



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

2011
Interim
Report

乾隆二十年歲在乙亥
仲春月初十日書

御生堂
Yu Sheng Tang

* For identification purpose only

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

COMPANY SECRETARY

Ms. Chan Yuk Yee

TRADING OF SHARES

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL BANKERS

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

LEGAL ADVISERS

Richards Butler
Troutman Sanders

AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

WEBSITE

www.beijingyst.com

Management Discussion and Outlook

The management of Beijing Yu Sheng Tang Pharmaceutical Group Limited (the “Company”) hereby presents a discussion and an outlook of the results and operations of the Company and its subsidiaries (collectively referred to as the “Group”) as follows:

BUSINESS REVIEW

For the six months ended 30 September 2011, the Group continued to register growth of its revenue and gross profit primarily as a result of the management’s continuous efforts in developing the business of the Group. The Group reported revenue of HK\$775,758,000, representing a growth of 91% from the previous period (30 September 2010: HK\$406,077,000), and gross profit of HK\$24,073,000, showing a 2.1 times increase over the previous period (30 September 2010: HK\$7,750,000). The significant increase in the Group’s revenue was mainly contributed by the growth of the Group’s supply and procurement business, whereas the rise of the Group’s gross profit was primarily attributed to the increase in dividend income from the Group’s listed equity investments.

During the period under review, the Group’s supply and procurement division continued to focus on the sourcing, transporting and supplying of metal minerals. When compared to the previous period, the division continued to achieve encouraging business results by reporting an 87% increase in revenue to HK\$747,427,000 (30 September 2010: HK\$400,629,000) and a 21% increase in operating profit to HK\$3,275,000 (30 September 2010: HK\$2,710,000). The increase in the division’s revenue was mainly attributed to the strong demand of the division’s steel mill customers in Mainland China during the first half of the financial year. Nevertheless, the division’s operating profit grew at a much lesser rate mainly because a loss of approximately HK\$8 million was incurred by the division due to the deviation of minerals content of a shipment of metal minerals transacted during the period. The Group has already initiated an arbitration claim against the supplier of that shipment, owing to uncertainty of the outcome of the arbitration, the compensation recoverable from the supplier has not been recognised in the Group’s financial statements. During the previous period a claim of similar nature of approximately HK\$5 million was made against another supplier, a large part of such claim was recovered during the current period and partly offset the effect of the HK\$8 million loss mentioned. Owing to the series of financial tightening measures that have been imposed by the Chinese government on the property sector of the economy, the metal minerals market in the Mainland has been very volatile and there are signs that the demand of various metal minerals has slowed down which may affect the division’s performance in the remainder of the financial year.

Management Discussion and Outlook

BUSINESS REVIEW (continued)

The Group continued to develop its pharmaceutical business that was acquired in early 2010. For the review period, the division reported revenue of HK\$11,452,000 which represented an increase of 3.1 times over the previous period (30 September 2010: HK\$2,788,000). The revenue of the division mainly comprised product sales of Jinhua Qinggan, which is a Chinese medicine for healing patients who have been infected with Influenza A (H1N1) and other types of influenza. Currently, Jinhua Qinggan is selling as a prescription drug to designated medical institutions in Beijing. The Group is in the process of applying for a new drug certificate for Jinhua Qinggan from the relevant authorities in the Mainland, whereupon the issuance of such certificate, the Group will be able to market Jinhua Qinggan as a non-prescription drug to the general public. The Group is still awaiting for the results of such application. For the review period, the division incurred operating loss of HK\$6,261,000 (30 September 2010: HK\$4,252,000) primarily due to the reasons that the sales volume of Jinhua Qinggan has not yet reached a scale that can cover operating costs of the division, in particular the high start-up costs in its early stage of operation.

The financing division continued to provide a stable income source to the Group for the period under review. When compared with the previous period, the interest income and operating profit generated by the financing division were up by 19% to HK\$1,784,000 (30 September 2010: HK\$1,502,000) and 18% to HK\$1,698,000 (30 September 2010: HK\$1,443,000). Such increases were mainly due to the higher average amount of loans advanced to customers over the previous period. The loan portfolio held by the Group amounted to HK\$26,440,000 (31 March 2011: HK\$20,000,000) at the period end.

The Group's securities investment division recorded revenue of HK\$15,095,000 (30 September 2010: HK\$1,158,000) representing mainly dividend from equity securities investments received during the period. As a whole, the division reported a loss of HK\$229,101,000 (30 September 2010: HK\$66,483,000) primarily as a result of the loss incurred from investing in Hong Kong listed equity securities, and that loss incurred comprised mainly unrealised holding loss of HK\$229,502,000 (30 September 2010: HK\$58,546,000) for listed equity securities measured at fair values at the period end date. During the review period, the Hong Kong stock market was very volatile largely caused by the continuance of the sovereign debts crises in Europe, the fear that the United States economy would go into a "double-dip" recession and the financial tightening measures imposed by the Chinese government on the banking and property sector of the economy. Investor confidence and market sentiments were weak for most part of the period and pressed down prices of listed securities invested by the Group. The Group's securities portfolio at the period end comprised mainly listed equity securities in conglomerate company, infrastructure company, property company, mining and resources company, industrial materials company, consumer goods retail company, healthcare services company, agricultural machinery company and financial services company. At the period end, the Group's securities portfolio was valued at HK\$496,032,000 (31 March 2011: HK\$487,676,000). The management expects that the division will perform better when investor confidence and positive market sentiments are restored in the stock markets.

Management Discussion and Outlook

BUSINESS REVIEW *(continued)*

For the period ended 30 September 2011, the Group recorded loss attributable to owners of the Company of HK\$238,427,000 (30 September 2010: HK\$82,979,000) and basic loss per share of HK5.79 cents (30 September 2010: HK3.22 cents). The overall loss incurred by the Group was mainly attributed to the loss incurred by the Group's securities investment division during the period.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

At 30 September 2011, the Group had current assets of HK\$1,435,734,000 (31 March 2011: HK\$1,642,903,000) and liquid assets comprising cash and short-term securities investment of HK\$940,727,000 (31 March 2011: HK\$997,614,000) (excluding pledged bank deposits for trade facilities granted by banks). The Group's current ratio, calculated based on current assets of HK\$1,435,734,000 (31 March 2011: HK\$1,642,903,000) over current liabilities of HK\$619,129,000 (31 March 2011: HK\$398,749,000), was at a strong ratio of 2.3 at the period end (31 March 2011: 4.1).

The Group's finance costs for the current period included a notional interest on convertible notes of HK\$7,890,000 (30 September 2010: HK\$7,525,000) calculated in accordance with the Group's accounting policy on financial instruments, such notional interest required no cash outlay whereas interest requiring cash settlement amounted to HK\$912,000 for the period (30 September 2010: HK\$948,000). As announced by the Company on 23 September 2011, the Company repurchased all outstanding convertibles notes in the aggregate principal amount of HK\$189,100,000 at the price of HK\$187,209,000, representing a discount of 1% on the aggregate principal amount of such notes. The net gain on repurchase of the convertible notes amounted to HK\$2,159,000.

At the period end, equity attributable to owners of the Company amounting to HK\$1,041,968,000 (31 March 2011: HK\$1,297,559,000) and is equivalent to an attributable amount of HK\$0.25 (31 March 2011: HK\$0.32) per share of the Company.

At the period end, the Group's indebtedness comprised of bank advances for discounted bills and bank loans totalling HK\$306,991,000 (31 March 2011: HK\$197,019,000 (including fair value of convertible notes)). The Group's gearing ratio, calculated on the basis of total indebtedness divided by total indebtedness and equity attributable to the Company's owners, was at a moderate ratio of 23% at the period end (31 March 2011: 13%). All bank loans were repayable within one year, denominated in Renminbi and bore interest at floating rates.

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

Management Discussion and Outlook

FINANCIAL REVIEW (continued)

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 minimized 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 30 September 2011, bank deposits of HK\$26,399,000 (31 March 2011: HK\$248,028,000) were pledged to secure credit facilities granted to the Group.

At 30 September 2011, buildings and prepaid lease payments of carrying amount of HK\$30,378,000 (31 March 2011: HK\$30,127,000) and HK\$34,095,000 (31 March 2011: HK\$33,643,000) respectively were pledged to secure for bank loans of the Group.

Contingent Liability

At 30 September 2011, the Group had no significant contingent liability (31 March 2011: nil).

Capital Commitment

At 30 September 2011, the Group had capital commitment in respect of upgrading works of its medicine production plant in Beijing of HK\$108,000 (31 March 2011: HK\$105,000).

HUMAN RESOURCES AND REMUNERATION POLICY

At 30 September 2011, the Group had about 130 (30 September 2010: 100) employees including directors. Total staff costs for the review period, including directors' remuneration, was HK\$5,664,000 (30 September 2010: HK\$5,063,000). Remuneration packages for employees and directors are structured by reference to market conditions and individual performance. Benefits plans maintained by the Group include provident fund scheme, medical insurance, share option scheme and discretionary bonuses.

PROSPECTS

In light of the uncertainties and challenges face by the world major economies and investment markets, the Group will continue to manage its businesses in a prudent manner for the remainder of the financial year. In light of new investments, the Group will continue with its cautious approach in identifying new investment opportunities with the view to create new value and a stable prospect to shareholders.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2011

	Notes	Six months ended 30 September	
		2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Revenue	4	775,758	406,077
Cost of sales		(751,685)	(398,327)
Gross profit		24,073	7,750
Net loss on investments at fair value through profit or loss	5	(244,197)	(67,642)
Other income and gains		7,354	2,174
Selling and distribution costs		(1,930)	(732)
Administrative expenses		(19,225)	(16,075)
Finance costs		(9,930)	(9,362)
Loss before taxation	5	(243,855)	(83,887)
Taxation	6	4,639	855
Loss for the period		(239,216)	(83,032)
Other comprehensive income			
Exchange differences on translating foreign operations		2,615	1,938
Other comprehensive income for the period, net of tax		2,615	1,938
Total comprehensive expense for the period		(236,601)	(81,094)
Loss for the period attributable to:			
Owners of the Company	7	(238,427)	(82,979)
Non-controlling interests		(789)	(53)
		(239,216)	(83,032)
Total comprehensive expense attributable to:			
Owners of the Company		(235,782)	(81,047)
Non-controlling interests		(819)	(47)
		(236,601)	(81,094)
Loss per share attributable to owners of the Company	7		
Basic and diluted (HK cents per share)		(5.79)	(3.22)

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

Condensed Consolidated Statement of Financial Position

As at 30 September 2011

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	Notes	As at 30 September 2011 HK\$'000 (Unaudited)	As at 31 March 2011 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	9	38,558	37,354
Prepaid lease payments		33,302	32,870
Other deposits		2,238	2,187
Intangible asset	10	156,160	152,320
Goodwill		9,935	9,935
Total non-current assets		240,193	234,666
Current assets			
Inventories		15,145	14,179
Accounts and bills receivable	11	407,802	300,542
Prepayments, deposits and other receivables	12	19,221	62,540
Loans receivable		26,440	20,000
Investments at fair value through profit or loss	13	496,032	487,676
Pledged bank deposits		26,399	248,028
Cash and bank balances		444,695	509,938
Total current assets		1,435,734	1,642,903
Current liabilities			
Accounts and bills payable	14	128,452	218,680
Other payables and accruals	15	183,208	143,950
Tax payable		478	447
Bank advances for discounted bills	11	274,691	–
Bank loans		32,300	35,672
Total current liabilities		619,129	398,749
Net current assets		816,605	1,244,154
Total assets less current liabilities		1,056,798	1,478,820

Condensed Consolidated Statement of Financial Position

As at 30 September 2011

	Notes	As at 30 September 2011 HK\$'000 (Unaudited)	As at 31 March 2011 HK\$'000 (Audited)
Non-current liabilities			
Convertible notes	16	–	161,347
Deferred tax liabilities		16,383	20,648
Total non-current liabilities		16,383	181,995
Net assets		1,040,415	1,296,825
Capital and reserves			
Share capital	17	41,185	41,185
Reserves		1,000,783	1,256,374
Equity attributable to owners of the Company		1,041,968	1,297,559
Non-controlling interests		(1,553)	(734)
Total equity		1,040,415	1,296,825

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Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2011

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	Attributable to owners of the Company										
	Share capital	Share premium	Contributed surplus	Convertible notes equity reserve	Translation reserve	Share option reserve	Other reserve	Accumulated losses	Sub-total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 April 2010	25,555	933,278	3,085	33,238	-	10,431	-	(58,908)	946,679	47	946,726
Loss for the period	-	-	-	-	-	-	-	(82,979)	(82,979)	(53)	(83,032)
Other comprehensive income for the period	-	-	-	-	1,932	-	-	-	1,932	6	1,938
Total comprehensive income/(expense) for the period	-	-	-	-	1,932	-	-	(82,979)	(81,047)	(47)	(81,094)
Share options exercised during the period	300	12,907	-	-	-	(5,047)	-	-	8,160	-	8,160
At 30 September 2010	25,855	946,185	3,085	33,238	1,932	5,384	-	(141,887)	873,792	-	873,792
At 1 April 2011	41,185	1,392,211	3,085	33,238	4,553	2,692	(124)	(179,281)	1,297,559	(734)	1,296,825
Loss for the period	-	-	-	-	-	-	-	(238,427)	(238,427)	(789)	(239,216)
Other comprehensive income/(expense) for the period	-	-	-	-	2,645	-	-	-	2,645	(30)	2,615
Total comprehensive income/(expense) for the period	-	-	-	-	2,645	-	-	(238,427)	(235,782)	(819)	(236,601)
Repurchase of convertible notes	-	-	-	(33,238)	-	-	-	13,429	(19,809)	-	(19,809)
At 30 September 2011	41,185	1,392,211	3,085	-	7,198	2,692	(124)	(404,279)	1,041,968	(1,553)	1,040,415

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

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2011

	Six months ended 30 September	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Net cash used in operating activities	(367,642)	(276,966)
Net cash generated by investing activities	220,900	155,754
Net cash generated by financing activities	83,245	7,531
Net decrease in cash and cash equivalents	(63,497)	(113,681)
Cash and cash equivalents at the beginning of the period	509,938	619,153
Effect of foreign exchange rate changes, net	(1,746)	1,938
Cash and cash equivalents at the end of the period	444,695	507,410
Analysis of balances of cash and cash equivalents		
Cash and bank balances	444,695	507,410

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

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 September 2011

1. BASIS OF PREPARATION

The condensed consolidated interim financial statements for the six months ended 30 September 2011 have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The condensed consolidated interim financial statements have been prepared under the historical cost convention, except for financial assets and financial liabilities, which are carried at fair values. The condensed consolidated interim financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated. The condensed consolidated interim financial statements are unaudited but have been reviewed by the Audit Committee.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in preparing the condensed consolidated interim financial statements are consistent with those adopted in the preparation of the Group’s annual financial statements for the year ended 31 March 2011 except for the adoption of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the HKICPA as discussed below.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning 1 April 2011.

The applicable new and revised HKFRSs adopted in the condensed consolidated interim financial statements are set out below:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKAS 24 (As revised in 2009)	Related Party Disclosures
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the above new and revised HKFRSs has had no material effect on the preparation and presentation of the results and financial positions of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 September 2011

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income ⁴
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets ¹
HKAS 19 (As revised in 2011)	Employee Benefits ³
HKAS 27 (As revised in 2011)	Separate Financial Statements ³
HKAS 28 (As revised in 2011)	Investments in Associates and Joint Ventures ³
HK (IFRIC) – INT 20	Stripping Costs in The Production Phase of a Surface Mine ³
HKFRS 7 (Amendments)	Disclosures – Transfer of Financial Assets ²
HKFRS 9	Financial Instruments ³
HKFRS 10	Consolidated Financial Statements ³
HKFRS 11	Joint Arrangements ³
HKFRS 12	Disclosure of Interest in Other Entities ³
HKFRS 13	Fair Value Measurement ³

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

² Effective for annual periods beginning on or after 1 July 2011.

³ Effective for annual periods beginning on or after 1 January 2013.

⁴ Effective for annual periods beginning on or after 1 July 2012.

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

3. SEGMENT INFORMATION

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

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

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Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 September 2011

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3. SEGMENT INFORMATION (continued)

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

	Six months ended 30 September 2011 (Unaudited)				Consolidated HK\$'000
	Supply and procurement HK\$'000	Pharmaceutical HK\$'000	Provision of finance HK\$'000	Securities investment HK\$'000	
Segment revenue					
Sales to external customers	747,427	11,452	1,784	15,095	775,758
Segment results	3,275	(6,261)	1,698	(229,101)	(230,389)
Interest income and unallocated revenue and gains					3,161
Unallocated expenses					(6,697)
Finance costs					(9,930)
Loss before taxation					(243,855)
Taxation					4,639
Loss for the period					(239,216)

	Six months ended 30 September 2010 (Unaudited)				Consolidated HK\$'000
	Supply and procurement HK\$'000	Pharmaceutical HK\$'000	Provision of finance HK\$'000	Securities investment HK\$'000	
Segment revenue					
Sales to external customers	400,629	2,788	1,502	1,158	406,077
Segment results	2,710	(4,252)	1,443	(66,483)	(66,582)
Interest income and unallocated revenue and gains					739
Unallocated expenses					(8,682)
Finance costs					(9,362)
Loss before taxation					(83,887)
Taxation					855
Loss for the period					(83,032)

4. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, interest income from provision of finance and dividend income from investments in listed equity securities during the period.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 September 2011

5. LOSS BEFORE TAXATION

	Six months ended 30 September	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
The Group's loss before taxation is arrived at after charging:		
Staff costs including directors' remuneration	5,260	4,805
Retirement benefits schemes contributions	404	258
Total staff costs	5,664	5,063
Cost of inventories sold	704,583	395,646
Depreciation of property, plant and equipment	1,218	1,263
and after crediting:		
Bank interest income	799	780
Other interest income	14	1
Rental income	90	90
Exchange gains	226	149
Compensation received	3,120	–
Gain on repurchase of convertible notes	2,159	–
Other income	946	1,154
Net loss on investments at fair value through profit or loss:		
Net realised loss on investments in listed equity securities	14,695	9,096
Unrealised loss on investments in listed equity securities	229,502	58,546
Net loss on investments of fair value through profit or loss	244,197	67,642

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Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 September 2011

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6. TAXATION

	Six months ended 30 September	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Current – Hong Kong		
Charge for the period	80	83
Over provision in prior period	(50)	–
	30	83
Deferred tax		
Charge for the period	(4,669)	(938)
	(4,639)	(855)

Hong Kong Profits Tax for the six months ended 30 September 2011 and 2010 was calculated at 16.5% of the estimated assessable profit for the period.

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.

7. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic loss per share is based on the unaudited net loss for the period attributable to owners of the Company for the six months ended 30 September 2011 of HK\$238,427,000 (six months ended 30 September 2010: HK\$82,979,000) and the weighted average of 4,118,479,760 (six months ended 30 September 2010: 2,580,069,924) ordinary shares in issue during the period.

Basic and diluted loss per share for the six months ended 30 September 2011 and 2010 have been presented as equal because conversion of convertible notes and exercise of share options would decrease the loss per share, therefore, anti-dilutive.

8. DIVIDENDS

No dividends were declared during the six months ended 30 September 2011 (six months ended 30 September 2010: nil).

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 September 2011

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred costs for leasehold improvements of approximately HK\$1,528,000.

10. INTANGIBLE ASSET

	As at 30 September 2011 HK\$'000 (Unaudited)	As at 31 March 2011 HK\$'000 (Audited)
Cost and carrying value		
At the beginning of the period/year	152,320	146,286
Exchange realignment	3,840	6,034
At the end of the period/year	156,160	152,320

Notes:

- (a) The intangible asset represents an intellectual property relating to production and sale of Jinhua Qinggan which is presently a prescription drug for clinical 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) 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.

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11. ACCOUNTS AND BILLS RECEIVABLE

	As at 30 September 2011 HK\$'000 (Unaudited)	As at 31 March 2011 HK\$'000 (Audited)
Accounts receivable	124,530	10,822
Bills receivable	283,272	289,720
	407,802	300,542

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

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:

	As at 30 September 2011 HK\$'000 (Unaudited)	As at 31 March 2011 HK\$'000 (Audited)
Within 30 days	362,985	141,675
31 to 60 days	1,961	23,784
61 to 90 days	36,285	130,025
91 to 180 days	1,855	4,125
Over 180 days	4,716	933
Total	407,802	300,542

A subsidiary of the Group discounted bills receivable amounting to approximately HK\$274,691,000 (31 March 2011: nil) to banks in exchange for cash as at 30 September 2011. The transactions have been accounted for as collateralised bank advances.

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12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 30 September 2011 HK\$'000 (Unaudited)	As at 31 March 2011 HK\$'000 (Audited)
Prepayments and deposits	5,692	6,502
Other receivables	13,529	56,038
	19,221	62,540
Less: Impairment loss recognised	–	–
	19,221	62,540

13. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Investments at fair value through profit or loss comprise:

	As at 30 September 2011 HK\$'000 (Unaudited)	As at 31 March 2011 HK\$'000 (Audited)
Held for trading:		
– Listed equity securities investments in Hong Kong, at market value	496,032	487,676

Note:

The listed equity securities investments at 30 September 2011 and 31 March 2011 were classified as held for trading. The fair values of listed equity securities investments are determined based on the quoted market bid prices available on the Stock Exchange.

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14. 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:

	As at 30 September 2011 HK\$'000 (Unaudited)	As at 31 March 2011 HK\$'000 (Audited)
Within 30 days	123,733	84,101
31 to 60 days	–	867
61 to 90 days	–	126,543
91 to 180 days	991	2,579
Over 180 days	3,728	4,590
Total	128,452	218,680

The accounts and bills payable are non-interest bearing and are normally settled on 60 days term. As at 30 September 2011, the Group had bills payable of approximately HK\$10,162,000 (31 March 2011: HK\$216,284,000), which were ranged from within 30 days to over 180 days.

15. OTHER PAYABLES AND ACCRUALS

	As at 30 September 2011 HK\$'000 (Unaudited)	As at 31 March 2011 HK\$'000 (Audited)
Other payables (note)	179,742	139,401
Accruals	3,466	4,549
	183,208	143,950

Note:

Included in other payables of approximately HK\$114,985,000 (31 March 2011: HK\$112,159,000) was the balance payment for the consideration of the transfer of the intangible asset. This payable was arising from acquisition of subsidiaries on 29 January 2010.

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16. CONVERTIBLE NOTES

	As at 30 September 2011 HK\$'000 (Unaudited)	As at 31 March 2011 HK\$'000 (Audited)
Convertible Notes 2010 (as defined below) – classified as non-current liabilities	–	161,347

Notes:

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

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

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

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

The effective interest rate of the liability component range is 10.43%.

During the six months ended 30 September 2011, there was no conversion of the Convertible Notes 2010 and the Group repurchased all of the outstanding Convertible Notes 2010 in the aggregate principal amount of HK\$189,100,000 (the “Repurchased Notes”) at a consideration of HK\$187,209,000 on 23 September 2011, which represented a discount of 1% on the aggregate principal amount of the Repurchased Notes. The holders of the Repurchased Notes also agreed that the accrued interests of the Repurchased Notes in the amount of approximately HK\$1,233,000 calculated up to the date of repurchase of the Repurchased Notes be waived. The consideration paid was first allocated to the liability component with the residual of approximately HK\$19,809,000 being assigned to the repurchase of the equity component. A gain on repurchase of convertible notes of approximately HK\$2,159,000 was recognized in the profit or loss. There were no outstanding Convertible Notes 2010 as at 30 September 2011.

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16. CONVERTIBLE NOTES (continued)

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

	As at 30 September 2011 HK\$'000 (Unaudited)	As at 31 March 2011 HK\$'000 (Audited)
Liability component at the beginning of the period/year	161,347	147,882
Interest expenses for the period/year	7,890	15,356
Interest paid	(912)	(1,891)
Repurchase of convertible notes	(168,325)	–
Liability component at the end of the period/year	–	161,347

17. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000 (Unaudited)
Authorised:		
At 1 April 2011 and 30 September 2011 ordinary shares of HK\$0.01 each	<u>10,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1 April 2011 and 30 September 2011 ordinary shares of HK\$0.01 each	<u>4,118,480</u>	<u>41,185</u>

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18. SHARE OPTIONS

Details of specific categories of share options are as follows:

Date of grant of share options	Exercise period of share options	Exercise price of share options <i>HK\$ per share</i>	Closing price of the Company's shares immediately before the grant date <i>HK\$ per share</i>
01-09-2009	01-09-2009 to 31-08-2012	0.272	0.208

The movement of share options under the share option scheme of the Company during the period is presented as follows:

Name or category of participant	Number of share options				
	At 1 April 2011 <i>'000</i>	Granted during the period <i>'000</i>	Exercised during the period <i>'000</i>	Lapsed during the period <i>'000</i>	At 30 September 2011 <i>'000</i>
Director					
Suen Cho Hung, Paul	16,000	-	-	-	16,000

Notes:

- (a) The share options granted are vested upon granted.
- (b) The exercise price of the share options is subject to adjustments in the case of capitalisation of profits or reserve, rights or bonus issues, consolidation, subdivision or reduction of the share capital or other changes in the capital structure of the Company.
- (c) The closing price per share quoted on the Stock Exchange on the trading date immediate before the date on which the share options were granted was HK\$0.208.
- (d) No share option were granted, cancelled or lapsed during the six months ended 30 September 2011.

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19. CAPITAL COMMITMENTS

	As at 30 September 2011 HK\$'000 (Unaudited)	As at 31 March 2011 HK\$'000 (Audited)
Commitments for acquisition of property, plant and equipment	108	105

20. 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 30 September 2011 and 31 March 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 30 September 2011 HK\$'000 (Unaudited)	As at 31 March 2011 HK\$'000 (Audited)
Within one year	3,307	3,212
In the second to fifth years, inclusive	3,356	4,769
	6,663	7,981

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21. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the condensed consolidated interim financial statements, the Group also had the following related party transactions for the six months period ended 30 September 2011 and 2010.

Compensation of key management personnel of the Group:

	Six months ended 30 September	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Short term employee benefits	2,091	1,730
Post-employment benefits	84	72
Total compensation paid to key management personnel	2,175	1,802

22. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 24 October 2011, the Company entered into a placing agreement with a placing agent, pursuant to which the placing agent agreed to place, on a best effort basis, up to 823,695,952 new shares of the Company at a placing price of HK\$0.093 per share. The placing was completed on 1 November 2011. Further details of the placing were set out in the Company's announcement dated 24 October 2011.

23. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 28 November 2011.

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Other Information

INTERIM DIVIDEND

The Board of Directors (the "Board") of the Company has resolved not to declare an interim dividend for the six months ended 30 September 2011 (six months ended 30 September 2010: nil).

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

As at 30 September 2011, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long positions in shares of the Company:

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

Long positions in share options of the Company:

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

Other Information

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

Notes:

1. These shares were held by Global Wealthy Limited, which was a wholly owned subsidiary of Excelsior Kingdom Limited which in turn was wholly owned by Mr. Suen Cho Hung, Paul. Accordingly, Mr. Suen Cho Hung, Paul was deemed to be interested in 437,433,866 shares under the SFO.
2. This represented the interest of Mr. Suen Cho Hung, Paul in 16,000,000 underlying shares issuable under the share options granted by the Company to him on 1 September 2009 under the share option scheme of the Company adopted by the shareholders of the Company on 30 December 2002 ("Share Option Scheme"). The consideration paid by Mr. Suen on acceptance of the share options granted was HK\$1.00. The exercise price of the share options is HK\$0.272 per share and the exercise period is between 1 September 2009 and 31 August 2012.

Save as disclosed above, as at 30 September 2011, none of the directors or chief executive of the Company had registered an interest or short positions in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTIONS

Details of movement of share options of the Company during the six months ended 30 September 2011 are set out in note 18 to the condensed consolidated interim financial statements. Details of the Share Option Scheme are as disclosed in the Company's 2011 annual report.

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 Options" disclosures in note 18 to the condensed consolidated interim financial statements, at no time during the six months ended 30 September 2011 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.

Other Information

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 September 2011, the following interests of more than 5% of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in shares and underlying shares of the Company:

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

Notes:

- 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.
- 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 of the Company referred to 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 30 September 2011 as required pursuant to section 336 of the SFO.

Other Information

CORPORATE GOVERNANCE PRACTICES

The Company had adopted the principles and complied with all the applicable provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 September 2011 except for the following deviations:

Code Provision A.4.1

Code provision A.4.1 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 bye-law 87 of the Company's Bye-laws which provides that at each annual general meeting one-third of the directors of the Company for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those set out in the CG Code.

Code Provision E.1.2

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

Deviation

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company. Having made specific enquiry with all 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 six months ended 30 September 2011.

Other Information

AUDIT COMMITTEE

As at 30 September 2011, the Audit Committee comprised three Independent Non-executive Directors, namely Mr. Wong Kwok Tai (Chairman), Mr. Weng Yixiang and Mr. Lu Xinheng. The principal duties of the Audit Committee are to review and supervise the Group's financial reporting process and internal controls. The Audit Committee has reviewed the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 September 2011.

REMUNERATION COMMITTEE

As at 30 September 2011, the Remuneration Committee comprised four members, including one Executive Director, namely Mr. Sue Ka Lok (Chairman) and three Independent Non-executive Directors, namely Mr. Wong Kwok Tai, Mr. Weng Yixiang and Mr. Lu Xinheng. The principal duties of the Remuneration Committee are to review and determine the remuneration package of the directors and senior management of the Group.

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

During the six months ended 30 September 2011, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

On behalf of the Board

Suen Cho Hung, Paul

Chairman

Hong Kong, 28 November 2011