 | Production and sale of Chinese medicines and health care products |

* *For identification purpose only*

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

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 | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Raw materials | **12,030** | – |
| Finished goods | **1,070** | – |
| | **13,100** | – |

## 22. ACCOUNTS AND BILLS RECEIVABLE

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Accounts receivable | **36,067** | 1,073 |
| Bills receivable | **58,497** | 18,928 |
| | **94,564** | 20,001 |

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 | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Within 30 days | **93,198** | 19,632 |
| 31 to 60 days | **830** | – |
| 61 to 90 days | **–** | 231 |
| 91 to 180 days | **536** | – |
| Over 180 days | **–** | 138 |
| Total | **94,564** | 20,001 |

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

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Neither past due nor impaired | **93,198** | 19,632 |
| Less than 1 month past due | **830** | – |
| 1 to 3 months past due | **536** | 231 |
| More than 3 months past due | **–** | 138 |
| | **94,564** | 20,001 |

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 | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Prepayments and deposits | **6,398** | 443 | **229** | 214 |
| Other receivables | **32,570** | 5,989 | **13,486** | 5,119 |
| | **38,968** | 6,432 | **13,715** | 5,333 |
| Less: Impairment loss recognised | **(138)** | (2,040) | **–** | (2,040) |
| | **38,830** | 4,392 | **13,715** | 3,293 |

Movement of impairment losses recognised:

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Balance at beginning of the year | **2,040** | – | **2,040** | – |
| Reversal of impairment loss recognised during the year | **(2,040)** | – | **(2,040)** | – |
| Impairment loss recognised during the year | **138** | 2,040 | **–** | 2,040 |
| Balance at end of the year | **138** | 2,040 | **–** | 2,040 |

The aged analysis of the impaired other receivables:

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Less than 1 month past due | **–** | – | **–** | – |
| 1 to 3 months past due | **–** | – | **–** | – |
| More than 3 months past due | **138** | 2,040 | **–** | 2,040 |
| | **138** | 2,040 | **–** | 2,040 |

During the year ended 31 March 2009, the Group has provided fully for other receivable of HK$2,040,000 which was past due for more than 3 months in respect of refund of an earnest money paid pursuant to a memorandum of understanding regarding a potential investment in Mainland China. During the year ended 31 March 2010, such amount was fully recovered and the related impairment loss was reversed.

## 24. LOANS RECEIVABLE

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Loans receivable | **13,000** | 10,500 |

The range of effective interest rates (which are equal to contractual interest rates) on the Group's loans receivable is 12% to 18% (2009: 12% 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 | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Held for trading: | | | | |
| – Listed equity securities investments in Hong Kong, at market value *(note (a))* | **176,990** | 37,127 | **4,752** | – |
| Financial assets at fair value through profit or loss: | | | | |
| – Equity-linked notes *(note (b))* | **–** | 46,271 | **–** | 46,271 |
| | **176,990** | 83,398 | **4,752** | 46,271 |

*Notes:*

(a) The listed equity securities investments at 31 March 2010 and 2009 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) The equity-linked notes represent notes with interests payments based on the annual return of the underlying securities. Each equity-linked note held by the Group contains embedded derivatives. Hence, the Group designated the entire equity-linked notes as financial assets at fair value through profit or loss.

The fair values of equity-linked notes are based on the valuation provided by an independent valuer, which is determined based on pricing model with inputs such as share price of the underlying equity securities, the strike price, if any, of the contracts and volatility of the underlying equity securities.

## 26. PLEDGED BANK DEPOSITS AND CASH AND BANK BALANCES

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Cash and cash equivalents | **619,153** | 68,050 | **549,028** | 42,229 |
| Time deposits with original maturity of more than three months | **50,000** | 50,000 | **50,000** | 50,000 |
| Cash and bank balances | **669,153** | 118,050 | **599,028** | 92,229 |
| Pledged bank deposits *(note 37)* | **131,099** | 37,626 | **–** | – |
| Total | **800,252** | 155,676 | **599,028** | 92,229 |

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposit is made for varying periods of between 1 week to 6 months depending on immediate cash requirements of the Group, and earns interest at the respective time deposit rate. The bank balances, time deposits 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 | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Within 30 days | **57,475** | 12,967 |
| 31 to 60 days | **1,020** | – |
| 61 to 90 days | **887** | – |
| 91 to 180 days | **339** | – |
| Over 180 days | **307** | – |
| | **60,028** | 12,967 |

The accounts and bills payable are non-interest bearing and are normally settled on 60 days term. As at 31 March 2010, the Group had bills payable of approximately HK$27,428,000 (2009: HK$12,967,000), which were within 30 days.

## 28. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Other payables *(note)* | **144,952** | 2,092 | **4,753** | – |
| Accruals | **4,920** | 1,196 | **1,741** | 643 |
| | **149,872** | 3,288 | **6,494** | 643 |

*Note:*

Included in other payables of approximately HK$107,714,000 (2009: nil) was the balance payment of the consideration for the transfer of the intangible asset. This other payable was arising from acquisition of subsidiaries. For details of the intangible asset and the acquisition, please refer to notes 18 and 36(a).

## 29. BANK LOANS

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Bank loans – secured | **35,402** | – |
| Carrying amount repayable: | | |
| On demand or within one year | **35,402** | – |
| Less: Amounts due within one year shown under current liabilities | **(35,402)** | – |
| | **–** | – |

The bank loans were acquired from the acquisition of a subsidiary, Jinhua Qinggan (Beijing) Pharmaceutical on 10 February 2010 (see note 36 (b)). The bank loans were secured by the Group's building and prepaid lease payments (see note 37). The weighted average effective interest rate on the bank loans is 10.52% (2009: nil) per annum.

During the year ended 31 March 2010, Jinhua Qinggan (Beijing) Pharmaceutical delayed in repayment of principal amounts and interests of the bank loans. The delay arose because Jinhua Qinggan (Beijing) Pharmaceutical was renegotiating the terms of the bank loans with the bank due to claims lodged by the bank in Mainland China. As at the end of the reporting period, the principal amount of the bank loans and interests in default of HK$35,402,000 (2009: nil) and HK$10,264,000 (2009: nil) were fully provided and included in the bank loans and other payables respectively.

## 30. AMOUNT DUE TO A DIRECTOR

**The Group**

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

## 31. CONVERTIBLE NOTES

| | Group and Company | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| New Convertible Notes and Convertible Notes 2010 (as defined below) | | |
| – classified as current liabilities | **–** | 30,563 |
| – classified as non-current liabilities | **147,882** | – |
| | **147,882** | 30,563 |

*Notes:*

On 20 June 2007, the Company entered into (a) a conditional placing agreement with Interchina Securities Limited (the "Placing Agent") in relation to the placing by the Placing Agent, on a best effort basis, of the Company's convertible notes with principal amount up to HK$100,000,000 (the "New Convertible Notes") to independent third parties (the "Placing Agreement"); and (b) a conditional option agreement with Vision Century Group Limited ("Vision Century"), the Company's former immediate holding company, pursuant to which the Company had conditionally agreed to grant to Vision Century an option exercisable during the option period to subscribe for convertible notes to be issued by the Company with principal amount up to HK$100,000,000 (the "New Vision Century Notes") at a consideration of HK$10 (the "Option Agreement"). The terms of the New Convertible Notes would be identical to those of the New Vision Century Notes. The completion of the Placing Agreement, the Option Agreement and the issue of the New Convertible Notes and the New Vision Century Notes were approved by the independent shareholders of the Company in the special general meeting of the Company held on 6 August 2007.

Pursuant to the Placing Agreement and the Option Agreement, the New Convertible Notes and the New Vision Century Notes were convertible into shares of the Company at an initial conversion price of HK$0.28 per share.

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

As at 1 April 2009, the aggregate outstanding principal amount of the New Convertible Notes was HK$32,500,000 and no New Vision Century Notes were outstanding. Details of movement of the convertible notes during the year ended 31 March 2009 were set out in the Company's annual report for the year ended 31 March 2009.

On 27 May 2009, two of the independent third parties converted the New Convertible Notes of an aggregate principal amount of HK$11,000,000, which resulted in a total number of 40,145,985 shares of HK$0.01 each being issued by the Company.

## 31. CONVERTIBLE NOTES (continued)

*Notes: (continued)*

On 18 August 2009, Global Wealthy Limited ("Global Wealthy"), a substantial shareholder of the Company and a company wholly and beneficially owned by Mr. Suen Cho Hung, Paul, an Executive Director and the Chairman of the Company, converted the remaining balance of the New Convertible Notes in the aggregate principal amount of HK$21,500,000, which resulted in a total number of 78,467,152 shares of HK$0.01 each being issued by the Company.

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 ("Convertible Notes 2010") with principal amount up to HK$244,900,000 at an initial conversion price of HK$0.62 per share. The Convertible Notes 2010 will be due on 27 January 2013 and is interest-bearing at 1% per annum. On 28 January 2010, 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.

After the above conversions, as at 31 March 2010, the outstanding principal amount of the Convertible Notes 2010 was HK$189,100,000 and no New Convertible Notes was outstanding.

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

The effective interest rate of the liability component range from 8.57% to 9.68%.

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

| | New Convertible Notes HK$'000 | New Vision Century Notes HK$'000 | Convertible Notes 2010 HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Liability component at 1 April 2008 | 43,171 | 25,903 | – | 69,074 |
| Interest expenses for the year | 2,675 | 311 | – | 2,986 |
| Conversion of convertible notes | (15,283) | (26,214) | – | (41,497) |
| Liability component at 31 March 2009 and 1 April 2009 | 30,563 | – | – | 30,563 |
| Nominal value of the convertible notes issued during the year | – | – | 244,900 | 244,900 |
| Equity component | – | – | (53,148) | (53,148) |
| Direct transaction costs attributable to the liability component | – | – | (3,010) | (3,010) |
| Interest expenses for the year | 800 | – | 2,477 | 3,277 |
| Interest paid | – | – | (323) | (323) |
| Conversion of convertible notes | (31,363) | – | (43,014) | (74,377) |
| **Liability component at 31 March 2010** | **–** | **–** | **147,882** | **147,882** |

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## 32. DEFERRED TAX

### Deferred tax liabilities

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

| | Group | | | |
|---|---|---|---|---|
| | Prepaid lease payments | Intangible asset | Convertible notes | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 April 2008, 31 March 2009 and 1 April 2009 | – | – | – | – |
| Acquisition of subsidiaries *(notes 36(a) and (b))* | 7,632 | 8,000 | – | 15,632 |
| Issue of convertible notes | – | – | 9,266 | 9,266 |
| Reversal of deferred tax due to conversion of convertible notes | – | – | (2,110) | (2,110) |
| Charge to consolidated statement of comprehensive income *(note 12)* | (29) | – | (355) | (384) |
| **At 31 March 2010** | **7,603** | **8,000** | **6,801** | **22,404** |

| | Company |
|---|---|
| | Convertible notes |
| | HK$'000 |
| At 1 April 2008, 31 March 2009 and 1 April 2009 | – |
| Issue of convertible notes | 9,266 |
| Reversal of deferred tax due to conversion of convertible notes | (2,110) |
| Charge to statement of comprehensive income | (355) |
| **At 31 March 2010** | **6,801** |

### Deferred tax assets

The Group has tax losses arising in Hong Kong of approximately HK$14,581,000 (2009: HK$7,482,000) 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.

## 33. SHARE CAPITAL

| | Number of shares | | Amount | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **'000** | '000 | **HK$'000** | HK$'000 |
| Authorised: | | | | |
| At beginning of the year and at the end of the year, ordinary shares of HK$0.01 each | **10,000,000** | 10,000,000 | **100,000** | 100,000 |
| Issued and fully paid: | | | | |
| At beginning of the year | **1,395,715** | 1,069,864 | **13,957** | 10,699 |
| Issue of ordinary shares *(notes (a), (b) and (c))* | **838,672** | 150,000 | **8,387** | 1,500 |
| Issue of ordinary shares on exercise of share options *(note (d))* | **112,480** | 6,208 | **1,125** | 62 |
| Conversion of convertible notes *(note (e))* | **208,613** | 169,643 | **2,086** | 1,696 |
| At end of the year | **2,555,480** | 1,395,715 | **25,555** | 13,957 |

*Notes:*

Details of the changes in the Company's share capital for the year ended 31 March 2010 are as follows:

(a) On 14 May 2009, Global Wealthy entered into a placing agreement with Chung Nam Securities Limited ("Chung Nam") and a subscription agreement with the Company, pursuant to the said placing agreement and the subscription agreement (i) Global Wealthy agreed to place, through Chung Nam, an aggregate of 99,120,000 shares of the Company, on a fully written basis, at a placing price of HK$0.102 per share; and (ii) Global Wealthy has conditionally agreed to subscribe for an aggregate of 99,120,000 shares of the Company at a subscription price of HK$0.102 per share (the "Top-Up Placing"). Upon completion of the Top-Up Placing, 99,120,000 shares of the Company were allotted to Global Wealthy on 20 May 2009. The net proceeds of the Top-Up Placing of approximately HK$9,646,000 (equivalent to a net price of approximately HK$0.097 per share) were used as general working capital of the Group.

(b) On 26 August 2009, Chung Nam and the Company entered into a placing agreement pursuant to which the Company agreed to place through Chung Nam, an aggregate of 313,640,000 shares of the Company, on a fully underwritten basis, to independent third parties at a placing price of HK$0.275 per share. The placing was completed and 313,640,000 shares of the Company were allotted on 28 August 2009. The net proceeds of this placing of approximately HK$83,895,000 (equivalent to a net price of approximately HK$0.267 per share) were used as general working capital of the Group.

## 33. SHARE CAPITAL (continued)

*Notes: (continued)*

(c) On 9 March 2010, Global Wealthy, the Company and CCB International Capital Limited ("CCB") entered into a placing and subscription agreement pursuant to which (i) Global Wealthy agreed to place, through CCB, an aggregate of up to 425,912,000 shares of the Company, on a best effort basis, at a placing price of HK$1.14 per share; and (ii) Global Wealthy has conditionally agreed to subscribe for an aggregate of up to 425,912,000 shares of the Company at a subscription price of HK$1.14 per share. The placing was completed and 425,912,000 shares of the Company were allotted on 18 March 2010. The net proceeds of this placing of approximately HK$476,412,000 (equivalent to a net price of approximately HK$1.119 per share) were used as general working capital of the Group.

(d) During the year, the subscription rights attaching to (i) 49,912,000 share options were exercised at the subscription price of HK$0.188 per share, and (ii) 62,568,000 share options were exercised at the subscription price of HK$0.272 per share, resulted in the issue of 49,912,000 shares and 62,568,000 shares respectively for a cash consideration of approximately HK$9,384,000 and HK$17,018,000 respectively and the transfer of approximately HK$2,281,000 and HK$10,527,000 respectively from the share option reserve to the share premium account. Details of the share option scheme of the Company are set out in note 34.

(e) During the year, New Convertible Notes in the aggregate principal amount of HK$32,500,000 and Convertible Notes 2010 in the aggregate principal amount of HK$55,800,000 were converted into 118,613,000 shares and 90,000,000 shares respectively at a conversion price of HK$0.274 and HK$0.62 per share respectively. These shares issued rank pari passu in all respects with the then existing shares. Details of the convertible notes of the Company are set out in note 31.

## 34. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. 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, the Company's shareholders, and any minority shareholders in the Company's subsidiaries. The Scheme became effective on 30 December 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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

## 34. SHARE OPTION SCHEME (continued)

Share options granted to any director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any grant of share options to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange on the date of the grant) in excess of HK$5,000,000, within any 12-month period, 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 the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors or up to the expiry date of the Scheme, if earlier.

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

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

Details of specific categories of share options are as follows:

| **Tranche** | **Date of grant of share options** | **Exercise period of share options** | **Exercise price of share options** HK$ per share | **Closing price of the Company's shares immediately before the grant date** HK$ per share |
|---|---|---|---|---|
| One | 30-04-2008 | 30-4-2008 to 29-04-2010 | 0.188 | 0.185 |
| Two | 01-09-2009 | 01-09-2009 to 31-08-2012 | 0.272 | 0.208 |

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## 34. SHARE OPTION SCHEME (continued)

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

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

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## 34. SHARE OPTION SCHEME (continued)

*Notes:*

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

(b) The exercise price of the share options is subject to adjustments in the case 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 under Tranche Two was HK$0.208.

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

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

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

## 34. SHARE OPTION SCHEME (continued)

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

| | Number of share options | | | |
|---|---|---|---|---|
| **Name or category of participant** | **At 1 April 2008** '000 | **Granted during the year** '000 | **Exercised during the year** '000 | **At 31 March 2009** '000 |
| **Tranche One** | | | | |
| **Directors** | | | | |
| Suen Cho Hung, Paul | – | 10,000 | – | 10,000 |
| Lo Ming Chi, Charles | – | 3,000 | – | 3,000 |
| Sue Ka Lok | – | 10,000 | – | 10,000 |
| Yu Wai Man *(note (f))* | – | 1,000 | – | 1,000 |
| | – | 24,000 | – | 24,000 |
| **Employees** | | | | |
| In aggregate | – | 33,280 | (624) | 32,656 |
| **Consultants** | | | | |
| In aggregate | – | 6,840 | (5,584) | 1,256 |
| Total | – | 64,120 | (6,208) | 57,912 |

*Notes:*

(a) The share options granted under Tranche One to directors, employees and consultants 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 under Tranche One was HK$0.185.

(d) The weighted average closing price per share quoted on the Stock Exchange on the trading dates before the dates on which the share options were exercised under Tranche One was HK$0.28.

(e) There were no share options cancelled or lapsed during the year ended 31 March 2009.

(f) Mr. Yu Wai Man resigned from his office as director of the Company on 5 November 2008 but had remained as an employee of the Group.

## 34. SHARE OPTION SCHEME (continued)

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

The fair value of share options granted during the year ended 31 March 2009 in the amount of approximately HK$2,931,000 was recognised as expenses in the statement of comprehensive income of the Company. The Company had used the Binomial Option Pricing Model to value the share options granted during the year ended 31 March 2009.

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

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

The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions. The expected volatility was determined with reference to the historical daily volatilities of the share prices of the Company as extracted from Bloomberg. The option holders of the share options granted on 30 April 2008 were expected to exercise their options when the stock price rising to 126% of the exercise price (i.e. HK$0.237) according to the historical early exercise behaviour of share options granted by the Company previously. The risk-free interest rate was determined with reference to the period average yields of the Exchange Fund Notes of comparable term issued by the Hong Kong Monetary Authority as extracted from Bloomberg.

During the year ended 31 March 2010, an aggregate of 49,912,000 share options granted under Tranche One and an aggregate of 62,568,000 share options granted under Tranche Two were exercised by certain employees, directors and consultants of the Company, at an exercise price of HK$0.188 and HK$0.272 per share respectively, which resulted in the issue of 49,912,000 shares and 62,568,000 shares of the Company respectively, an increase of share capital of HK$499,120 and HK$625,680 respectively, an increase of share premium of approximately HK$11,166,000 and HK$26,919,000 respectively and the reduction in the share option reserve of approximately HK$2,281,000 and HK$10,527,000 respectively.

## 34. SHARE OPTION SCHEME (continued)

Subsequent to the year ended 31 March 2010, on 20 April 2010 and 17 May 2010, an aggregate of 30,000,000 share options granted under Tranche Two were exercised by certain employees of the Group, at an exercise price of HK$0.272 per share which resulted in the issue of 30,000,000 shares of the Company.

As at the date of this annual report, the Company had 32,000,000 share options outstanding under the Scheme, which represented approximately 1% of the Company's shares in issue as at that date.

## 35. RESERVES

### (a) Group

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

### (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 2008 | 186,571 | 3,085 | 12,287 | – | (53,656) | 148,287 |
| Loss for the year | – | – | – | – | (7,394) | (7,394) |
| Total comprehensive expense for the year | – | – | – | – | (7,394) | (7,394) |
| Recognition of equity settled share-based payment expenses | – | – | – | 2,931 | – | 2,931 |
| Conversion of the convertible notes | 47,096 | – | (7,295) | – | – | 39,801 |
| Issue of shares | 9,750 | – | – | – | – | 9,750 |
| Transaction costs attributable to issue of shares | (382) | – | – | – | – | (382) |
| Share options exercised during the year | 1,389 | – | – | (284) | – | 1,105 |

## 35. RESERVES (continued)

### (b) Company (continued)

| | Share premium HK$'000 | Contributed surplus HK$'000 | Convertible notes equity reserve HK$'000 | Share option reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 31 March 2009 and 1 April 2009 | 244,424 | 3,085 | 4,992 | 2,647 | (61,050) | 194,098 |
| Loss for the year | – | – | – | – | (28,364) | (28,364) |
| Total comprehensive expense for the year | – | – | – | – | (28,364) | (28,364) |
| Issue of convertible notes | – | – | 53,148 | – | – | 53,148 |
| Direct transaction costs attributable to the equity component of convertible notes | – | – | (834) | – | – | (834) |
| Deferred tax arising on issue of convertible notes | – | – | (9,266) | – | – | (9,266) |
| Conversion of the convertible notes | 89,203 | – | (16,912) | – | – | 72,291 |
| Reversal of deferred tax due to conversion of convertible notes | – | – | 2,110 | – | – | 2,110 |
| Issue of shares | 573,514 | – | – | – | – | 573,514 |
| Transaction costs attributable to issue of shares | (11,948) | – | – | – | – | (11,948) |
| Recognition of equity settled share-based payment expenses | – | – | – | 20,958 | – | 20,958 |
| Lapse of share options | – | – | – | (366) | 366 | – |
| Share options exercised during the year | 38,085 | – | – | (12,808) | – | 25,277 |
| **At 31 March 2010** | **933,278** | **3,085** | **33,238** | **10,431** | **(89,048)** | **890,984** |

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## 36. ACQUISITIONS OF SUBSIDIARIES

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

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

* *For identification purpose only*

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

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

## 36. ACQUISITIONS OF SUBSIDIARIES (continued)

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

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

*Notes:*

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

(ii) The loss and the revenue contributed by Beijing Yu Sheng Tang Group from the date of acquisition to the end of the reporting period attributable to the Group was HK$1,408,000 and HK$6,000 respectively.

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

### (b) Acquisition of Jinhua Qinggan (Beijing) Pharmaceutical

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

Pursuant the Equity Transfer Agreement, one of the Vendors, shall acquire the remaining 5% equity interests in Jinhua Qinggan (Beijing) Pharmaceutical then held by a third party and transfer such 5% equity interests in Jinhua Qinggan (Beijing) Pharmaceutical to the Group. At the end of the reporting period, Weikang Yigan had completed the acquisition of 95% equity interest in Jinhua Qinggan (Beijing) Pharmaceutical. Under the Equity Transfer Agreement, the parties have agreed on the total liabilities of Jinhua Qinggan (Beijing) Pharmaceutical as at 8 February 2010 as being RMB45,000,000 ("Agreed Liabilities"), to be assumed by Weikang Yigan commencing from the date of execution of the Equity Transfer Agreement. If total liabilities of Jinhua Qinggan (Beijing) Pharmaceutical are subsequently discovered to be more or less than the Agreed Liabilities, Weikang Yigan shall have the right to adjust from the balance of consideration payable accordingly. For further details, please refer to the Company's announcement dated 10 February 2010.

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## 36. ACQUISITIONS OF SUBSIDIARIES (continued)

### (b) Acquisition of Jinhua Qinggan (Beijing) Pharmaceutical (continued)

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

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

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

## 36. ACQUISITIONS OF SUBSIDIARIES (continued)

### (b) Acquisition of Jinhua Qinggan (Beijing) Pharmaceutical (continued)

*Notes:*

(i) Goodwill arose in business combination because the cost of the business combination includes a control premium paid to acquire the equity interest in Jinhua Qinggan (Beijing) Pharmaceutical. In addition, the consideration paid for the combination effectively included amounts in relation to the benefits of expected synergies. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

(ii) The loss and the revenue contributed by Jinhua Qinggan (Beijing) Pharmaceutical from the date of acquisition to the end of the reporting period attributable to the Group was HK$813,000 and HK$261,000 respectively.

(iii) The amount represented the estimated excess of the Agreed Liabilities discovered subsequently, according to the Equity Transfer Agreement, Weikang Yigan would deduct such amount from the balance of consideration payable.

(iv) If the acquisition had been completed on 1 April 2009, the Group's total revenue and loss for the year would have been approximately HK$878,077,000 and HK$17,338,000 respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 April 2009, nor is it intended to be a projection of future results.

## 37. PLEDGE OF ASSETS

At 31 March 2010, time deposits of HK$131,099,000 (2009: HK$37,626,000) were pledged to secure banking facilities to the Group.

At 31 March 2010, the buildings and prepaid lease payments of HK$29,832,000 (2009: nil) and HK$33,053,000 (2009: nil) respectively were pledged to secure for the bank loans of the Group.

## 38. OPERATING LEASE ARRANGEMENTS

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

At 31 March 2010 and 2009, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | **2010**<br>**HK$'000** | 2009<br>HK$'000 |
|---|---|---|
| Within one year | **2,429** | 936 |
| In the second to fifth years, inclusive | **5,828** | 486 |
| | **8,257** | 1,422 |

## 39. 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 2010 and 2009.

Compensation of key management personnel of the Group:

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Short term employee benefits | **2,575** | 2,005 |
| Post-employment benefits | **89** | 85 |
| Equity settled share-based payment expenses | **5,384** | 1,097 |
| Total compensation paid to key management personnel | **8,048** | 3,187 |

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

## 40. EVENTS AFTER THE END OF THE REPORTING PERIOD

In addition to those disclosed in note 34 to the consolidated financial statements, on 10 May 2010, the Group entered into a memorandum of understanding ("MOU") with Corporation PURE in respect of the possible acquisition of the 70% equity interest in Nihon Seiyaku Kogyo Co., Ltd ("NSK"). NSK has over 60 years of experience in and is a leading producer of Kampo Medicine in Japan. Further details of the MOU and the subsequent extension of the same are set out in the Company's announcement dated 10 May 2010 and 14 July 2010 respectively.

## 41. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 20 July 2010.

# Five-Year Financial Summary

## RESULTS

| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | **2010** | 2009 | 2008 | 2007 | 2006 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **CONTINUING OPERATIONS** | | | | | |
| Revenue | **859,758** | 350,146 | 129,582 | 193,989 | 155,550 |
| Profit/(loss) before taxation | **(16,971)** | (3,712) | (9,486) | 3,643 | 693 |
| Taxation | **224** | (1,773) | (655) | (3,553) | (3,172) |
| Profit/(loss) for the year from continuing operations | **(16,747)** | (5,485) | (10,141) | 90 | (2,479) |
| **DISCONTINUED OPERATIONS** | | | | | |
| Loss for the year from discontinued operations | **–** | – | – | – | (7,855) |
| **PROFIT/(LOSS) FOR THE YEAR** | **(16,747)** | (5,485) | (10,141) | 90 | (10,334) |
| Attributable to: | | | | | |
| Owners of the Company | **(16,762)** | (4,907) | (12,854) | (7,904) | (15,994) |
| Minority interests | **15** | (578) | 2,713 | 7,994 | 5,660 |
| | **(16,747)** | (5,485) | (10,141) | 90 | (10,334) |

## ASSETS, LIABILITIES AND MINORITY INTERESTS

| | As at 31 March | | | | |
|---|---|---|---|---|---|
| | **2010** | 2009 | 2008 | 2007 | 2006 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Total assets | **1,362,814** | 275,269 | 290,849 | 166,931 | 118,007 |
| Total liabilities | **(416,088)** | (47,236) | (113,678) | (128,178) | (110,524) |
| Minority interests | **(47)** | (11) | (608) | (688) | (9,607) |
| **EQUITY/(DEFICIT) ATTRIBUTABLE TO OWNERS OF THE COMPANY** | **946,679** | 228,022 | 176,563 | 38,065 | (2,124) |