XING LIN MEDICAL INFORMATION TECHNOLOGY COMPANY LIMITED

杏林醫療信息科技有限公司*

(formerly known as Brilliant Arts Multi-Media Holding Limited)
(incorporated in the Cayman Islands and continued in Bermuda with limited liability)
(Stock Code: 8130)

First Quarterly Report **2010**

*for identification purposes only

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This report, for which the directors (the "Directors") of Xing Lin Medical Information Technology Company Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material aspects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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Highlights

1. Turnover of the Group from continuing operations for the three months ended 30 June 2010 was approximately HK$6.8 million (2009: HK$354,000) representing an increase of approximately 18.2 times as compared to the corresponding period in 2009.

2. Loss attributable to owners of the Company for the three months ended 30 June 2010 was approximately HK$125.4 million (2009: HK$2.2 million).

3. Loss per share for the three months ended 30 June 2010 was approximately HK1.65 cents (2009: HK1.74 cents).

4. The Board does not recommend the payment of any dividend for the three months ended 30 June 2010 (2009: Nil).

Unaudited Quarterly Results

The board of Directors (the "Board") of Xing Lin Medical Information Technology Company Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 30 June 2010, together with the comparative unaudited figures for the corresponding period in 2009 as follows:

Condensed Consolidated Income Statement

	Notes	For the three months ended 30 June 2010 HK$'000 (Unaudited)	2009 HK$'000 (Unaudited)
Continuing operations			
Turnover	2	**6,823**	354
Cost of sales		**(5,382)**	–
Gross profit		**1,441**	354
Other income	2	**2**	652
Other operating expenses		**(25,985)**	(1,594)
Change in fair value in respect of conversion options embedded in convertible notes receivable		**–**	(1.610)
Loss on early redemption of promissory note		**(87,108)**	–
Loss from operations	3	**(111,650)**	(2,198)
Finance costs	4	**(13,902)**	(26)
Loss before taxation		**(125,552)**	(2,224)
Income tax	5	**–**	–
Loss for the period from continuing operations		**(125,552)**	(2,224)
Discontinued operations			
Profit for the period from discontinued operations	6	**150**	–
Loss for the period		**(125,402)**	(2,224)
Loss per share	7	**HK cents**	HK cents
– Basic and diluted			
– From continuing operations		**(1.65)**	(1.74)
– From discontinued operations		**–**	–
		(1.65)	(1.74)

Condensed Consolidated Statement of Comprehensive (Loss)/Income

	For the three months ended 30 June	
	2010	2009
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Loss for the period	**(125,402)**	(2,224)
Other comprehensive (loss)/income for the period		
Exchange differences on translation of financial statements of foreign operations	**(403)**	784
Total comprehensive loss attributable to owners of the Company	**(125,805)**	(1,440)

1. Basis of Preparation and Principal Accounting Policies

The unaudited consolidated results have been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Growth Enterprises Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with accounting principles generally accepted in Hong Kong which include Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (collectively as "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under historical cost convention except for investment properties and certain financial instruments, which are measured at fair values.

The unaudited consolidated results do not include all the information and disclosure required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2010, which have been prepared in accordance with HKFRSs. The accounting policies used in the unaudited consolidated results are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2010, except for the accounting policy changes that are expected to be reflected in the annual financial statements for the year ending 31 March 2011. Details of these changes in accounting policies are set out below.

The HKICPA has issued a number of new standards, amendments and interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's unaudited consolidated results.

HKAS 1 (Revised)	Presentation of financial statements
HKAS 23 (Revised)	Borrowing costs
HKFRSs (Amendments)	Improvements to HKFRSs
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

HKAS 1 (Revised) has introduced a number of terminology changes, including revised titles for the quarterly consolidated financial statements, and has resulted in a number of changes in presentation and disclosures.

The adoption of other new standards, amendments and interpretations has no material impact on the results and the financial position of the Group for the current or prior accounting periods. Accordingly, no prior year adjustment is required.

The Group has not early applied any new standards, amendments and interpretations that have been issued but are not yet effective for the three months ended 30 June 2010. The directors of the Company anticipate that the application of these new standards, amendments and interpretations will have no material impact on the results and financial position of the Group.

All significant transactions and balances within the Group have been eliminated on consolidation.

The unaudited condensed consolidated financial statements have not been audited by the Company's auditors, but have been reviewed by the Company's audit committee.

2. Turnover and Other Income

The principal activities of the Group are the development and provision of medical information digitalization system ("MIDS") and properties investment.

An analysis of the turnover and other income of the Group during the reporting periods is as follows:

	For the three months ended 30 June	
	2010	2009
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Continuing operations		
Turnover		
MIDS	**6,418**	–
Gross rentals from investment properties	**405**	354
	6,823	354
Discontinued operations		
Film distribution	**180**	–
Total	**7,003**	354
Continuing operations		
Other income		
Bank interest income	**2**	3
Imputed interest income	**–**	649
	7,005	1,006

3. Loss from Operations

Loss from operations has been arrived at after charging/(crediting):

	For the three months ended 30 June	
	2010	2009
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Loss arising on early repayment of promissory note	**87,108**	–
Depreciation of property, plant and equipment	**156**	72
Net foreign exchange loss/(gain)	**8**	(228)
Staff costs including directors' emoluments	**1,806**	1,037

4. Finance Costs

	For the three months ended 30 June	
	2010	2009
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Interests on:		
Bank loans wholly repayable within five years	**18**	26
Effective interest expenses on convertible bonds wholly repayable over five years	**5,084**	–
Effective interest expenses on promissory note	**8,801**	–
	13,903	26

5. Taxation

(i) No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits in Hong Kong or the estimated assessable profit was wholly absorbed by tax losses brought forward for the three months ended 30 June 2010 (2009: Nil).

(ii) No provision for overseas income tax was made as the Company's overseas subsidiaries did not have taxable income for the three months ended 30 June 2010 (2009: Nil).

(iii) The Group had no significant unprovided deferred tax assets and liabilities at 30 June 2010 (2009: Nil).

6. Discontinued Operations

An analysis of the result of discontinued operations is as follows:

	For the three months ended 30 June	
	2010	2009
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Turnover	**180**	–
Other operating expenses	**(30)**	–
Profit before taxation	**150**	–
Income tax	**–**	–
Profit for the period from discontinued operations	**150**	–

7. Loss Per Share

The calculation of the basic loss per share is based on the loss attributable to owners of the Company for the three months ended 30 June 2010 of approximately HK$125.4 million (2009: loss attributable to owners of the Company of approximately HK$2.2 million) and on the weighted average of 7,586,263,757 shares in issue during the three months ended 30 June 2010 (2009: 127,816,765 shares).

The conversion of all potential ordinary shares arising from share options granted by the Company and convertible bonds would have an anti-dilutive effect on the loss per share for the three months ended 30 June 2010.

No diluted loss per share has been presented for the three months ended 30 June 2009 as the conversion of all potential ordinary shares arising from share options granted by the Company would have an anti-dilutive effect on the loss per share for the three months ended 30 June 2009.

8. Changes in Equity

	Share capital HK$'000 (Unaudited)	Share premium HK$'000 (Unaudited)	Contributed surplus HK$'000 (Unaudited)	Share-based compensation reserve HK$'000 (Unaudited)	Convertible bonds reserve HK$'000 (Unaudited)	Statutory reserves HK$'000 (Unaudited)	Translation reserve HK$'000 (Unaudited)	Accumulated losses HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
At 1 April 2009	12,569	98,535	87,254	4,200	–	–	(2,288)	(9,594)	190,676
Comprehensive loss for the period	–	–	–	–	–	–	–	(2,224)	(2,224)
Other comprehensive income for the period	–	–	–	–	–	–	784	–	784
Total comprehensive income for the period	–	–	–	–	–	–	784	(2,224)	(1,440)
Share issue upon exercise of share options	251	600	–	(223)	–	–	–	–	628
Capital reduction	(11,538)	(99,135)	110,673	–	–	–	–	–	–
Recognition of equity-settled share-based payment	–	–	–	482	–	–	–	–	482
At 30 June 2009	1,282	–	197,927	4,459	–	–	(1,504)	(11,818)	190,346
At 1 April 2010	73,247	641,041	197,928	4,293	374,195	394	911	(84,190)	1,207,819
Comprehensive loss for the period	–	–	–	–	–	–	–	(125,402)	(125,402)
Other comprehensive loss for the period	–	–	–	–	–	–	(403)	–	(403)
Total comprehensive loss for the period	–	–	–	–	–	–	(403)	(125,402)	(125,805)
Issue of new shares	18,311	164,805	–	–	–	–	–	–	183,116
Share issues expenses	–	(2,233)	–	–	–	–	–	–	(2,233)
At 30 June 2010	**91,558**	**803,613**	**197,928**	**4,293**	**374,195**	**394**	**508**	**(209,592)**	**1,262,897**

Dividend

The Board does not recommend the payment of any dividend for the three months ended 30 June 2010 (2009: Nil).

Business Review

For the three months ended 30 June 2010, for continuing operations the Group recorded a turnover of approximately HK$6.8 million (2009: HK$354,000). The increase was contributed by the revenue derived from the rollout of MIDS.

On 1 April 2010, the Company entered into a sale and purchase agreement (the “Agreement”) with an independent third party (the “Vendor”) pursuant to which the Company shall purchase the entire issued share capital of Fortune Mark International Limited (“FMI”) and sale loans at a total consideration of HK$135,000,000. FMI had entered into a software licensing agreement (the “Licensing Agreement”) with Healthnet Limited (“Healthnet”) pursuant to which Healthnet has granted to FMI an exclusive license to use and sublicense a software product (the “Software”). The Software is a scalable, reliable and integrated Picture Archiving and Communication System (PACS) and it is also HL-7 and DICOM compatible which consolidates a hospital’s entire collection of medical imaging including X-ray, CT, MRI and ultrasound and merges with sophisticated workflow for radiology. The acquisition will enable the Group to expand into the area of PACS, as well as strengthening the coverage of MIDS, thus fulfilling the various emerging needs of hospitals in the PRC and all together an important part of MIDS implementation. The transaction was completed on 18 May 2010.

On 9 April 2010, Grand Billion Investments Limited ("Grand Billion"), a wholly-owned subsidiary of the Company, entered into a provisional sale and purchase agreement with an independent third party (the "Purchaser") pursuant to which Grand Billion has agreed to dispose of an investment property owned by Grand Billion at a consideration of HK$36,000,000. The property was acquired by the Group in 2007 at a cost of HK$23,500,000 and has been held by the Group for capital appreciation. The property has been used by the Group for its own use as office after acquisition. The Board intends to look for an appropriate premises for office use by the Group on or before the completion of the disposal. The book value of the property at 31 March 2009 amounted to approximately HK$23.1 million. Given the recent property market conditions and the value of the property has appreciated, the Directors consider that the disposal is in the interest of the Company and its shareholders because the Company will realise capital gain from the disposal and the net proceeds from the disposal will enhance the working capital of the Group.

On 30 April 2010, the Company proposed to raise not less than approximately HK$183.12 million, before expenses, by way of open offer of not less than 1,831,167,113 offer shares and not more than 1,831,710,077 offer shares at the subscription price of HK$0.10 per offer share on the basis of one offer share for every four existing shares held on the record date and payable in full on application. Qualifying shareholders are entitled to apply for excess offer shares not taken up in excess of their respective entitlements under the open offer. The open offer is fully underwritten in the manner that the Company entered into an underwriting agreement with an underwriter on 29 April 2010, whereby the underwriter has conditionally agreed to underwrite the offer shares which have not been taken up. The open offer was completed on 18 June 2010. The Board had applied the net proceeds from the open offer for the repayment of the outstanding promissory note of the Group.

Financial Review

For the three months ended 30 June 2010, for continuing operations turnover of the Group was approximately HK$6.8 million, of which HK$6.4 million (2009: HK$Nil) was generated from rollout of MIDS, and HK$405,000 (2009: HK$354,000) was generated from the leasing of an investment property located at Canada.

Loss attributable to owners of the Company for the three months ended 30 June 2010 amounted to approximately HK$125.4 million (2009: HK$2.2 million). The increase in loss was mainly attributed to a significant increase in other operating expenses and financial costs as explained below.

Other operating expenses increased by 15.2 times to approximately HK$25.9 million from HK$1.6 million in prior year. Such increase was mainly attributed to the amortization expenses of intangible assets approximately HK$19.9 million (2009: HK$Nil), consultancy fees approximately HK$1.1 million (2009: HK$Nil), legal and professional fees of approximately HK$1.2 million (2009: HK$464,000), salaries and allowances of approximately HK$1.8 million (2009: HK$1.0 million).

Finance costs increased by 533.6 times to approximately HK$13.9 million from HK$26,000 in prior year. The increase was mainly attributed to the accrual of effective interest expenses on the promissory note and convertible bonds issued by the Company.

Capital Reorganisation and Change of Board Lot Size

Pursuant to the resolutions passed on 6 August 2010, capital reorganisation (the "Capital Reorganisation") has been effected by way of comprising (i) share consolidation that every ten shares of HK$0.01 each in the issued share capital of the Company be consolidated into one consolidated share of HK$0.10 each ("Consolidated Shares") (ii) capital reduction that the par value of all issued Consolidated Shares from HK$0.10 each to HK$0.01 each by cancelling the paid-up capital to the extent of HK$0.09 on each issued Consolidated Share ("Adjusted Shares") and the credit arising from the reduction of issued share capital of the Company be transferred to the contributed surplus account of the Company and be applied to offset against the accumulated losses to the extent as permitted by the laws of Bermuda and the bye-laws. The board lot size for trading was changed to 5,000 Adjusted Shares after the Capital Reorganisation became effective. The Capital Reorganisation became effective on 9 August 2010.

Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debenture and its Associated Corporations

At 30 June 2010, the interests and short position of the directors and chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Hong Kong Securities and Futures Ordinance ("SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have taken under such provisions of the SFO); or which are required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Rule 5.46 of the GEM Listing Rules, are as follows:

Long positions in ordinary shares of HK$0.01 each of the Company

Name of director	Interest in shares	Percentage of the Company's issued share capital
Mr. Au Ho Chuen, Bonny	1,780,000	0.02%

Share Option Scheme

The Company adopted two share option schemes on 2 August 2002, namely, the pre-IPO share option scheme ("Pre-IPO Share Option Scheme") and the share option scheme ("Share Option Scheme"). The principal terms of the two share option schemes have been set out in the note 41 to the financial statements as included in the annual report of the Company for the year ended 31 March 2010.

Details of the Company's share options granted under the Share Option Scheme are as follows:

Date of grant	Category of eligible persons	Exercise price	Exercise period	Outstanding at 31/3/2010	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Outstanding at 30/6/2010
25/02/2008	Consultants	HK$10.91	25/02/2008 to 24/02/2011	65,820	–	–	–	–	65,820
	Employees	HK$10.91	25/02/2008 to 24/02/2011	65,820	–	–	–	–	65,820
28/04/2008	Directors	HK$9.74	28/04/2008 to 27/04/2011	262,634	–	–	–	–	262,634
	Consultants	HK$9.74	28/04/2008 to 27/04/2011	549,334	–	–	–	–	549,334
	Employees	HK$9.74	28/04/2008 to 27/04/2011	108,247	–	–	–	–	108,247
09/11/2009	Consultants	HK$0.50	09/11/2009 to 08/11/2010	540,000	–	–	–	–	540,000
	Employees	HK$0.50	09/11/2009 to 08/11/2010	580,000	–	–	–	–	580,000
				2,171,855	–	–	–	–	2,171,855

Directors and Chief Executives' Rights to Acquire Shares or Debentures

Save as disclosed above, at 30 June 2010, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate, and none of the directors and chief executive of the Company or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such rights.

Substantial Shareholders

At 30 June 2010, the register of substantial shareholders maintained by the Company under Section 336 of the SFO showed that, other than the interests disclosed above in respect of certain directors, the following shareholders had an interest of 5% or more in the issued share capital of the Company:

Long positions in ordinary shares of HK$0.01 each of the Company

Name of shareholder	Capacity	Interest in shares	Interest in underlying shares	Total interest in shares	Percentage of the Company's issued share capital
Growth Harvest Limited	Beneficial owner (Note 1)	2,516,842,105	5,263,157,895	7,780,000,000	81.96%
Treasure Bonus Limited	Interest of controlled Corporation (Note 1)	2,516,842,105	5,263,157,895	7,780,000,000	81.96%
Ms. Tan Ting Ting	Interest of controlled Corporation (Note 1)	2,516,842,105	5,263,157,895	7,780,000,000	81.96%

Note:

(1) Growth Harvest Limited ("Growth Harvest") is deemed to be interested in 5,263,157,895 shares through its interest in the convertible bonds in the principal amount of HK$500,000,000 issued by the Company. Adding the 2,516,842,105 shares held by Growth Harvest, Growth Harvest is deemed to be interested in 7,780,000,000 shares of the Company. Treasure Bonus Limited ("Treasure Bonus") owns 72% of the issued share capital of Growth Harvest and Treasure Bonus are wholly and beneficially owned by Ms. Tan Ting Ting. Each of Treasure Bonus and Ms. Tan Ting Ting is deemed to be interested in the 7,780,000,000 shares.

Save as disclosed above, at 30 June 2010, the Company has not been notified of any persons (other than the Directors or chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which were to be recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

Competing Interests

At 30 June 2010, none of the directors, management shareholders and substantial shareholders, or their respective associates had any interests in any business which competes or may compete with the business of the Group pursuant to Rule 11.04 of the GEM Listing Rules.

Purchase, Sale or Redemption of Listed Securities of the Company

The Company has not redeemed any of its listed securities during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the three months ended 30 June 2010.

Corporate Governance

Save as disclosed below, the Company complied with Code of Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules for the three months ended 30 June 2010.

a. Under the Code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The roles of the chairman and chief executive officer of the Company have been performed by Mr. Au Ho Chuen, Bonny, who is also an executive director. The Board considered that the non-segregation would not result in considerable concentration of power in one person and has the advantage of a strong and consistent leadership which is conducive to making and implementing decisions quickly and consistently. The Board will review the effectiveness of this arrangement from time to time and will consider appointing an individual as the chief executive officer of the Company when it thinks appropriate.

b. Under the Code provision A4.1, all the non-executive directors should be appointed for a specific term, subject to re-election. The term of office for non-executive directors is subject to retirement from office by rotation and is eligible for re-election in accordance with the provisions of the Company's bye-laws. At each annual general meeting, one-third of the directors for the time being, (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. As such, the Company considers that such provisions are sufficient to meet the underlying objective of this code provision.

Audit Committee

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee comprised the three independent non-executive directors namely, Mr. Leung Wai Man, Mr. Kwok Chuen Hung, Dominic and Mr. Ho Chun Ki, Frederick. The audit committee has reviewed the Group's unaudited consolidated financial statements for the three months ended 30 June 2010.

Board of Directors

At the date of this report, the executive directors are Mr. Au Ho Chuen, Bonny and Mr. Lien Wai Hung; the independent non-executive directors are Mr. Leung Wai Man, Mr. Kwok Chuen Hung, Dominic and Mr. Ho Chun Ki, Frederick.

By Order of the Board
Xing Lin Medical Information Technology Company Limited
Au Ho Chuen, Bonny
Chairman

Hong Kong, 12 August 2010