中國衛生控股有限公司
CHINA HEALTHCARE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 673)

Contents

Corporate Information

DIRECTORS

EXECUTIVE DIRECTORS
Dr. Li Zhong Yuan *(Chairman)*
Mr. Lee Jong Dae
Mr. Zhou Bao Yi

NON-EXECUTIVE DIRECTOR
Mr. Martin Treffer

INDEPENDENT NON-EXECUTIVE DIRECTORS
Dr. Yan Shi Yun
Mr. Mu Xiang Ming
Mr. Jiang Bo

COMPANY SECRETARY
Mr. Tsui Siu Hung Raymond

REGISTERED OFFICE
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS
Unit C, 19/F
Entertainment Building
30 Queen's Road
Central
Hong Kong

PRINCIPAL BANKERS
The Hong Kong and Shanghai Banking Corporation
Harcourt Road Branch
Ground Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

AUDITORS
SHINEWING (HK) CPA Limited
16/F, United Centre
95 Queensway
Hong Kong

LEGAL ADVISERS
Morrison & Foester
Solicitors and International Lawyers
21/F, Entertainment Building
30 Queen's Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Tengis Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

COMPANY WEBSITE
www.chinahealthcareltd.com

Chairman's Statement

Dear Shareholders,

During the past financial year, the Group's operating activities have continued to focus on creating customer value of "better access, better communication and better connectivity" through a network-based and IT-enabled connectivity platform that is scalable and cost-effective for the China's consumer and healthcare services markets. The Group made steady progress in the expansion of its consumer services and in the growth of its healthcare services.

The Group's B-to-C consumer services operation continues to maintain its #1 market share in mobile top-up distribution in Shanghai through a network of over 6,500 POS-enabled retail outlets throughout Shanghai. A strategic growth initiative in consumer services entails operational expansion in products; channels and geography, and the operation managed to secure financial resources for such an initiative by successfully completing a stand-alone financing in late 2008, and the operation has managed to attract a number of talents in B-to-C consumer services on board to upgrade human resources. The secured financial and human resources and their ongoing integration are laying a foundation for the operation's transformation and growth.

The Group's B-to-B healthcare services operation continues to grow its business via expanding distribution of value added medical assistance services, through a network of leading insurance companies and other viable channels, into its steadily growing customer-base with a core component of prepaid members for emergency medical assistance access at present. The operation's customer focus, working relationship with large insurance companies and access of broad hospital network in China will continue to drive and contribute its growth in healthcare services.

Due to the impact of global financial tsunami during the past financial year, the Group's listing entity China HealthCare Holdings Ltd. ("CHC" or "HoldCo"), as the Group's ultimate holding company, is experiencing liquidity problem. Since HoldCo doesn't have sufficient cash on hand, it has been in default to its obligations to repay two convertible bonds (the "CB") of outstanding principals of about US$5.5 million and HK$20 million respectively. As a result, HoldCo has requested a standstill with the CB holders, with a view to continue working on a potential restructuring of its capital structure with relevant stakeholder, and in the mean time, the directors have made hard choices to implement all necessary cost-cutting measures across all aspects of HoldCo, including without limitation, reduction of the size and operation cost of its non-revenue generating component.

Chairman's Statement

On behalf of the directors, I would like to express my appreciation to the staffs of the Group for their dedication, commitment and contribution to the Group's overall performance and results. On behalf of the directors, I would also like to extend my gratitude to the shareholders; investors, and business partners for their support and confidence in the Group over the past years. With the support and cooperation of our stakeholders, shareholders and investors, I am confident that the Group will be able to work out a solution to HoldCo's liquidity problem, and with such a major difficulty overcome and with the dedication of our staff and the commitment of our management team, I am also confident that the Group will be able to continue to grow by creating value to consumers of our services, which in turn shall generate shareholder value.

Yours sincerely,

Dr. Li Zhong Yuan
Chairman

27 July 2009

Management Discussion and Analysis

RESULTS

For the year ended 31 March 2009, the Group reported a turnover of approximately HK$2,870.7 million, representing an increase of 0.11% as compared to HK$2,867.6 million for the previous financial year. The Group's net profit from ordinary activities attributable to shareholders for the year was approximately HK$12.3 million as compared to loss of approximately HK$25.2 million for the previous financial year. Basic earnings per share for the year was HK$0.05 (2008: loss per share HK$0.11).

FINAL DIVIDEND

The Directors do not recommend the payment of any final dividend to the shareholders (2008: Nil).

BUSINESS OPERATION

During the past financial year, the Group continued to be principally engaged in provision of consumer and healthcare services and made steady progress in its business operations that enable the procurement of better access, better communication and better connectivity in China.

China is undergoing mega growth of underlying consumption demands arising from China's on-going grand-scale urbanization, rising per capita income, increasing Chinese and international travelers, and ageing demographics. The Group's vision is to become a consumer oriented service provider to embrace the mega trend, and to materialize such a vision the Group is building and scaling up its head-count based and IT enabled services and products.

Review of B-to-C consumer services operation

The operation's business model continued to be oriented around scale; growth; cash flow and outlets of distribution and settlement. The operation remains the #1 distributor of mobile prepaid cards in Shanghai; achieved more than 70% penetration of convenience stores in Shanghai – the most comprehensive one in China; and continues to maintain an estimated 24% market share for China Mobile top-up cards in Shanghai. During the financial year, the Group launched a strategic growth initiative to take the business operation to achieve accelerated rather than organic growth and has taken steps to identify and remove constrains in management; capital; expertise and technology.

The operation is fortunate to be able to draw upon both global perspective and local expertise to form its road map of the strategic growth initiative. The initiative entails expansion of geography; products and channels, i.e. expanding into viable coastal regions beyond Shanghai in geography; viable prepaid and store-value products and services beyond mobile top-up in products; and viable channels beyond existing ones in Shanghai to increase economy of scale. In taking measures to remove constraints in financial resources to the initiative, the operation worked hard to secure capital injection in late 2008 by completing a stand-alone financing as disclosed in a circular dated 30 September 2008, and in taking measures to remove constraints in human resources to the initiative, the operation has had continued success in upgrading its critical human resources of senior and middle managers in marketing; technology and channel management.

Management Discussion and Analysis

Directors would like to report that the operation of the Group's consumer services business has had an increase of about 0.03% in terms of overall revenues as compared with the same period in 2008, while facing adverse impact of ongoing restructurings of China's telecom industry.

Review of B-to-B healthcare services operation

The operation's business model continues to focus on scale; growth; standardization and cash flow; and is built around nationwide hospital access; prepaid revenue based on head-counts; IT enabled services and products and channel based distribution. The travel related medical assistance is a prime focus of the operation, which has emerged as a leading provider of emergency medical assistance in China. Given the rapidly rising China related travel flows, intra-China or China outbound or inbound China, and further stimulus by forthcoming landmark event of 2010 WorldExpo in Shanghai, the demand for travel related medical assistance is expected to continue to grow rapidly.

The operation has had a steadily growing customer-base with a core component of prepaid members for emergency medical assistance access and accumulated a capacity of handling growing number of emergency medical assistance cases. During the financial year, the operation has also reviewed the constraints in growth and scale that would identify deepening of nationwide hospital access; broadening of service products; widening of distribution channels; and sharpening of IT enablers. While the operation's financial resources are limited, it has nevertheless managed to bring a number of senior and middle managers in marketing; hospital access and customer services on board to alleviate constraints in human resources to its future growth.

Directors would like to report that the operation of the Group's healthcare services has had an increase of over 76.5% in terms of revenues as compared with the same period in 2008.

Review of the Group's financial distress

Due to the impact of global financial tsunami during the past financial year, the Group's listing entity China HealthCare Holdings Ltd. ("CHC" or "HoldCo"), as the Group's ultimate holding company, is experiencing liquidity problem. Since HoldCo doesn't have sufficient cash on hand, it is in default to its obligations to repay two convertible bonds (the "CB") of outstanding principals of about US$5.5 million and HK$20 million respectively as of the date. HoldCo has requested a standstill with the CB holders since 20 May 2009, with a view to continue working on a potential restructuring of its capital structure with the holder of preference shares Och Ziff, to bring in external resources to solve its solvency problem.

Facing the financial distress above, the directors have made hard choices to implement all necessary cost-cutting measures across all aspects of HoldCo, including without limitation, reduction of the size and operation cost of its non-revenue generating component. As the Group's operations are service oriented and human capital heavy, directors are making every best effort in alleviating the ongoing negative impacts of the financial distress and sustaining the underlying operations.

Management Discussion and Analysis

ACQUISITION OF ADDITIONAL INTERESTS OF SUBSIDIARIES

On 28 February 2008, Harvest Network Ltd. (formerly known as Success Gateway Investments Limited, "Harvest Network"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Panjinfenyuan Technology Investment Limited ("Panjinfenyuan"), being the minority shareholder of Shanghai Harvest Network Technology Co. Ltd. ("Shanghai Harvest"), pursuant to which Harvest Network has conditionally agreed to acquire from Panjinfenyuan the remaining 30% equity interest in Shanghai Harvest for a consideration of HK$41.5 million, which was satisfied as to HK$21.5 million in cash and HK$20 million in issue of convertible bonds. The further acquisition of 30% equity interest in Shanghai Harvest gave rise to a goodwill of approximately HK$28,212,000. Details were disclosed in the Company's circular dated 30 April 2008 and the transaction was approved by an ordinary resolution passed at the special general meeting held on 20 May 2008.

During the year, the Group had further acquired the remaining 10% equity interest in Shanghai Kejin Information Technology Company Limited ("Shanghai Kejin") at a cash consideration of RMB4,000,000 (equivalent to approximately HK$4,545,000). The further acquisition of 10% equity interest in Shanghai Kejin gave rise to a goodwill of approximately HK$4,103,000.

DISPOSAL OF A SUBSIDIARY

On 2 June 2008, the Group disposed its entire equity interest in Shanghai Epay Information Technology Company Limited to an independent third party at a cash consideration of RMB300,000 (equivalent to HK$333,000) and the gain on such disposal was HK$2,510,000.

DEEMED DISPOSAL OF INTEREST IN A SUBSIDIARY

On 2 September 2008, Harvest Network and Dr. Li Zhong Yuan ("Dr. Li"), a director and substantial shareholder of the Company and DLB Harvest LLC ("DLB Harvest") and Jade Capital LLC ("Jade Capital"), independent third parties (collectively referred to as the "Subscribers") entered into a subscription agreement (the "Subscription Agreement") where Harvest Network agreed to issue an aggregate 23,000,000 convertible preference shares (the "Subscription Shares") at US$1 each totaling US$23,000,000 and 4,600,000 warrants (the "Warrants") at total of US$230,000, aggregating to a total consideration of US$23,230,000 (equivalent to approximately HK$181,194,000) to the Subscribers. The Warrants carry the right to subscribe for one convertible preference share at a consideration of US$1 per convertible preference share. Furthermore, the Company has agreed to sell and Harvest Network has agreed to redeem 3,000,000 shares after a share split at a cash consideration of US$1 per share.

Management Discussion and Analysis

Harvest Network has agreed to issue the Subscription Shares and sell to DLB Harvest and Dr. Li, 18,000,000 Subscription Shares and 1,500,000 Subscription Shares respectively at a cash consideration of US$1 per Subscription Share. Furthermore, Dr. Li and Jade Capital, shall subscribe an addition of 1,500,000 Subscription Shares and 2,000,000 Subscription Shares respectively at the consideration of US$1.00 per Subscription Share no later than 31 December 2008.

Pursuant to the Subscription Agreement, Jade Capital and Dr. Li shall also subscribe for 4,000,000 Warrants and 600,000 Warrants at the consideration of US$200,000 and US$30,000 respectively. Each Warrant carries the right to subscribe for one convertible preference share at a subscription price of US$1 each at any time during the exercise period, which commences on 31 March 2012 up until 10 years from the date of issue of the Warrants.

A total of 21,550,000 Subscription Shares had been subscribed as at the balance sheet date. The shares subscribed had not been converted to ordinary shares as at the balance sheet date, however, since the Subscription Shares are non-redeemable, and carry the rights that are substantially equivalent to ordinary shares in addition to the preferential dividend, the subscribed convertible preference shares had been regarded as ordinary shares in Harvest Network for the purpose of preparing the consolidated financial statements of the Group. Accordingly, the issuance of such convertible preference shares by Harvest Network increased its total capital to 39,050,000 shares, which resulted in a deemed disposal of 55.19% of equity interest in Harvest Network by the Group.

As there has not been a change in leadership of Harvest Network, the Group retained control of Harvest Network subsequent to the deemed disposal, and Harvest Network continued to be accounted for as a subsidiary of the Group.

The proceeds from the issuance of the Subscription Shares received amounted to HK$168,090,000 and deemed disposal gave rise to the recognition of a minority interests of approximately HK$84,990,000, release of goodwill of approximately HK$28,107,000 and a gain on deemed disposal of approximately HK$54,993,000.

Details of the transactions were set out in the Company's circular dated 30 September 2008 and note 41 to the financial statements. The transactions were approved by an ordinary resolution passed at the special general meeting held on 15 October 2008.

LIQUIDITY AND CAPITAL RESOURCES

During the year under review, the Group's cash and cash equivalents amounted to approximately HK$156.4 million as at 31 March 2009, where about HK$100 million is in its subsidiary Harvest Network and its use is restricted for Harvest's working capital and other purpose only.

Management Discussion and Analysis

The Group's total borrowings as at 31 March 2009 amounted to HK$154.2 million, all of which as represented by convertible bonds and preference shares.

On this basis, the gearing ratio is calculated at (3.55) (2008: (2.65)), based on an amount of shareholders' equity of HK$(43,383,000) (2008: HK$(57,607,000)).

CONTINGENT LIABILITIES

At 31 March 2009, there were no contingent liabilities of the Group.

CHARGE ON GROUP'S ASSETS

At the balance sheet date, there was no charge on the Group's assets.

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2009, the Group employed 128 (2008: 130) staff members. Total staff cost including Directors' emoluments was HK$12.5 million as compared to HK$16.9 million for the previous year.

The Group continues to review remuneration packages of employees with reference to the level and composition of pay, the general market condition and individual performance. Staff benefits include contributions to the Mandatory Provident Fund Schemes and a discretionary bonus payment which is linked to the profit performance of the Group and individual performance. A share option scheme has also been established for employees of the Group.

FUTURE PROSPECT

While the Group's HoldCo is facing financial distress which has ongoing negative impacts on the Group's operating activities, the Group is making every best effort, and at the same time looking forward to the support and cooperation of our holders of preference shares, ordinary shareholders, CB investors and business partners, to work out a restructuring solution to HoldCo's solvency problem.

From a macro perspective of 20-year time horizon on China's consumer markets by McKinsey, China's one was comparable to Italy's in 2005; will surpass Germany's in 2015 and becomes comparable to Japan's in 2025, becoming one of the largest consumer markets but lag in per-capita consumption, and such mega trend defines world's largest growth opportunity in consumer services. Along with the growth in China's economy and consumption, China's demographic is such that about 25% of its population will be ageing (i.e. at or more than 60 years older) by 2030. Despite the Group's immediate financial distress of its HoldCo and provided the Group's restructuring effort is successful, the Group's business operations and associated business model of head-count based and IT enabled services and products are still on track to embrace the mega trend.

Directors and Senior Management

EXECUTIVE DIRECTORS

Dr. Li Zhong Yuan, aged 47 and Chairman of the Board, has many years of experience in entrepreneurship; principal investment; finance; and academia. Dr. Li held senior positions in cross border structured products/ asset swap/repackaging with major international investment banks, including Bankers Trust, Salomon Brothers, and IBJ Asia and was a Director of Rabobank International before pursuing his own principal investment and entrepreneurial operation in early 2000. Dr. Li received his Ph.D. in Mathematics with best dissertation for the year honor from the University of Michigan and subsequently worked as a C.L.E. Moore Instructor in Mathematics at the MIT. Dr. Li is a member of the International Advisory Board of the UCSD Graduate School of International Relations and Pacific Studies, and also served on boards of a number of public and private companies.

Mr. Lee Jong-Dae, aged 50 and Executive Director, is an experienced international lawyer and investment banker in charge of public and investor relations and legal affairs for the Group. He began his practice in Washington, D.C. where he specialized in international trade matters, and moved to Hong Kong in 1988 to join Coudert Brothers. As a partner of Coudert Brothers, he practiced in the corporate and finance areas focusing on regional cross border transactions, often involving China. He left full time law practice in 1997 to become a senior investment banker for Rabobank International, Citigroup, and certain other financial institutions, with broad responsibilities for complex cross-border transactions. He serves on the Executive Committee of Lee International IP & Law Group, and is an advisor to and director of several corporations. He received his undergraduate degree in economics from Haverford College, Pennsylvania, and later obtained his Doctor of Jurisprudence from Georgetown University, Washington, D.C.

Mr. Zhou Bao Yi, aged 47 and Executive Director, is charge of the Group's finance; accounting and administration for the Group. Mr. Zhou has many years of administrative experience in organizational management and was the Chief Financial Officer; President and Chairman in Northeastern Electric Transmission and Transformation Equipment Group Ltd. – a large state-owned enterprise and a production base of transmission and transformation equipment of the PRC. Mr. Zhou received his Master degree in economics from People's University, PRC; Doctoral degree in Management from Liaoning University and is a certified Senior Accountant in the PRC.

NON-EXECUTIVE DIRECTOR

Mr. Martin Treffer, aged 44 and non-executive director, has extensive experience in investment and financial areas. Mr. Treffer holds a master's degree in Banking and Economics from KV Zurich Business School, Switzerland. He has worked for several major international investment management and financial organizations. He is a founding member and principal partner of 2trade Group Ltd., an independent money management company in Switzerland.

Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Mu Xiangming, aged 53 and independent non-executive director, is an experienced international lawyer. Mr. Mu is currently the managing partner of Shanghai Ming & Yuan Law Firm, a law firm with its principal office in Shanghai and affiliated offices in the U.S. and Japan and was a member of the Shanghai Municipal Government Foreign Economic Trade Committee and a practicing lawyer in a U.S. solicitors firm for four years. He received his L.L.B. degree from Fudan University Law School in Shanghai, China and L.L.M. degree from University of Oregon Law School in the United States.

Dr. Yan Shi Yun, aged 69 and independent non-executive director, is a highly distinguished TCM doctor. Currently, Dr. Yan is the Deputy Chairman of Academic Evaluation Department of State Council Academic Committee, Deputy Chairman of China Medical High Education Committee and Deputy Chairman of Chinese Traditional Medicine High Education Committee. He is also the Chairman of Shanghai TCM Development Expert Panel, and Deputy Chairman of Shanghai Chinese Traditional Medicine Association. He serves as a member of the State Pharmacopoeia Committee, Shanghai Academic Committee, and China Academy of Sciences for Chinese Traditional Medicine. Dr. Yan is an Honorary Professor of TCM Department of The University of Hong Kong and Honorary Visiting Professor of The Chinese University of Hong Kong. Previously he was the President of Shanghai University of TCM and Director of the TCM Institute of Shanghai University of TCM from 1985 to 2005.

Mr. Jiang Bo, aged 51 and independent non-executive director, is an experienced auditor and a CPA with more than 10 years of IPO project experiences with state-owned enterprises in China and overseas. He is a well respected member of the Chinese Institute of Certified Public Accountant (CICPA), Chinese Institute of Certified Public Valuer (CICPV) and the Liaoning Assets Appraisal Specialists Committee. Currently, Mr. Jiang is the General Manager of Liaoning Reanda Certified Public Accountant Firm. Previously, he was the Director of The Economy and Culture Promoting Association of Liaoning Province in China. He serves on the board of Brilliance China Automotive Holding Limited as an independent non-executive director.

SENIOR MANAGEMENT

Ms. Yu, Amy, aged 35 and Chief Operating Officer and Vice President of the Group, is in charge of the Group's daily operating activities and has the overall responsibility for the Group's healthcare service business as General Manager of the Group's subsidiary Beijing Universal Medical Assistance Co., Ltd.. Ms. Yu is a successful entrepreneur who built up her own financial; accounting; operational and managerial consulting business from scratch, now with offices both in Shanghai and Beijing and client coverage throughout China including Inner Mongolia Mengniu Dairy Industry (Group) Co., Ltd. etc. Ms. Yu has extensive experience in service sales and marketing in China and proven track record in business management and is an official financial consultant for China Association for Small and Medium Enterprises. Ms. Yu has a BS in accounting from Shanghai University of Finance and Economy and is a CPA.

Directors and Senior Management

Ms. Zhang, Jane, aged 47 and Vice President, is in charge of the operation of the Group's subsidiary Shanghai Harvest Network Technology Co., Ltd. as its General Manager, and has extensive operating and managerial experiences of 25 years with Chinese financial services industry and wide range of contacts in Chinese government and business community. Previously Ms. Zhang was Assistant President of CITIC Bank, Shanghai. Ms. Zhang has a BA from University of Foreign Trade and Economy and MBA from Macau University of Science and Technology.

Mr. Ren, Jun, aged 43 and Vice President of Diagnostic Products, is in charge of the Group's distribution business in diagnostic devices; equipments and reagents. Mr. Ren possesses more than 14 years of experience in distributing reagents, diagnostic devices and equipments into hospitals throughout China, and was previously a star salesman at Beckman Coulter for the Greater China region for several years before moving into his own entrepreneurial pursue for 5 years. Mr. Ren has a BS in biomedicine from Shanghai University of Science and Technology.

Mr. Yoo, Fred, aged 49 and Vice President of International Operations, is in charge of international operations for Group's healthcare service business, and has more than 15 years of senior management experiences with global operation strategy, operations management and customer services at leading world organizations across insurance, financial services, and telecommunications. Prior to CHC, Mr. Yoo assumed senior management positions at AIG/AIU, SWIFT and Telcordia responsible for global operations and customer services. Mr. Yoo worked at worldwide/regional headquarters in US, Europe and Asia. Mr. Yoo received MBA from Columbia University, M.S in Computer Science from Brown University and B.S. in Mathematics from Harvey Mudd College. He is a certified project manager.

COMPANY SECRETARY

Mr. Tsui Siu Hung Raymond, aged 33, is the secretary of the Company. Mr. Tsui received his Bachelor of Business Administration in Accounting from the Chinese University of Hong Kong. He has over 10 years of experience in finance, consulting, accounting and auditing. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of the Certified Public Accountants.

Report of the Directors

The directors submitting herewith their annual report and the audited financial statements for the year ended 31 March 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Its Subsidiaries are principally engaged in provision of B-to-C consumer services in E-distribution of mobile pre-charge etc., procurement of B-to-B healthcare services and sales of medical devices and consumable.

RESULTS

The results of the Group for the year ended 31 March 2009 are set out in the consolidated income statement on page 29.

PROPERTY, PLANT AND EQUIPMENT

Details of movement in the property, plant and equipment of the Group during the year are set out in note 17 to the financial statements.

CONVERTIBLE BONDS

Details of the convertible bonds are set out in the note 32 to the financial statements.

REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES

Details of the redeemable convertible cumulative preference shares are set out in the note 33 to the financial statements.

SHARE CAPITAL

Details of movement in the Company's share capital during the year are set out in note 35 to the financial statements.

RESERVES

Movements in the reserves of the Company and of the Group during the year are set out in note 38 to the financial statements and consolidated statement of changes in equity on page 32 respectively.

Report of the Directors

DISTRIBUTABLE RESERVES

As at 31 March 2009, the Company had no reserves available for cash distribution and/or distribution in specie, as calculated in accordance with the Companies Act 1981.

DIRECTORS AND THEIR SERVICE CONTRACTS

The directors of the Company ("Directors") during the year and up to the date of this report:

EXECUTIVE DIRECTORS

Dr. Li Zhong Yuan
Mr. Lee Jong Dae
Mr. Zhou Bao Yi

NON-EXECUTIVE DIRECTOR

Mr. Martin Treffer

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Yan Shi Yun
Mr. Mu Xiang Ming
Mr. Jiang Bo

The biographical details of the directors of the Company and senior management of the Group are set out on pages 10 to 12.

In accordance with the Company's Bye-law 87, Mr. Lee Jong Dae, Mr. Mu Xiang Ming and Dr. Yan Shi Yun will retire from the board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Mr. Lee Jong Dae, Mr. Mu Xiang Ming and Dr. Yan Shi Yun have not been appointed for any fixed term but shall be subject to retirement and re-election at the annual general meeting of the Company in accordance with the current Bye-law.

Mr. Lee Jong Dae, all Non-Executive Directors and Independent Non-Executive Directors are not appointed for a specific term.

Report of the Directors

Mr. Zhou Bao Yi has a service contract with the Company for a term of two year commencing from 6 July 2007 being terminable by not less than a six-month notice in writing served by either party. Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' INTERESTS IN CONTRACT OF SIGNIFICANCE

Except for those disclosed in section headed "Connected Transactions" below no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES AND SHARE OPTIONS

As at 31 March 2009, the interests and short positions of the Directors/Chief Executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Part XV of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions in which the directors were deemed or taken to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") to be notified to the Company and the Stock Exchange, were as follows:

Name of director/chief executive	Company/ associated corporation	Capacity	Interests in shares (other than pursuant to equity derivatives)	Interest in underlying shares pursuant to equity derivatives	Total interests in shares/ underlying shares	Percentage of shares and underlying shares to issued shares at 31 March 2009
Dr. Li Zhong Yuan	The Company	Corporate *(note 1)*	19,808,000	–	19,808,000	8.45%
		Personal	4,635,000	3,625,000	8,260,000	3.52%
Mr. Lee Jong Dae	The Company	Personal	3,026,500	3,600,000	6,626,500	2.83%
Mr. Martin Treffer	The Company	Corporate *(note 2)*	1,295,000	–	1,295,000	0.55%
		Personal	250,000	900,000	1,150,000	0.49%
Mr. Mu Xiang Ming	The Company	Personal	–	210,000	210,000	0.09%

Report of the Directors

Notes:

1. These shares included 11,147,000 shares held through Pacific Annex Capital Limited and 8,661,000 shares held through Timenew Limited, both companies are wholly owned by Dr. Li Zhong Yuan.

2. These shares are held by 2Trade Group Limited which is beneficially owned by Mr. Martin Treffer as to 35%.

3. The underlying share of equity derivatives represent the shares issuable upon the exercise of share options granted to the directors/chief executives by the Company.

Save as disclosed above, none of directors of chief executive of the Company had any interest or short position in shares, debentures or underlying shares of the Company and its associated corporations which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or pursuant to section 352 of the SFO, to be recorded in the register referred therein; or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors 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 neither the Directors nor chief executive, nor any of their spouse or children under the age 18, had any right to subscribe for securities of the Company, or exercised any such right.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 March 2009, so far as is known to Directors, those persons other than Directors and chief executive of the Company, who had the interest or short positions in the shares or underlying shares of the Company which have been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under section 336 of the SFO, were as follows:

Name of Substantial Shareholders	Capacity	Interests in shares (other than pursuant to equity derivatives)	Interest sin underlying shares pursuant to equity derivatives	Total interests in shares/ underlying shares	Percentage of shares and underlying shares to issued shares
China Healthcare Services Ltd.	Beneficial owner	17,541,000	–	17,541,000	7.48%
Orient Access International Inc.	Beneficial owner	17,300,000	–	17,300,000	7.38%
OZ Master Fund, Ltd. *(Note 1)*	Beneficial owner	–	47,356,068	47,356,068	20.21%
OZ Asia Master Fund, Ltd. *(Note 2)*	Beneficial owner	–	46,586,758	46,586,758	19.88%
OZ Management, L.L.C. *(Note 3)*	Interest of controlled corporations	–	100,344,827	100,344,827	42.82%
Och-Ziff Holding Corporation *(Note 4)*	Interest of controlled corporations	–	100,344,827	100,344,827	42.82%
Och-Ziff Capital Management Group L.L.C. *(Note 4)*	Interest of controlled corporations	–	100,344,827	100,344,827	42.82%
Mr. Daniel Saul Och *(Note 4)*	Interest of controlled corporations	–	100,344,827	100,344,827	42.82%
Mr. Tian Chengwang *(Note 5)*	Interest of controlled corporations	–	17,241,379	17,241,379	7.36%
Mr. Li Guoming *(Note 5)*	Interest of controlled corporations	–	17,241,379	17,241,379	7.36%

Report of the Directors

Notes:

1. The underlying shares represent preference shares of the Company which entitle the holder thereof to convert for 47,356,068 fully paid Shares at an initial conversion price of HK$1.16 per Share (subject to adjustments).

2. The underlying shares represent preference shares of the Company which entitle the holder thereof to convert for 46,586,758 fully paid Shares at an initial conversion price of HK$1.16 per Share (subject to adjustments).

3. The 100,344,827 underlying shares of the Company held by OZ Management, L.L.C. through its controlled corporations include 47,356,068 underlying shares held by OZ Master Fund, Ltd., 46,586,758 underlying shares held by OZ Asia Master Fund, Ltd., 5,278,139 underlying shares held by OZ Global Special Investments Master Fund, L.P. and 1,123,862 underlying shares held by Fleet Maritime, Inc.

4. OZ Management, L.L.C. was wholly-owned by Och-Ziff Holding Corporation, which in turn was wholly-owned by Och-Ziff Capital Management Group L.L.C.. Mr. Daniel Saul Och owned 79.1% of Och-Ziff Capital Management Group L.L.C.. Therefore, each of Och-Ziff Holding Corporation, Och-Ziff Capital Management Group L.L.C. and Mr. Daniel Saul Och was deemed to be interested in the underlying shares of the Company held by OZ Management, L.L.C.

5. The underlying Shares represent convertible notes of the Company which entitle the holder thereof to convert for 17,241,379 fully paid Shares at an initial conversion price of HK$1.16 per Share (subject to adjustments). Panjinfenyuan Technology Investment Limited was beneficially owned as to 50% by Mr. Tian Chengwang and 50% by Mr. Li Guoming. Therefore, each of Mr. Tian Chengwang and Mr. Li Guoming was deemed to be interested in the underlying Shares held by Panjinfenyuan Technology Investment Limited.

Report of the Directors

SHARE OPTION SCHEMES

There is no change in any terms of the share option schemes of the Company during the year ended 31 March 2009.

The following table discloses details of options outstanding under the Company's share option schemes and movements during the year:

	Option type	Outstanding at 1 April 2008	Granted	Exercised	Lapsed	Outstanding at 31 March 2009
Directors						
Dr. Li Zhong Yuan	A	25,000	–	–	–	25,000
	B	1,500,000	–	–	–	1,500,000
	C	2,100,000	–	–	–	2,100,000
Mr. Lee Jong Dae	B	1,500,000	–	–	–	1,500,000
	C	2,100,000	–	–	–	2,100,000
Mr. Martin Treffer	C	900,000	–	–	–	900,000
Mr. Mu Xiang Ming	C	210,000	–	–	–	210,000
Total Directors		8,335,000	–	–	–	8,335,000
Management and staffs	B	60,000	–	–	–	60,000
	C	270,000	–	–	–	270,000
Total Management and staffs		330,000	–	–	–	330,000
Advisors and consultants	B	9,046,000	–	–	(4,902,000)	4,144,000
	C	8,622,000	–	–	(4,200,000)	4,422,000
	D	99,000	–	–	–	99,000
Total advisors and consultants		17,767,000	–	–	(9,102,000)	8,665,000
Total		26,432,000	–	–	(9,102,000)	17,330,000

Option type	Date of grant	Exercisable Period	Exercise price *HK$*	Closing price immediately before the date of grant *HK$*
A	31 Aug 2001	31/8/2001-15/5/2011	8.60*	12.000*
B	2 Feb 2004	2/2/2004-7/4/2012	3.40	3.800
C	3 Mar 2005	3/3/2005-7/4/2012	2.325	2.325
D	20 June 2005	20/6/2005-7/4/2012	2.330	2.300

* The price has been adjusted for consolidation of the Company's shares.

Report of the Directors

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 118 of the annual report.

PRE-EMPTIVE RIGHTS

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

EVENTS AFTER THE BALANCE SHEET DATE

Details of the events after the balance sheet date of the Group are set out in note 45 to the financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

The largest supplier and the five largest suppliers of the Group accounted for approximately 76% and 85.63%, respectively, of the Group's total purchases during the year.

The largest customer and the five largest customers of the Group accounted for approximately 15.58% and 35.67%, respectively, of the Group's total sales for the year.

None of the Directors or any of its associates or any shareholders (which to the knowledge of the Directors, owns more than 5% of the Company's issued share capital) has any interest in the Group's five largest suppliers or customers.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the year ended 31 March 2009.

Report of the Directors

DISCLOSURE UNDER CHAPTER 13 OF THE LISTING RULES

As at 31 March 2009, the Group had a loan of US$2.7 million (equivalent to HK$21,026,000) made to Multiline Digital Co. Ltd, an independent third party. Full impairment loss for the loan was made in prior years. Details of which are disclosed in note 25 to the financial statements.

CONNECTED TRANSACTIONS

The Company had the following transactions, certain details of which are disclosed in accordance with the requirements of Chapter 14A of the Listing Rules.

(a) On 28 February 2008, Harvest Network Limited (previously known as Success Gateway Investments Limited, "Harvest Network"), a then wholly owned subsidiary of the Company, entered into a provisional sale and purchase agreement with Panjinfenyuan Technology Investment Limited ("Panjinfenyuan") whereby Harvest Network agreed to acquire the remaining 30% equity interest in Shanghai Harvest Network Technology Co. Ltd. ("Shanghai Harvest") from the minority equity holder, Panjinfenyuan, at a consideration of HK$41,500,000. On completion of the acquisition, Shanghai Harvest becomes a wholly owned subsidiary of the Company. Details of the acquisition were set out in the Company's circular dated 30 April 2008 and note 42(a) to the financial statements. The transaction was approved by an ordinary resolution passed at the special general meeting held on 20 May 2008.

(b) On 2 September 2008, Harvest Network and Dr. Li Zhong Yuan ("Dr. Li"), a director and substantial shareholder of the Company and DLB Harvest LLC ("DLB Harvest") and Jade Capital LLC ("Jade Capital"), independent third parties (collectively referred to as the "Subscribers") entered into a subscription agreement (the "Subscription Agreement") where Harvest Network agreed to issue an aggregate 23,000,000 convertible preference shares (the "Subscription Shares") at US$1 each totaling US$23,000,000 and 4,600,000 warrants (the "Warrants") at total of US$230,000, aggregating to a total consideration of US$23,230,000 (equivalent to approximately HK$181,194,000) to the Subscribers. The Warrants carry the right to subscribe for one convertible preference share at a consideration of US$1 per convertible preference share. Furthermore, the Company has agreed to sell and Harvest Network has agreed to redeem 3,000,000 shares after a share split at a cash consideration of US$1 per share.

    Details of the transactions were set out in the Company's circular dated 30 September 2008 and note 41 to the financial statements. The transactions were approved by an ordinary resolution passed at the special general meeting held on 15 October 2008.

Report of the Directors

AUDITORS

SHINEWING (HK) CPA Limited were appointed as auditors of the Company on 20 May 2009 upon the resignation of RSM Nelson Wheeler.

A resolution will be submitted to the annual general meeting of the Company to re-appoint the auditors, Messrs. SHINEWING (HK) CPA Limited.

On behalf of the Board

Zhou Bao Yi
Executive Director

Hong Kong, 27 July 2009

Corporate Governance Report

In the opinion of the board of directors of the Company (the "Board"), the Company has complied with the Code of Corporate Governance Practices (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 March 2009 except for certain deviations disclosed herein.

DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Group and oversees the Group's businesses, strategic decisions and performance. The Board has delegated the day-to-day responsibility to the executive directors and senior management who perform their duties under the leadership of the Board.

The Board currently consists of three executive directors, one non-executive director and three Independent non-executive directors. One of our Independent non-executive directors has relevant financial management expertise required by the Listing Rules.

The Board schedules four regular meetings for the board and also meets as and when required. During the year, the Board held four regular meetings and two additional meetings.

Corporate Governance Report

The members of the Board and the attendance of each member are as follows:

Directors	**Number of attendance**
Executive directors	
Dr. Li Zhong Yuan	6/6
Mr. Lee Jong Dae	4/6
Mr. Zhou Bao Yi	6/6
Non-executive director	
Mr. Martin Treffer	3/6
Independent non-executive directors	
Dr. Yan Shi Yun	3/6
Mr. Mu Xiang Ming	3/6
Mr. Jiang Bo	3/6

The Company has received annual confirmations of independence from independent non-executive directors and the Company considers that all of independent non-executive directors are independent.

Given the nature and business objective of the Company, the Board has a balance of skill and experience appropriate for the requirements of the business of the Company. The list of directors and their respective biographies are set out on pages 10 to 12 of this annual report respectively.

CHAIRMAN AND EXECUTIVE DIRECTORS

Dr. Li Zhong Yuan is the Chairman of the Board and an Executive Director of the Company, and Mr. Lee Jong Dae and Mr. Zhou Bao Yi are Executive Directors ("EDs") of the Company. The Chairman is responsible for providing leadership for the Board of Directors and ensuring that the Board of Directors works effectively. The EDs are responsible for the Group's overall business development, implementation and management.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Under A.4.1 of the Code, the independent non-executive directors should be appointed for a specific term, subject to re-election. Currently, none of the three Independent Non-executive Directors is appointed for a specific term, but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Bye-laws.

Corporate Governance Report

REMUNERATION COMMITTEE

The Company established its Remuneration Committee on 31 March 2007 with specific written terms of reference. The Remuneration Committee is responsible for making recommendations to the Board on, among other things, the Company's policy and structure for the remuneration of all directors and senior management of the Company and is delegated by the Board with the responsibility to determine on behalf of the Board the specific remuneration packages for all executive directors and senior management of the Company.

The Remuneration Committee comprises three independent non-executive directors, namely Mr. Mu Xiang Ming, Dr. Yan Shi Yun and Mr. Jiang Bo. The Remuneration Committee held two meetings during the year.

NOMINATION OF DIRECTORS

The Company has not established a Nomination Committee. The duties and functions of the Nomination Committee recommended in the Code are performed by the Board collectively with no director being involved in fixing his/her own terms of appointment and no Independent Non-executive Director being involved in assessing his/her own independence.

AUDITORS' REMUNERATION

The Company's external auditors are Messrs. SHINEWING (HK) CPA Limited. The audit fees of the Company for the year ended 31 March 2009 and fee of preparation of accountants report in respect of a very substantial disposal transaction were approximate HK$0.4 million and HK$0.5 million respectively.

AUDIT COMMITTEE

The Group's Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed the auditing, internal controls and financial reporting matters including the review of the Group's audited results for the year ended 31 March 2009.

During the year, the Audit Committee held two meetings. Members of the Audit Committee and the attendance of each member are as follows:

Directors	**Number of attendance**
Independent Non-executive Directors	
Dr. Yan Shi Yun	2/2
Mr. Mu Xiang Ming	2/2
Mr. Jiang Bo	2/2

Corporate Governance Report

During the year, the Audit Committee has performed the following duties:

– reviewed with the management and the external auditors the audited financial statements for the year ended 31 March 2009 and the unaudited interim financial statements for the six months ended 30 September 2008, with recommendations to the Board for approval;

– reviewed reports on internal control system covering financial, operational, procedural compliance and risk management functions; and

– reviewed the compliance issues with the regulatory and statutory requirements.

The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and the financial statements for the year ended 31 March 2009.

The Chairman of the Audit Committee, Mr. Jiang Bo, possesses relevant financial management expertise and meets the requirements of rule 3.21 of the Listing Rules.

ACCOUNTABILITY

The directors are responsible for the preparation of the accounts of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give true and fair view of the state of affairs, the results of operations and cash flows of the Group. In preparing the accounts for the six months ended 30 September 2008 and for the year ended 31 March 2009, the directors have adopted suitable accounting policies and applied them consistently. The accounts for the reporting year have been prepared on a going concern basis.

INTERNAL CONTROLS

The Board has, through the Audit Committee, conducted interim and annual review of the effectiveness of the internal control system of the Group covering the financial, operational, procedural compliance and risk management functions. The internal control system is designed to provide reasonable, but not absolute, assurance of no material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievements of the Group's objectives.

Independent Auditor's Report

信永中和 ShineWing

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

TO THE SHAREHOLDERS OF
CHINA HEALTHCARE HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We were engaged to audit the consolidated financial statements of China Healthcare Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 29 to 117, which comprise the consolidated balance sheet as at 31 March 2009, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement 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 disclosure requirements of 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except as described in the basis for disclaimer opinion paragraph, 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. However, because of the matters described in the basis for disclaimer opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Independent Auditor's Report

BASIS FOR DISCLAIMER OF OPINION:

Fundamental uncertainty relating to the going concern basis

As at 31 March 2009, the Group had net current assets of approximately HK$13,114,000 and net assets of approximately HK$55,972,000. However, the Group has bank balances of approximately HK$100,042,000 which are subject to restrictions imposed by the non-redeemable convertible preference shareholders of a subsidiary pursuant to the terms of the subscription agreement signed.

As explained in Note 45 to the consolidated financial statements, subsequent to the balance sheet date, the Group is unable to redeem the convertible bonds of approximately HK$46,535,000 which was due on 18 May 2009 ("18 May Convertible Bonds"). In additions, the Group has convertible bonds ("Convertible Bonds") and redeemable convertible cumulative preference shares ("Preference Shares") totaling approximately HK$15,636,000 and HK$125,970,000, respectively, and such amounts have became repayable on demand. Based on the current financial position of the Group, the Group might have difficulties in repaying the 18 May Convertible Bonds and such failure may trigger the early redemption of the Convertible Bonds and the Preference Shares.

The consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on the successful outcome of the Group's current negotiations with the convertible bonds holders, preference shareholders and prospective investors to secure continuous financial support and obtain new working capital in order for the Group to meet its financial obligations as they fall due and to finance its future working capital and financial requirements. Due to the uncertainty of liabilities arising from such failure to redeem the 18 May Convertible Bonds, the Convertible Bonds and the Preference Shares, we are unable to confirm whether the Group can be operated as a going concern. The consolidated financial statements do not include any adjustments that would result from a failure to redeem the 18 May Convertible Bonds, the Convertible Bonds and the Preference Shares and we consider that appropriate disclosures have been made. However, the uncertainty surrounding the outcome of these negotiations raises significant doubt about the Company's ability to continue as a going concern and we have disclaimed our opinion.

Disclaimer of opinion

Because of the significance of the fundamental uncertainty relating to the going concern basis, we do not express an opinion as to whether the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 March 2009 and of its profits and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirement of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Lo Wa Kei
Practising Certificate Number: P03427

Hong Kong
27 July 2009

Consolidated Income Statement

(For the year ended 31 March 2009)

	Notes	2009 HK$'000	2008 HK$'000
Turnover	9	**2,870,719**	2,867,570
Cost of sales		**(2,844,481)**	(2,841,100)
Gross profit		**26,238**	26,470
Other income	10	**4,334**	4,742
Gain on deemed disposal of a subsidiary	41	**54,993**	–
Fair value loss on financial assets at fair value through profit or loss		**(67)**	(222)
Fair value gain on derivative component of convertible bonds		**8,711**	3,710
Fair value gain (loss) on derivative component of redeemable convertible cumulative preference shares		**23,449**	(5,990)
Gain on repurchase of convertible bonds		**1,470**	2,959
Distribution expenses		**(9,007)**	(7,258)
Administrative expenses		**(35,503)**	(40,645)
Impairment losses for loan receivables		**(18,909)**	–
Impairment losses for prepayment for acquisition of non-current assets		**(7,045)**	–
Impairment losses for trade and other receivables		**(466)**	(407)
Impairment losses for goodwill		**–**	(493)
Other operating expenses		**(49)**	(2,460)
Finance costs	11	**(22,156)**	(12,648)
Gain on disposal of subsidiaries	40	**2,510**	10,333
Profit (loss) before taxation		**28,503**	(21,909)
Taxation	12	**(1,451)**	(2,091)
Profit (loss) for the year	13	**27,052**	(24,000)
Attributable to:			
Equity holders of the Company		**12,275**	(25,152)
Minority interests		**14,777**	1,152
		27,052	(24,000)
Earnings (loss) per share (HK$)	16		
– Basic		**0.05**	(0.11)
– Diluted		**N/A**	N/A

Consolidated Balance Sheet

(At 31 March 2009)

	Notes	2009 HK$'000	2008 HK$'000
Non-current assets			
Property, plant and equipment	17	**10,875**	11,988
Goodwill	18	**31,360**	27,152
Other intangible assets	19	**622**	830
Prepayment for acquisition of non-current assets	20	**–**	6,889
Interest in an associate	21	**1**	1
		42,858	46,860
Current assets			
Inventories	22	**26,490**	14,513
Trade receivables	23	**39,759**	33,563
Prepayments, deposits and other receivables	24	**15,027**	14,147
Loan receivables	25	**–**	27,656
Financial assets at fair value through profit or loss	26	**56**	123
Restricted bank balances	27	**100,042**	-
Bank balances and cash	28	**56,391**	59,579
		237,765	149,581
Current liabilities			
Trade payables	29	**762**	2,180
Other payables and accrued expenses	30	**37,893**	30,450
Amounts due to directors	31	**1,220**	1,972
Derivative component of convertible bonds	32	**5,220**	4,237
Derivative component of redeemable convertible cumulative preference shares	33	**25,110**	48,559
Convertible bonds	32	**53,359**	-
Redeemable convertible cumulative preference shares	33	**100,860**	-
Current tax liabilities		**227**	829
		224,651	88,227

Consolidated Balance Sheet

(At 31 March 2009)

	Notes	2009 HK$'000	2008 HK$'000
Net current assets		**13,114**	61,354
Total assets less current liabilities		**55,972**	108,214
Non-current liabilities			
Convertible bonds	32	**–**	62,206
Redeemable convertible cumulative preference shares	33	**–**	90,607
		–	152,813
NET ASSETS (LIABILITIES)		**55,972**	(44,599)
Capital and reserves			
Share capital	35	**23,437**	23,437
Reserves		**(66,820)**	(81,044)
Equity attributable to equity holders of the Company		**(43,383)**	(57,607)
Minority interests		**99,355**	13,008
TOTAL EQUITY		**55,972**	(44,599)

The consolidated financial statements on pages 29 to 117 were approved and authorised for issue by the board of directors on 27 July 2009 and are signed on its behalf by:

Dr. Li Zhong Yuan
Director

Mr. Zhou Bao Yi
Director

Consolidated Statement of Changes in Equity

(For the year ended 31 March 2009)

	Attributable to equity holders of the Company										
	Share capital HK$'000	Share premium HK$'000 Note a	Contributed surplus HK$'000 Note b	Statutory reserves HK$'000 Note c	Convertible bonds reserve HK$'000 Note d	Foreign currency translation reserve HK$'000 Note e	Share option reserve HK$'000 Note f	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 April 2007	23,437	212,308	57,124	179	3,592	3,038	148	(338,885)	(39,059)	12,729	(26,330)
Exchange differences arising on translation of financial statements of overseas operations and net income recognised directly in equity	–	–	–	–	–	6,947	–	–	6,947	1,127	8,074
Loss for the year and total recognised income and expenses for the year	–	–	–	–	–	–	–	(25,152)	(25,152)	1,152	(24,000)
Transfer to statutory reserves	–	–	–	868	–	–	–	(868)	–	–	–
Capital contribution by minority equity holders	–	–	–	–	–	–	–	–	–	4,462	4,462
Disposal of subsidiaries	–	–	–	–	–	(343)	–	–	(343)	(6,462)	(6,805)
	–	–	–	868	–	(343)	–	(868)	(343)	(2,000)	(2,343)
At 31 March 2008 and 1 April 2008	23,437	212,308	57,124	1,047	3,592	9,642	148	(364,905)	(57,607)	13,008	(44,599)
Exchange differences arising on translation of financial statements of overseas operations and net income recognised directly in equity	–	–	–	–	–	1,785	–	–	1,785	310	2,095
Profit for the year and total recognised income and expense for the year	–	–	–	–	–	–	–	12,275	12,275	14,777	27,052
Acquisition of additional interests in subsidiaries from minority shareholders	–	–	–	–	–	–	–	–	–	(13,730)	(13,730)
Deemed disposal of a subsidiary	–	–	–	–	–	–	–	–	–	84,990	84,990
Disposal of subsidiaries	–	–	–	–	–	164	–	–	164	–	164
	–	–	–	–	–	164	–	–	164	71,260	71,424
At 31 March 2009	23,437	212,308	57,124	1,047	3,592	11,591	148	(352,630)	(43,383)	99,355	55,972

Consolidated Statement of Changes in Equity

(For the year ended 31 March 2009)

Note:

(a) Share premium

Share premium represents premium arising from the issue of shares at a price in excess of their par value per share and is not distributable but may be applied in paying up unissued shares of the Company to be issued to the shareholders of the Company as fully paid bonus shares or in providing for the premiums payable on repurchase of shares.

(b) Contributed surplus

The contributed surplus arose in the previous years represented the net effect of the capital reduction, the share premium cancellation and the elimination of accumulated losses of the Company.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

– it is, or would after the payment be, unable to pay its liabilities as they become due; or

– the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, as at 31 March 2008, the Company did not have any reserve available for distribution to shareholders.

(c) Statutory reserves

Statutory reserves, which are non-distributable, are appropriated from the profit after taxation of the Company's PRC subsidiaries under the applicable laws and regulations in the PRC.

(d) Convertible bonds reserve

The convertible bonds reserve represents the value of the unexercised/repurchased equity component of convertible bonds issued by the Company recognised in accordance with the accounting policy adopted for convertible bonds in Note 3 to the consolidated financial statements.

(e) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in Note 3 to the consolidated financial statements.

(f) Share option reserve

Share option reserve represents the fair value of unexercised share options granted by the Company recognised in accordance with the accounting policy of share-based payments detailed in Note 3 to the consolidated financial statements.

Consolidated Cash Flow Statement

(For the year ended 31 March 2009)

	Notes	2009 HK$'000	2008 HK$'000
OPERATING ACTIVITIES			
Profit (loss) before taxation		**28,503**	(21,909)
Adjustments for:			
Finance costs		**22,156**	12,648
Interest income		**(1,292)**	(2,594)
Amortisation of other intangible assets		**228**	385
Depreciation		**5,706**	5,391
Dividend income		**(2)**	–
Impairment losses for trade and other receivables		**466**	726
Impairment losses for goodwill		**–**	493
Impairment losses for loan receivables		**18,909**	–
Impairment losses for obsolete inventories		**–**	25
Impairment losses for prepayment for acquisition of non-current assets		**7,045**	–
Fair value loss (realised and unrealised) on financial assets at fair value through profit or loss		**67**	222
Gain on repurchase of convertible bonds		**(1,470)**	(2,959)
Fair value gain on derivative component of convertible bonds		**(8,711)**	(3,710)
Fair value (gain) loss on derivative component of redeemable convertible cumulative preference shares		**(23,449)**	5,990
Gain on deemed disposal of a subsidiary	*41*	**(54,993)**	–
Gain on disposal of subsidiaries	*40*	**(2,510)**	(10,333)
Loss on disposal of property, plant and equipment		**46**	2,460
Operating cash flows before movements in working capital		**(9,301)**	(13,165)
(Increase) decrease in inventories		**(12,996)**	7,166
Increase in trade receivables		**(7,392)**	(16,591)
Increase in prepayments, deposits and other receivables		**(1,268)**	(10,035)
(Decrease) increase in trade payables		**(1,390)**	3,080
Increase in other payables and accrued expenses		**6,781**	13,836
Cash used in operations		**(25,566)**	(15,709)
Income tax paid		**(2,061)**	(1,722)
NET CASH USED IN OPERATING ACTIVITIES		**(27,627)**	(17,431)

Consolidated Cash Flow Statement

(For the year ended 31 March 2009)

	Notes	2009 HK$'000	2008 HK$'000
INVESTING ACTIVITIES			
Acquisition of additional interests in subsidiaries	42	**(26,045)**	–
Purchase of property, plant and equipment		**(4,416)**	(8,267)
Advances of loan receivables		**(1,656)**	(7,222)
Disposal of subsidiaries	40	**(185)**	13,946
Repayment of loan receivables		**10,956**	–
Proceeds from disposal of property, plant and equipment		**227**	815
Interest received		**903**	1,866
Dividend received		**2**	–
Prepayment for acquisition of non-current assets		**–**	(1,111)
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(20,214)**	27
FINANCING ACTIVITIES			
Proceeds from issue of convertible preference shares		**168,090**	–
New bank loans raised		**41,364**	–
Repayment of bank loans		**(41,364)**	–
Repurchase of convertible bond		**(21,590)**	(3,198)
Interest paid		**(1,465)**	(1,459)
Decrease in amounts due to directors		**(752)**	(3,339)
Capital contribution by minority equity holders		**–**	4,462
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**144,283**	(3,534)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**96,442**	(20,938)
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES		**412**	6,495
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**59,579**	74,022
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**156,433**	59,579
Analysis of the balances of cash and cash equivalents			
Restricted bank balances		**100,042**	–
Bank balances and cash		**56,391**	59,579
		156,433	59,579

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

1. General Information

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act of Bermuda. The address of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company.

The Company is an investment holding company. The principal activities of its subsidiaries and an associate are set out in Notes 46 and 21 to the consolidated financial statements respectively.

2. Basis of Preparation

In preparing the consolidated financial statements, the directors of the Company have given consideration to the future liquidity of the Group.

As at 31 March 2009, the Group had net current assets of approximately HK$13,114,000 and net assets of approximately HK$55,972,000. However, the Group has bank balances of approximately HK$100,042,000 which are subject to restrictions imposed by the non-redeemable convertible preference share holders of the Company's subsidiary pursuant to the terms of the subscription agreement.

Subsequent to the balance sheet date, the convertible bond of approximately HK$46,535,000; another convertible bond (issued to Panjinfenyuan Technology Investment Limited) of approximately HK$15,636,000 and the redeemable convertible cumulative preference shares of approximately HK$125,970,000 have all become redeemable on demand but the Group is unable to redeem immediately. The Group has been actively in discussions with the holders of the convertible bonds for standstills, and a majority of the holders of the convertible bonds have verbally indicated they would not take immediate legal action against the Company to enforce their rights under the convertible bonds, and these would, de facto, allow the Group to defer the redemption of the convertible bonds, with a view to continue working on a potential restructuring of its capital structure with Och-Ziff Capital Management Group ("Och-Ziff"), the holder of the redeemable convertible cumulative preference shares of the Company. Also, the Group is currently in discussion with certain prospective investors to secure continuous financial support and obtain new working capital from them, and in the mean time, the Group is implementing stringent cost control measures. The directors of the Company are of the opinion that continuous support will be provided by the Group's prospective investors to finance its future working capital and financial requirements provided a restructuring of capital structure with Och-Ziff is successful.

Accordingly, notwithstanding that the Group is unable to redeem the convertible bonds on demand, the directors of the Company are of the opinion that it is still appropriate to prepare the consolidated financial statements for the year ended 31 March 2009 on a going concern basis. Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets. The effect of these adjustments has not been reflected in the consolidated financial statements.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

3. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

Hong Kong Accounting Standard ("HKAS") 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Interpretation ("INT") 12	Service Concession Arrangements
HK(IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 1 (Revised)	Presentation of Financial Statements[3]
HKAS 23 (Revised)	Borrowing Costs[3]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[4]
HKAS 32 & HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[3]
HKAS 39 (Amendment)	Eligible hedged items[4]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[4]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[3]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[3]
HKFRS 3 (Revised)	Business Combinations[4]
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments[3]
HKFRS 8	Operating Segments[3]

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

3. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

HK(IFRIC) – INT 9 and HKAS 39 (Amendments)	Embedded Derivatives[7]
HK(IFRIC)-INT 13	Customer Loyalty Programmes[5]
HK(IFRIC)-INT 15	Agreements for the Construction of Real Estate[3]
HK(IFRIC)-INT 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC)-INT 17	Distribution of Non-cash Assets to Owners[4]
HK(IFRIC)-INT 18	Transfers of Assets from Customers[8]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.

2 Effective for annual periods beginning on or after 1 January 2009, 1 July 2009 and 1 January 2010, as appropriate.

3 Effective for annual periods beginning on or after 1 January 2009.

4 Effective for annual periods beginning on or after 1 July 2009.

5 Effective for annual periods beginning on or after 1 July 2008.

6 Effective for annual periods beginning on or after 1 October 2008.

7 Effective for annual periods ending on or after 30 June 2009.

8 Effective for transfers of assets from customers received on or after 1 July 2009.

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

4. 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 HKFRSs 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 and by the Hong Kong Companies Ordinance.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

4. Significant Accounting Policies *(Continued)*

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and 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 income statement 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 into 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 their fair values at the acquisition date.

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.

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2009)

4. Significant Accounting Policies *(Continued)*

Business combinations *(Continued)*

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 for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of business is presented separately in the consolidated balance sheet.

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 benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there 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 income statement. An impairment loss for goodwill is not reversed in subsequent periods.

Interest in an associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a jointly controlled entity.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

4. Significant Accounting Policies *(Continued)*

Interest in an associate *(Continued)*

The results and assets and liabilities of associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits or losses are eliminated to the extent of the Group's interest in the relevant associate.

Foreign currencies

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 the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. 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 retranslation 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.

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 (i.e. Hong Kong dollars) of the Group at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised as a separate component of equity (the foreign currency translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

4. Significant Accounting Policies *(Continued)*

Property, plant and equipment

Property, plant and equipment (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment (other than construction in progress) over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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 net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Intangible assets

Intangible assets acquired separately

Intangible asset acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

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.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

4. Significant Accounting Policies *(Continued)*

Leasing *(Continued)*

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 expenses over the lease term on a straight-line basis.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

Inventories

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

Revenue recognition

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

Revenues from the sales of goods are recognised when the goods are delivered and the title has passed.

Revenue from E-commerce distribution of mobile pre-charge etc. are recognised on delivery of relevant data to the customers.

Service fee income is recognised when the service is rendered.

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 from investments is recognised when the shareholders' rights to receive payment have been established.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

4. Significant Accounting Policies *(Continued)*

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 income statement because it excludes items of income or 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 balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary difference, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference 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 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.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet 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.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

4. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss ("FVTPL") 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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset 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 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 asset, or, where appropriate, a shorter period.

Interest income is recognised on an effective basis.

Financial assets at fair value through profit or loss

The Group's financial assets at FVTPL are classified into financial assets held-for-trading.

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.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL 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 include any dividend or interest earned on the financial assets.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

4. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, loan receivables, restricted bank balances and bank balances and cash) are carried at amortised cost, using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment loss on financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. 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 assets, the estimated future cash flows of the financial assets have been affected.

For all other financial assets, 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 trade and other receivables and loan receivables, 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 or repayment date, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

4. Significant Accounting Policies *(Continued)*

Impairment loss on financial assets *(Continued)*

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables and loan 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 or other receivable or loan 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.

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

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definition 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 Group's financial liabilities are mainly classified as other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities (including trade payables, other payables and accrued expenses and amounts due to directors) are subsequently measured at amortised cost, using the effective interest method.

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2009)

4. Significant Accounting Policies *(Continued)*

Impairment loss on financial assets *(Continued)*

Financial liabilities and equity *(Continued)*

Convertible bonds containing liability and equity components
Convertible bonds issued by the Group 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 classified as an equity instrument.

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

In subsequent periods, the liability component of the convertible loan 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 bonds reserve until the embedded option is exercised (in which case the balance stated in convertible bonds reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bonds reserve will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible bonds 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 portion and amortised over the period of the convertible bonds using the effective interest method.

Convertible bonds containing liability component and conversion option derivative
Convertible bonds issued by the Group that contain both liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled other than 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 a conversion option derivative. At the date of issue, both the liability and conversion option components are recognised at fair value.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

4. Significant Accounting Policies *(Continued)*

Impairment loss on financial assets *(Continued)*

Financial liabilities and equity *(Continued)*

Convertible bonds containing liability component and conversion option derivative (Continued)

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and conversion option components in proportion to their relative fair values. Transaction costs relating to the conversion option derivative is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

Redeemable convertible cumulative preference shares

Redeemable convertible cumulative preference shares which entitle the holder to convert into equity instruments, other than into a fixed number of equity instruments at a fixed conversion price are regarded as combined instruments consist of a liability and a derivative component. At the date of issue, the fair value of the derivative component is determined using an option pricing model; and this amount is carried as a derivative liability until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption. The derivative component is measured at fair value with gains and losses recognised in the income statement.

Transaction costs are apportioned between the liability and derivative components of the redeemable convertible cumulative preference shares based on the allocation of proceeds to the liability and derivative components when the instruments on initial recognition.

Equity instruments

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

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 receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

4. Significant Accounting Policies *(Continued)*

Impairment loss on financial assets *(Continued)*

Derecognition *(Continued)*

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

Impairment losses on tangible assets and intangible asset other than goodwill (see accounting policy in respect of goodwill above)

At each balance sheet date, 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. In addition, intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that they may be impaired. 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.

Where 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.

Retirement benefits costs

Payments to the defined contribution retirement benefits schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Share-based payments

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 grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

4. Significant Accounting Policies *(Continued)*

Share-based payments *(Continued)*

Equity-settled share-based payment transactions *(Continued)*

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

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

Share options granted to advisors/consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share option reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as “other income”.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in Note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the entity's accounting policies

The following are the critical judgements, apart from those involving estimation (see below), that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Going concern and liquidity

Pursuant to an announcement dated 31 March 2009, the Company disclosed that it was facing liquidity problem and was lack of sufficient cash flow to redeem its convertible shares, this indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern as explained in Notes 2 and 45 respectively. The directors are taking active steps to improve the liquidity position of the Group and details are set out in Note 2. Should the Group be unable to raise new financing or other measures fail to improve the liquidity of the Group and the Group is unable to continue in business as a going concern, adjustments would be needed to reduce the carrying amounts of the assets of the Group to their recoverable amount and, to provide for further liabilities which might arise.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty *(Continued)*

Critical judgements in applying the entity's accounting policies *(Continued)*

Impairment losses for prepayment for acquisition of non-current assets

During the year ended 31 March 2009, the Group recognised full impairment losses for prepayment for acquisition of non-current assets of approximately HK$7,045,000. The directors of the Company have assessed the development of the project carried out by the potential investment which is concluded to be unprofitable. Relevant details are set out in Note 20 to the consolidated financial statements. In making such assessment, the directors of the company exercised judgement, which caused uncertainty in the assessment that would impact the amount of impairment loss recognised in the consolidated income statements.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment losses for loan receivables

During the year ended 31 March 2009, the Group recognised impairment losses for loan receivables of an aggregate amount of approximately HK$18,909,000. The amount represented loan advanced to several independent third parties. The directors of the Company had assessed the recoverability of the loan receivables on an individual basis, and had considered the financial position of the borrowers and their ability to repay. The directors of the Company are of the opinion that the outstanding loan receivables as at 31 March 2009 are irrecoverable, and full impairment had been charged to the consolidated income statement accordingly. Details of impairment assessment on loan receivables are set out in Note 25.

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful lives of various categories of property, plant and equipment according to the industrial experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. When the actual useful lives of property, plant and equipment due to the change of commercial environment are different from their estimated useful lives, such difference will impact the deprecation charges and the amounts of assets written down for future periods.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Impairment losses for property, plant and equipment

The Group evaluates whether items of property, plant and equipment have suffered any impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable, in accordance with the stated accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

Impairment losses for bad and doubtful debts for trade and other receivables

The Group makes impairment loss for bad and doubtful debt for trade and other receivables based on an assessment of the recoverability of trade and other receivables. Impairments are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts for trade and other receivables requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

Impairment losses for obsolete inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items and for price reduction in the market prices. The management estimates the net realizable value for finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

Impairment losses for goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the cash-generating unit to which the goodwill is allocated. Estimating the value-in-use requires the Group to estimate the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 March 2009, the carrying amounts of goodwill was approximately HK$31,360,000 (net of impairment loss of approximately HK$12,173,000). Details of impairment testing on goodwill are set out in Note 18.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Fair value of embedded derivatives

As disclosed in Notes 32 and 33 to the consolidated financial statements, the fair values of the derivative components of convertible bonds and redeemable convertible cumulative preference shares at the dates of issue and the balance sheet dates were determined using option pricing models with reference to the valuations performed by an independent valuer. Application of option pricing models requires the Group to choose an appropriate option model and to estimate the prominent factors affecting the fair value, including but not limited to, the expected life of the derivative components, the expected volatility of the share price of the Company and the potential dilution in the share price of the Company. Where the estimation on these factors is different from those previously estimated, such differences will impact the fair value gain or loss of the derivative components of convertible bonds and redeemable convertible cumulative preference shares in the period in which such determination is made.

6. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes convertible bonds, redeemable convertible cumulative preference shares, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure periodically. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through adjusting the payment of dividends, the new share issues, share buy-back and the issue of new debt or the redemption of existing debt or sell assets to reduce debt.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

7. Financial Instruments

(a) Categories of financial instruments

	2009 *HK$'000*	2008 *HK$'000*
Financial assets		
Loans and receivables		
(including cash and cash equivalents)		
Trade receivables	**39,759**	33,563
Deposits and other receivables	**11,547**	13,830
Loan receivables	**–**	27,656
Bank balances and cash	**56,391**	59,579
Restricted bank balances	**100,042**	–
	207,739	134,628
Financial assets at fair value through profit or loss	**56**	123
	207,795	134,751
Financial liabilities		
Financial liabilities at amortised cost		
Trade payables	**762**	2,180
Other payables and accrued expenses	**37,893**	30,450
Amounts due to directors	**1,220**	1,972
Convertible bonds	**53,359**	62,206
Redeemable convertible cumulative preference shares	**100,860**	90,607
	194,094	187,415
Financial liabilities at fair value through profit or loss		
Derivative component of convertible bonds	**5,220**	4,237
Derivative component of redeemable convertible cumulative preference shares	**25,110**	48,559
	30,330	52,796
	224,424	240,211

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

7. Financial Instruments *(Continued)*

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, deposits and other receivables, loan receivables, restricted bank balances, bank balances and cash, financial assets at fair value through profit or loss, trade payables, other payables and accrued expenses, amounts due to directors, convertible bonds and redeemable convertible cumulative preference shares. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risks (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars ("HK$"), United States dollars and Renminbi ("RMB") and the functional currencies of the principal operating entities of the Group are HK$ and RMB. The Group currently does not have a foreign currency hedging policy in respect of foreign currency debt. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Interest rate risk

The market rate risk arises from convertible bonds and redeemable convertible cumulative preference shares are fixed as disclosed in Notes 32 and 33 respectively and are repayable according to the terms as detailed in the respective notes. The change in the interest rate in the market would have no material effect on the Group's results for both years.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

7. Financial Instruments *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Other price risk

The Group's derivative components of convertible bonds, redeemable convertible cumulative preference shares and financial assets at fair value through profit or loss are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk.

At 31 March 2009, if the share price of the Company and its volatility had increased by 10% (2008: 10%) with all other variables held constant and all the derivative components moved according to the historical correlation with the share price of the Company, the consolidated post-tax profit for the year would decrease by approximately HK$3,033,000 (2008: the consolidated post-tax loss for the year would increase by approximately HK$4,016,000), arising from changes in fair value of the derivative components of convertible bonds and redeemable convertible cumulative preference shares.

If the share price of the Company and its volatility had decreased by 10% (2008: 10%) with all other variables held constant and all the derivative components moved according to the historical correlation with the share price of the Company, the consolidated post-tax profit for the year would increase by approximately HK$2,457,000 (2008: the consolidated post-tax loss for the year would decrease by approximately HK$3,349,000), arising from changes in fair value of derivative components of convertible bonds and redeemable convertible cumulative preference shares.

Credit risk

As at 31 March 2009, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

The Group only trades with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis, the directors review the recoverable amount of each individual trade debt and loan regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

7. Financial Instruments *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk *(Continued)*

Other than the concentration of credit risk on loan receivable, the Group does not have any other significant concentration of credit risk. The loan receivables, which are due from five (2008: five) borrowers are closely monitored by the directors of the Company. The directors of the Group individually assess the recoverability of the loan receivables at least on an annual basis.

The credit risk on bank balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Liquidity risk

In the management of the liquidity risk, the Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

For the year ended 31 March 2009, the Group was unable to redeem its convertible bonds that had matured subsequent to year end on 18 May 2009. In the opinion of the directors, the Group should be able to maintain itself as a going concern in the coming year since the directors are taking active steps to improve the liquidity position of the Group and actively considering raising additional capital financing from potential investors.

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principle cash flows. The maturity analysis of the Group's financial liabilities is as follows:

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

7. Financial Instruments *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31 March 2009 HK$'000
At 31 March 2009					
Trade payables	**762**	**–**	**–**	**762**	**762**
Other payables and accrued expenses	**37,893**	**–**	**–**	**37,893**	**37,893**
Amounts due to directors	**1,220**	**–**	**–**	**1,220**	**1,220**
Convertible bonds	**63,245**	**–**	**–**	**63,245**	**53,359**
Derivative components of convertible bonds	**5,220**	**–**	**–**	**5,220**	**5,220**
Redeemable convertible cumulative preference shares	**117,000**	**–**	**–**	**117,000**	**100,860**
Derivative components of redeemable convertible cumulative preference shares	**25,110**	**–**	**–**	**25,110**	**25,110**
	250,450	**–**	**–**	**250,450**	**224,424**

	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31 March 2008 HK$'000
At 31 March 2008					
Trade payables	2,180	–	–	2,180	2,180
Other payables and accrued expenses	30,450	–	–	30,450	30,450
Amounts due to directors	1,972	–	–	1,972	1,972
Convertible bonds	1,720	45,634	18,529	65,883	62,206
Derivative components of convertible bonds	4,237	–	–	4,237	4,237
Redeemable convertible cumulative preference shares	2,340	2,340	120,096	124,776	90,607
Derivative components of redeemable convertible cumulative preference shares	48,559	–	–	48,559	48,559
	91,458	47,974	138,625	278,057	240,211

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

7. Financial Instruments *(Continued)*

(c) Fair values

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

- The fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and traded in 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 (excluding derivative instruments) is 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; and

- The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values due to their immediate or short term maturities.

8. Segment Information

(a) Primary reporting format – business segments

The Group is currently organised into four operating divisions – (i) sales of medical devices and consumables, (ii) procurement of B-to-B healthcare services, (iii) B-to-C consumer services in E-distribution of mobile pre-charge etc. and (iv) investment holding.

(b) Secondary reporting format – geographical segments

The Group's operations and its operating assets are principally located in Hong Kong and other regions of the People's Republic of China (the "PRC"). Accordingly, no geographical segment information is presented.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

8. Segment Information *(Continued)*

Primary reporting format – business segments

Consolidated income statement

For the year ended 31 March 2009

	Sales of medical devices and consumables HK$'000	Procurement of B-to-B healthcare services HK$'000	B-to-C consumer services in E-distribution of mobile pre-charge etc. HK$'000	Investment holding HK$'000	Consolidated HK$'000
Segment revenue	4,922	7,381	2,858,416	–	2,870,719
Segment results	(1,355)	(1,575)	2,456	–	(474)
Other income	4	100	2,014	924	3,042
Interest income	9	6	162	1,115	1,292
Fair value loss on financial assets at fair value through profit or loss	–	–	–	(67)	(67)
Fair value gain on derivative component of convertible bonds					8,711
Fair value gain on derivative component of redeemable convertible cumulative preference shares					23,449
Gain on repurchase of convertible bonds					1,470
Impairment losses for loan receivables					(18,909)
Impairment losses for prepayment for acquisition of non-current assets					(7,045)
Impairment losses for trade and other receivables					
– allocated	–	–	(404)	–	(404)
– unallocated					(62)
Loss on disposal of property, plant and equipment	–	(36)	(10)	–	(46)
Unallocated corporate expenses					(17,801)
Finance costs					(22,156)
Gain on deemed disposal of a subsidiary					54,993
Gain on disposal of subsidiaries					2,510
Profit before taxation					28,503
Taxation					(1,451)
Profit for the year					27,052

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

8. Segment Information *(Continued)*

Primary reporting format – business segments *(Continued)*

Consolidated income statement *(Continued)*

For the year ended 31 March 2008

	Sales of medical devices and consumables *HK$'000*	Procurement of B-to-B healthcare services *HK$'000*	B-to-C consumer services in E-distribution of mobile pre-charge etc. *HK$'000*	Investment holding *HK$'000*	Consolidated *HK$'000*
Segment revenue	5,884	4,181	2,857,505	–	2,867,570
Segment results	(4,542)	(5,107)	6,934	–	(2,715)
Other income	61	–	1,605	482	2,148
Interest income	38	9	99	2,448	2,594
Fair value loss on financial assets at fair value through profit or loss	–	–	–	(222)	(222)
Fair value gain on derivative component of convertible bonds					3,710
Fair value loss on derivative components of redeemable convertible cumulative preference shares					(5,990)
Gain on repurchase of convertible bonds					2,959
Impairment losses for trade and other receivables					
– allocated	(7)	(449)	(4)	–	(460)
– unallocated					(266)
Impairment losses for goodwill					(493)
Loss on disposal of property, plant and equipment	–	(2,389)	(71)	–	(2,460)
Unallocated corporate expenses					(18,399)
Finance costs					(12,648)
Gain on disposal of subsidiaries					10,333
Loss before taxation					(21,909)
Taxation					(2,091)
Loss for the year					(24,000)

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

8. Segment Information *(Continued)*

Primary reporting format – business segments *(Continued)*

Consolidated balance sheet

At 31 March 2009

	Sales of medical devices and consumables	Procurement of B-to-B healthcare services	B-to-C consumer services in E-distribution of mobile pre-charge etc.	Investment holding	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS					
Segment assets	7,860	16,115	192,377	–	216,352
Unallocated corporate assets					64,271
Consolidated total assets					280,623
LIABILITIES					
Segment liabilities	872	5,484	10,505	–	16,861
Unallocated corporate liabilities					207,790
Consolidated total liabilities					224,651

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

8. Segment Information *(Continued)*

Primary reporting format – business segments *(Continued)*

Consolidated balance sheet *(Continued)*

At 31 March 2008

	Sales of medical devices and consumables	Procurement of B-to-B healthcare services	B-to-C consumer services in E-distribution of mobile pre-charge etc.	Investment holding	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS					
Segment assets	3,001	15,221	74,671	1	92,894
Unallocated corporate assets					103,547
Consolidated total assets					196,441
LIABILITIES					
Segment liabilities	532	3,509	14,065	–	18,106
Unallocated corporate liabilities					222,934
Consolidated total liabilities					241,040

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

8. Segment Information *(Continued)*

Primary reporting format – business segments *(Continued)*

Other information

For the year ended 31 March 2009

	Sales of medical devices and consumables *HK$'000*	Procurement of B-to-B healthcare services *HK$'000*	B-to-C consumer services in E-distribution of mobile pre-charge etc. *HK$'000*	Unallocated corporate assets *HK$'000*	Consolidated *HK$'000*
Capital additions:					
– Property, plant and equipment	1,821	633	1,918	44	4,416
Amortisation of other intangible assets	–	–	228	–	228
Depreciation	369	1,951	2,920	466	5,706

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2009)

8. Segment Information *(Continued)*

Primary reporting format – business segments *(Continued)*

Other information *(Continued)*

For the year ended 31 March 2008

	Sales of medical devices and consumables *HK$'000*	Procurement of B-to-B healthcare services *HK$'000*	B-to-C consumer services in E-distribution of mobile pre-charge etc. *HK$'000*	Unallocated corporate assets *HK$'000*	Consolidated *HK$'000*
Capital additions:					
– Property, plant and equipment	4,596	134	3,182	355	8,267
Impairment losses for obsolete inventories	–	25	–	–	25
Amortisation of other intangible assets	174	–	211	–	385
Depreciation	404	1,886	2,707	394	5,391

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

9. Turnover

An analysis of the Group's turnover which represents sales of medical devices and consumables, B-to-C consumer services in E-distribution of mobile pre-charge etc. and B-to-B healthcare services is as follows:

	2009	2008
	HK$'000	*HK$'000*
Turnover		
Sales of medical devices and consumables	**4,922**	5,884
Revenue from B-to-C consumer services in E-distribution of mobile pre-charge etc.	**2,858,416**	2,857,505
Revenue from of B-to-B healthcare services	**7,381**	4,181
	2,870,719	2,867,570

10. Other Income

	2009	2008
	HK$'000	*HK$'000*
Interest income on bank deposits	**903**	1,458
Other interest income	**389**	1,136
Government grants *(note)*	**1,217**	1,303
Dividend income	**2**	–
Others	**1,823**	845
	4,334	4,742

Note: Government grant represents subsidies to entities engaged in the developing technologies in the PRC. They were determined at the sole discretion of the relevant PRC government.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

11. Finance Costs

	2009 HK$'000	2008 HK$'000
Interest on other bank loans wholly repayable within five years	**118**	–
Dividend payable to convertible preference shares issued by a subsidiary	**6,531**	–
Effective interest expenses on convertible bonds wholly repayable within five years	**5,254**	3,179
Effective interest expenses on liability component of redeemable convertible cumulative preference shares wholly repayable within five years	**10,253**	9,469
	22,156	12,648

12. Taxation

	2009 HK$'000	2008 HK$'000
Current tax – PRC		
Provision for the year	**1,341**	2,079
Underprovision in prior years	**110**	12
	1,451	2,091

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group did not generate any assessable profit arising from Hong Kong for both years.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

12. Taxation *(Continued)*

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law"). On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Under the New Law and Implementation Regulations, the Enterprise Income Tax rate of the Group's subsidiaries in the PRC reduced from 33% to 25% from 1 January 2008 onwards. The relevant tax rates for the Group's subsidiary in the PRC ranged from 18% to 25% for the year ended 31 March 2009 (2008: 18% to 33%).

The PRC EIT rate of the Group's subsidiaries in the PRC was increased from 18% to 25% progressively from 1 January 2008 onwards (2008: 18%, 2009: 20%, 2010: 22%, 2011: 24%, 2012: 25%).

Taxation for the year can be reconciled to the profit (loss) per the consolidated income statement as follows:

	2009 *HK$'000*	2008 *HK$'000*
Profit (loss) before taxation	**28,503**	(21,909)
Tax at the Hong Kong Profits Tax rate of 16.5% (2008: 17.5%)	**4,703**	(3,834)
Tax effect of expenses not deductible for tax purpose	**11,238**	11,313
Tax effect of income not taxable for tax purpose	**(15,511)**	(8,073)
Tax effect of tax losses not recognised	**846**	1,769
Tax effect of other deductible temporary difference not recognised	**35**	295
Utilisation of tax losses not previously recognised	**(88)**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**118**	609
Underprovision in prior years	**110**	12
Taxation for the year	**1,451**	2,091

Details of deferred taxation are set out in Note 34.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

13. Profit (Loss) for the Year

	2009	2008
	HK$'000	*HK$'000*
Profit (loss) for the year had been arrived at after charging (crediting):		
Amortisation of other intangible assets included in administrative expenses	**228**	385
Auditors' remuneration	**900**	1,800
Cost of inventories recognised as expenses *(Note)*	**2,840,615**	2,480,318
Depreciation	**5,706**	5,391
Net exchange losses	**53**	531
Impairment losses for obsolete inventories	**–**	25
Loss on disposal of property, plant and equipment	**46**	2,460
Operating leases payments in respect of land and buildings	**2,713**	5,007
Research and development expenditure	**661**	1,697
Staff costs (including directors' remuneration)		
– Salaries and allowances	**10,804**	15,750
– Retirement benefit scheme contributions	**1,681**	1,123
	12,485	16,873
Rental income	**–**	(40)

Note: As at 31 March 2008, other than the purchase cost of finished goods, raw materials and consumables and other overhead, cost of inventories recognised included staff costs, depreciation and operating lease payments with total of HK$795,000 (2009: Nil).

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

14. Directors' Remuneration and Highest Paid Employees

Directors' remuneration

The remuneration of every director for the year ended 31 March 2009 is set out below:

Name	Directors' fees	Salaries and other benefits	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Dr. Li Zhong Yuan	–	1,791	12	1,803
Mr. Lee Jong Dae	–	1,335	12	1,347
Mr. Zhou Bao Yi	–	439	–	439
Non-executive director				
Mr. Martin Treffer	–	–	–	–
Independent non-executive directors				
Mr. Mu Xiang Ming	116	–	–	116
Dr. Yan Shi Yun	116	–	–	116
Mr. Jiang Bo	108	–	–	108
Total	340	3,565	24	3,929

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

14. Directors' Remuneration and Highest Paid Employees *(Continued)*

Directors' remuneration *(Continued)*

The remuneration of every director for the year ended 31 March 2008 is set out below:

Name	Directors' fees	Salaries and other benefits	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Dr. Li Zhong Yuan	–	2,496	12	2,508
Dr. Ni Aimin (Resigned on 1 November 2007)	–	583	6	589
Mr. Lee Jong Dae	–	2,040	12	2,052
Mr. Deng Ku Hon (Resigned on 6 July 2007)	–	200	–	200
Mr. Zhou Bao Yi (Re-designated on 6 July 2007)	–	227	–	227
Non-executive director				
Mr. Martin Treffer	–	–	–	–
Independent non-executive directors				
Mr. Mu Xiang Ming	100	–	–	100
Dr. Yan Shi Yun	83	–	–	83
Mr. Jiang Bo (Appointed on 31 July 2007)	–	–	–	–
Total	183	5,546	30	5,759

No director waived or agreed to waive any emoluments during both years.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

14. Directors' Remuneration and Highest Paid Employees *(Continued)*

Highest paid employees

The five highest paid employees of the Group included three (2008: four) directors, details of whose emoluments are set out above. The emoluments payable to the remaining two (2008: one) highest paid individuals were as follows:

	2009	2008
	HK$'000	*HK$'000*
Salaries and other benefits	**1,269**	286
Retirement benefit scheme contributions	**–**	12
	1,269	298

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2009	2008
Nil to HK$1,000,000	**2**	1

During the years ended 31 March 2008 and 2009, no emoluments have been paid or payable by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

15. Dividend

No dividend was paid or proposed during the year, nor has any dividend been proposed since the balance sheet date (2008: Nil).

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

16. Earnings (Loss) Per Share

The calculation of the basic earnings (loss) per share attributable to equity holders of the Company is based on the following data:

	2009	2008
	HK$'000	*HK$'000*
Profit (loss) for the purposes of basic earnings (loss) per share (profit (loss) for the year attributable to equity holders of the Company)	**12,275**	(25,152)

	2009	2008
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	**234,367,577**	234,367,577

As the exercise of the Company's outstanding convertible bonds and redeemable convertible cumulative preference shares for both years would be anti-dilutive and there was no dilutive potential ordinary shares for the Company's outstanding options, no diluted profit (loss) per share was presented in both years.

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2009)

17. Property, Plant and Equipment

	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST						
At 1 April 2007	6,780	6,120	9,309	3,581	–	25,790
Exchange realignment	438	674	745	159	–	2,016
Additions	212	2,619	4,845	591	–	8,267
Disposals/write off	(4,088)	(1,085)	(1,552)	(2,152)	–	(8,877)
Reclassification/transfer from inventories	–	(125)	(61)	–	–	(186)
Disposal of subsidiaries	(538)	(1,486)	(4,951)	(408)	–	(7,383)
At 31 March 2008 and 1 April 2008	2,804	6,717	8,335	1,771	–	19,627
Exchange realignment	63	114	248	39	–	464
Additions	1,117	2,241	760	3	295	4,416
Disposals/write off	–	(52)	(91)	(417)	–	(560)
Reclassification/transfer from inventories	–	737	–	–	–	737
Disposal of subsidiaries	(85)	(414)	(222)	–	–	(721)
At 31 March 2009	3,899	9,343	9,030	1,396	295	23,963
ACCUMULATED DEPRECIATION						
At 1 April 2007	2,597	1,966	3,168	2,165	–	9,896
Exchange realignment	208	340	383	58	–	989
Provided for the year	817	1,985	2,165	424	–	5,391
Elimination on disposals/write off	(1,751)	(820)	(1,059)	(1,972)	–	(5,602)
Reclassification	–	82	(82)	–	–	–
Disposal of subsidiaries	(538)	(1,134)	(954)	(409)	–	(3,035)
At 31 March 2008 and 1 April 2008	1,333	2,419	3,621	266	–	7,639
Exchange realignment	32	79	80	5	–	196
Provided for the year	988	2,497	1,865	356	–	5,706
Elimination on disposals/write off	–	(10)	(53)	(224)	–	(287)
Disposal of subsidiaries	–	(96)	(70)	–	–	(166)
At 31 March 2009	2,353	4,889	5,443	403	–	13,088
CARRYING AMOUNTS						
At 31 March 2009	1,546	4,454	3,587	993	295	10,875
At 31 March 2008	1,471	4,298	4,714	1,505	–	11,988

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

17. Property, Plant and Equipment *(Continued)*

Depreciation on property, plant and equipment is provided to write-off their cost over the estimated useful lives on a straight-line basis and after taking into account their estimated residual value, at the following rates:

Leasehold improvements	20%
Plant and machinery	20%
Furniture, fixtures and equipment	20%
Motor vehicles	30%

18. Goodwill

	HK$'000
COST	
At 1 April 2007	56,951
Disposal of subsidiaries	(17,133)
At 31 March 2008 and 1 April 2008	39,818
Arising on acquisition of additional interests in subsidiaries from minority shareholders	32,315
Disposal of a subsidiary	(493)
Released on deemed disposal of a subsidiary	(28,107)
At 31 March 2009	43,533
ACCUMULATED IMPAIRMENT	
At 1 April 2007	26,074
Eliminated on disposal of subsidiaries	(13,901)
Impairment loss recognised during the year	493
At 31 March 2008 and 1 April 2008	12,666
Eliminated on disposal of a subsidiary	(493)
At 31 March 2009	12,173
CARRYING AMOUNTS	
At 31 March 2009	31,360
At 31 March 2008	27,152

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2009)

18. Goodwill *(Continued)*

During the year ended 31 March 2009, the Group further acquired the remaining 30% equity interests in Shanghai Harvest Network Technology Co. Limited ("Shanghai Harvest") and the remaining 10% equity interests in Shanghai Kejin Information Technology Company Limited ("Shanghai Kejin") and goodwill of approximately HK$28,212,000 and HK$4,103,000, respectively, was recognised upon acquisition. Details are set out in Note 42.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units ("CGUs") that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated as follows:

	2009 *HK$'000*	2008 *HK$'000*
Procurement of B-to-B healthcare services:		
Beijing Universal Medical Assistance Co., Ltd.	**8,540**	8,540
B-to-C consumer services in E-distribution of mobile pre-charge etc.:		
Shanghai Harvest Network Technology Co. Limited and its subsidiary ("Harvest Group")	**22,820**	18,612
	31,360	27,152

The recoverable amounts of the CGUs are determined from value-in-use calculations. The key assumptions for the value-in-use calculations are those regarding the discount rates, growth rates and budgeted gross margin and turnover during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and turnover are based on past practices and expectations on market development.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

18. Goodwill *(Continued)*

Procurement of B-to-B healthcare services

The recoverable amount for Beijing Universal Medical Assistance Co., Ltd. were determined based on their value-in-use calculations, covering a five-year budget plan, followed by an extrapolation of expected cash flows at the average growth rates of 3% (2008: 2.5%) and discount rate of 12.6% (2008: 11.5%) estimated by the directors of the Company. The management determined the budgeted growth rate based on past performance and its expectation on the relevant industry growth forecasts and does not exceed the average long term growth rate for the relevant industry. The directors of the Company are of the opinion with reference to the valuation report performed by Norton Appraisals Limited, independent valuer which had been prepared based on the cash flow forecast prepared by management, that the recoverable amount of this CGU exceeds it carrying amount in the consolidated balance sheet and no impairment loss of goodwill is necessary.

B-to-C consumer services in E-distribution of mobile pre-charge etc.

The recoverable amounts for Shanghai Harvest and Shanghai Kejin were determined based on their value-in-use calculations, covering a five-year budget plan, followed by an extrapolation of expected cash flows at the average growth rates of 3% and 10% respectively (2008: 2.5% for Shanghai Harvest) and discount rate of 12.6% (2008: 11%) estimated by the directors of the Company. The management determined the budgeted growth rate based on past performance and its expectation on the relevant industry growth forecasts and does not exceed the average long term growth rate for the relevant industry. The directors of the Company are of the opinion with reference to the valuation report performed by Norton Appraisals Limited, independent valuer which had been prepared based on the cash flow forecast prepared by management, that the recoverable amount of this CGU exceeds it carrying amount in the consolidated balance sheet and no impairment loss of goodwill is necessary.

For the year ended 31 March 2008, as Shanghai Epay recorded an operating loss, the directors evaluated the business activity and future performance of Shanghai Epay and considered that the goodwill arising from the acquisition of Shanghai Epay was fully impaired. Accordingly impairment loss of goodwill amounted to HK$493,000 attributable to the Group's equity interests in Shanghai Epay was recognised in the consolidated income statement.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

19. Other Intangible Assets

	Patents	Computer software	Total
	HK$'000	*HK$'000*	*HK$'000*
COST			
At 1 April 2007	1,515	1,093	2,608
Exchange realignment	115	109	224
Disposal of subsidiaries	(1,630)	–	(1,630)
At 31 March 2008 and 1 April 2008	–	1,202	1,202
Exchange realignment	–	27	27
At 31 March 2009	–	1,229	1,229
AMORTISATION			
At 1 April 2007	556	135	691
Exchange realignment	49	26	75
Disposal of subsidiaries	(779)	–	(779)
Charge for the year	174	211	385
At 31 March 2008 and 1 April 2008	–	372	372
Exchange realignment	–	7	7
Charge for the year	–	228	228
At 31 March 2009	–	607	607
CARRYING AMOUNTS			
At 31 March 2009	–	622	622
At 31 March 2008	–	830	830

Patents and computer software are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives of five to ten years.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

20. Prepayment for Acquisition of Non-current Assets

	2009	2008
	HK$'000	*HK$'000*
Cost	**6,889**	6,889
Exchange realignment	**156**	–
Less: impairment loss	**(7,045)**	–
	–	6,889

During the year, the Group recognised an impairment loss for prepayment for acquisition of non-current assets of approximately RMB6,200,000 (equivalent to approximately HK$7,045,000). The amount represented the payment for the acquisition of equity interests in 北京維深信業科技發展有限公司 ("北京維深"), a company established in the PRC engaged development of e-healthcare service network in women and children.

During the year ended 31 March 2009, the directors of the Company have followed and assessed the development of 北京維深 during further negotiations with the shareholders of 北京維深 and having carefully considered the business model; revenue generating expectation; cash burn rate and available cash of 北京維深 and overall adverse market conditions for 北京維深 to secure further financing, the directors of the Company considered the potential investment will not be recoverable and full impairment of approximately HK$7,045,000 had been charged to the consolidated income statement for the year ended 31 March 2009 (2008: Nil).

21. Interest in an Associate

	The Group	
	2009	2008
	HK$'000	*HK$'000*
Unlisted investments:		
Cost	**–**	–
Share of post-acquisition profits	**1**	1
	1	1
Amount due from an associate	**151**	151
	152	152
Less: Impairment loss for amount due from an associate	**(151)**	(151)
	1	1

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

21. Interest in an Associate *(Continued)*

Particulars of the Group's associate as at 31 March 2009 are as follows:

Name of company	Place of incorporation/ registration and operations	Issued and paid-up capital	Class of shares held	Percentage of interest in ownership			Principal activities
				Group's effective interest	Held by the Company	Held by a subsidiary	
Moment Touch Management Limited	British Virgin Islands/ Hong Kong	US$100	Ordinary	40%	–	40%	Marketing/sales of cosmetic products

Summarised financial information in respect of the Group's associate is set out below:

	2009 *HK$'000*	2008 *HK$'000*
Total assets	**1**	1
Total liabilities	**(180)**	(170)
Net liabilities	**(179)**	(169)
Revenue	**–**	–
Loss for the year	**(8)**	(8)

The Group has not recognised its share of loss for the year amounting to HK$3,000 (2008: HK$3,000) for Moment Touch Management Limited. The accumulated losses not recognised were HK$72,000 (2008: HK$69,000).

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

22. Inventories

	2009	2008
	HK$'000	*HK$'000*
Raw materials	**290**	142
Finished goods	**26,200**	14,371
	26,490	14,513

23. Trade Receivables

The normal credit period granted to customers of the E-distribution of mobile pre-charge etc. is 3 to 7 days. The credit terms granted to other customers generally ranged from 10 to 90 days. An ageing analysis of the trade receivables, based on invoice date, and net of impairment, is as follows:

	2009	2008
	HK$'000	*HK$'000*
Within 30 days	**36,161**	32,953
31 to 60 days	**271**	254
61 to 90 days	**620**	347
90 to 120 days	**1,979**	–
Over 120 days	**728**	9
Total	**39,759**	33,563

The carrying amounts of the Group's trade receivables are denominated in RMB.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

23. Trade Receivables *(Continued)*

As at 31 March 2009, impairment was made for estimated irrecoverable trade receivables of approximately HK$8,865,000 (2008: HK$8,295,000). The movement in the impairment for estimated irrecoverable trade receivables during the year is as follows:

	2009 *HK$'000*	2008 *HK$'000*
At beginning of the year	**8,295**	8,742
Exchange realignment	**166**	732
Impairment loss recognised	**404**	460
Disposal of subsidiaries	**–**	(1,639)
At the end of the year	**8,865**	8,295

Included in the impairment are individually impaired trade receivables with an aggregate balance of approximately HK$8,865,000 (2008: HK$8,295,000). The individually impaired receivables related to customers who were in financial difficulties. The Group does not hold any collateral over these balances.

As of 31 March 2009, trade receivables of approximately HK$2,294,000 (2008: HK$184,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2009 *HK$'000*	2008 *HK$'000*
Within 90 days	**784**	175
90 to 120 days	**1,264**	7
Over 120 days	**246**	2
	2,294	184

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

24. Prepayments, Deposits and Other Receivables

	2009	2008
	HK$'000	*HK$'000*
Other receivables	**18,694**	18,059
Less: impairment	**(7,964)**	(7,902)
Prepayments and deposits	**4,297**	3,990
	15,027	14,147

At each of the balance sheet date, the Group's other receivables were individually determined to be impaired. The individually impaired receivables are recognised based on the credit history, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment loss was recognised. The movement in the impairment of other receivable is as follows:

	2009	2008
	HK$'000	*HK$'000*
At beginning of the year	**7,902**	7,636
Impairment losses recognised	**62**	266
At the end of the year	**7,964**	7,902

25. Loan Receivables

	2009	2008
	HK$'000	*HK$'000*
Secured term loans	**27,051**	37,618
Unsecured term loans	**12,884**	11,064
	39,935	48,682
Less: Impairment losses	**(39,935)**	(21,026)
	–	27,656

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

25. Loan Receivables *(Continued)*

The carrying amounts of the Group's loan receivables are denominated in the following currencies:

	2009	2008
	HK$'000	*HK$'000*
HK$	–	20,434
RMB	–	7,222
	–	27,656

The movement in the impairment loss for loan receivables is as follows:

	2009	2008
	HK$'000	*HK$'000*
At beginning of the year	**21,026**	21,026
Impairment loss recongnised	**18,909**	–
At the end of the year	**39,935**	21,026

Note:

Secured term loans

Included in loan receivables are secured term loans of approximately HK$21,026,000 represented a loan receivable with principal amount of US$2,700,000, secured by, as collateral, a pledge of the 100% equity interest in Hamilton Apex Technology Ventures, L.P. owned by the borrower. Full impairment on the loan receivable had been made in previous years.

Also included in loan receivables are secured term loans of approximately HK$6,000,000 secured by, as collateral, a pledge of the 80% equity interest in Smart Business Enterprises Limited owned by the borrower. The loans were originally due for repayment in 2005.

Despite of repeated demands made by the Group, the borrower failed to make repayment.

At 31 March 2009, the directors of the Company are of the opinion that the recoverability of the outstanding balances is uncertain due to the prolonged aging and without any settlement for years. Accordingly, impairment loss of HK$6,000,000 has been recognised during the year.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

25. Loan Receivables *(Continued)*

Note: (Continued)

Unsecured term loans

During the year ended 31 March 2009, the Group had assessed the recoverability of loan receivables individually for impairment. Despite repeated demands made by the Group, the Group was unable to receive any settlements for the outstanding loan receivables. In the opinion of the directors, the loan receivables are irrecoverable, and full impairment on the outstanding balance of approximately HK$12,884,000 had been made accordingly.

The loans were made to independent third parties and were originally repayable within one year; however, due to default in payment, the loan receivables had become repayable on demand. The interest rates received were as follows:

	2009	2008
	HK$'000	*HK$'000*
Secured term loans	**5.5% – 5.75%**	5.5% – 5.75%
Unsecured term loans	**5% – 8%**	5% – 8%

26. Financial Assets at Fair Value Through Profit or Loss

	2009	2008
	HK$'000	*HK$'000*
Equity securities, at fair value		
Listed in Hong Kong	**40**	48
Listed outside Hong Kong	**16**	75
	56	123

The carrying amounts of the above financial assets are classified as held for trading.

The investments included above represent investments in listed equity securities that offer the Group the opportunity for return through fair value gains. The fair values of listed securities are based on quoted market prices.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

27. Restricted Bank Balances

The restricted bank balances as at 31 March 2009 represented the balances of the proceeds from the issuance of convertible preference shares by Harvest Network Limited ("Harvest Network"), a then wholly-owned subsidiary of the Company. Pursuant to the subscription agreement signed by Harvest Network and subscribers the usage of the proceeds raised from the issuance of the convertible preference shares had been specified for the usage in Harvest Network's redemption of its own shares from its immediate holding company, and as the general working capital and the funding for the expansion of its operations and business in products and geography in the B-to-C consumer services in E-distribution of mobile pre-charge etc..

The amount represents bank balances that carry interest at range from 0.6% to 1.35%.

28. Bank Balances and Cash

The carrying amounts of the Group's bank balances and cash are denominated in the following currencies:

	2009	2008
	HK$'000	*HK$'000*
RMB	25,076	46,905
United States dollars	29,931	9,645
Hong Kong dollars	1,384	3,029
	56,391	59,579

Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

Bank balances carry interest at market rates which ranges from 0.60% to 1.35% (2008: 2.45% to 5.22%) per annum.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

29. Trade Payables

An ageing analysis of trade payables, based on the date of receipt of goods is as follows:

	2009	2008
	HK$'000	*HK$'000*
Within 30 days	**762**	1,207
31 to 60 days	**–**	9
61 to 90 days	**–**	–
90 to 120 days	**–**	1
Over 120 days	**–**	963
Total	**762**	2,180

The carrying amounts of the Group's trade payables are denominated in RMB.

30. Other Payables and Accrued Expenses

	2009	2008
	HK$'000	*HK$'000*
Dividend payable	**6,531**	–
Deposit received	**6,012**	3,515
Receipt in advance	**7,696**	7,481
Others	**17,654**	19,454
	37,893	30,450

Dividend payable to convertible preference shares holders of a subsidiary represented the cumulative dividend calculated at 8% per annum on the issue price of the convertible preference shares issued by Harvest Network, a then wholly-owned subsidiary of the Company, to its convertible preference share holders.

Deposits received represented deposits for the point-of-sale ("POS") terminals placed at the network of retail outlets for the facilitation of the Group's B-to-C consumer services in E-distribution of mobile pre-charge business.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

31. Amounts Due to Directors

The amounts due to directors are unsecured, non-interest bearing and repayable on demand.

32. Convertible Bonds

	2009 *HK$'000*	2008 *HK$'000*
Liability component of convertible bonds		
Convertible bonds issued with equity component *(note a)*	**42,943**	44,565
Convertible bonds issued with derivative component *(note b)*	**10,416**	17,641
	53,359	62,206
Derivative component of convertible bonds *(note b)*	**5,220**	4,237

The maturity of the liability component of the convertible bonds is as follows:

	2009 *HK$'000*	2008 *HK$'000*
Within one year or on demand	**53,359**	–
In the second to fifth years inclusive	**–**	62,206
	53,359	62,206

Notes:

(a) *Convertible bonds issued with equity component*

On 19 May 2005, the Company issued convertible bonds with a nominal value of US$6,600,000 due on 18 May 2009 ("CB1"). CB1 carries interest at 3% per annum payable semi-annually in arrears with the first interest payment due on 18 November 2005 and the last interest payment due on 18 May 2009. CB1 entitles the holder to convert the bonds into new ordinary shares of the Company at a conversion price, subject to adjustment, of HK$2.525 per share during the period from 19 May 2005 to 18 May 2009. In addition, if CB1 remain outstanding on the maturity date, the Company will be required to redeem the principal of CB1 at 100% of their face value.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

32. Convertible Bonds *(Continued)*

Notes: (Continued)

(a) Convertible bonds issued with equity component (Continued)

The net proceeds received for the issue of CB1 have been split between the liability element and an equity component. The movement of the liability element is as follows:

	2009	2008
	HK$'000	*HK$'000*
Carrying amount at beginning of the year	**44,565**	49,904
Interest charged for the year	**2,193**	2,277
Interest paid for the year	**(1,347)**	(1,459)
Repurchase during the year	**(2,468)**	(6,157)
Carrying amount at the end of the year	**42,943**	44,565

The interest charged on CB1 for the year is calculated by applying an effective interest rate of 5.135% to the liability component.

In August 2008, the Group agreed to repurchase CB1 with principal amount of approximately US$320,000 (equivalent to approximately HK$2,468,000) at a consideration of approximately US$128,000 (equivalent to approximately HK$998,400) and the settlement subsequently took place on 29 October 2008.

On 21 June 2007, the Group repurchased CB1 with principal amount of approximately US$820,000 (equivalent to approximately HK$6,157,000) at a consideration of approximately US$410,000 (equivalent to approximately HK$3,198,000).

Subsequent to year end on 18 May 2009, CB1 had matured, however, due to liquidity problem, the Group was unable to redeem CB1 at maturity. The Group's default in the redemption on the convertible bonds may also trigger the Company's potential early redemption obligation of the redeemable convertible preference shares which would otherwise mature on 27 July 2011.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

32. Convertible Bonds *(Continued)*

Notes: (Continued)

(b) *Convertible bonds issued with derivative component*

	2009 HK$'000	2008 HK$'000
Liability component		
Convertible bonds due on 6 August 2010 *(note i)*	–	17,641
Convertible bonds due on 1 June 2011 *(note ii)*	**10,416**	–
	10,416	17,641

	2009 HK$'000	2008 HK$'000
Derivative component		
Convertible bonds due on 6 August 2010 *(note i)*	–	4,237
Convertible bonds due on 1 June 2011 *(note ii)*	**5,220**	–
	5,220	4,237

Note (i)

On 7 August 2006, the Company issued convertible bonds with a nominal value of HK$18,400,000 due on 6 August 2010 ("CB2"). CB2 carries interests at 2% per annum payable semi-annually in arrears with the first interest payment due on 6 February 2007 and the last interest payment due on 6 August 2010. During the period from 7 August 2006 to 6 August 2010, CB2 entitles the holder to convert the bonds into new ordinary shares of the Company at the lower of the following:

(i) the initial conversion price, subject to adjustment, of HK$1.16, but in any case the adjustment shall be no lower than HK$0.30; and

(ii) the volume-weighted average price of the ordinary shares of the Company, subject to adjustment, for the twenty trading days ending on the day immediately preceding the date of a relevant conversion notice.

In addition, if CB2 remain outstanding on the maturity date or the volume-weighted average price of the ordinary shares of the Company for the twenty trading days (the "Share Price") is ever at or below HK$0.30, the Company will be required to redeem the principal of CB2 at 100% of their face value on the demand by the holder(s) of the CB2. Summaries are disclosed in the Company's circular dated 16 June 2006 and details are contained in the Instrument of the CB2 issued by the Company on 7 August 2006.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

32. Convertible Bonds *(Continued)*

Notes: (Continued)

(b) Convertible bonds issued with derivative component (Continued)

Note (i) (Continued)

The fair value of the derivative component, representing the embedded options entitled to the holders of CB2, was estimated at the issuance and each balance sheet date using an option pricing model and the change in fair value of that component is recognised in the income statement.

The movement of the liability and derivative components of CB2 during the year is set out below:

	2009 *HK$'000*	2008 *HK$'000*
Liability component		
At beginning of the year/date of issue	**17,641**	16,739
Interest charged for the year	**462**	902
Repurchase during the year	**(18,103)**	–
At end of the year	**–**	17,641

	2009 *HK$'000*	2008 *HK$'000*
Derivative component		
At beginning of the year/date of issue	**4,237**	7,947
Fair value gain	**(1,748)**	(3,710)
Repurchase during the year	**(2,489)**	–
At end of the year	**–**	4,237

The interest charged on CB2 for the year is calculated by applying an effective interest rate of 5.479% to the liability component.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

32. Convertible Bonds *(Continued)*

Notes: (Continued)

(b) Convertible bonds issued with derivative component (Continued)

Note (i) (Continued)

The derivative component of CB2 was revalued at 31 March 2008 based on valuations by Savills Valuation and Professional Services Limited, independent valuers, determined using option pricing models. The significant inputs to the models were as follows:

	2008
Share price of underlying shares	HK$0.40
Exercise price	HK$1.16
Expected volatility	81.0%
Expected life	2.35 years
Risk-free rate	1.3%
Expected dividend yield	Nil

Since the Share Price triggered the floor threshold HK$0.30, on 31 October 2008, the Group redeemed the entire CB2 at a consideration of approximately HK$20,592,000 on the demand by the holder of the CB2.

Note (ii)

On 1 June 2008, the Company issued convertible bonds with a nominal value of HK$20,000,000 due on 1 June 2011 ("CB3"). CB3 carries interests at 2% per annum payable semi-annually in arrears with the first interest payment due on 1 December 2008 and the last interest payment due on 1 June 2011. During the period from 1 June 2008 to 1 June 2011, CB3 entitles the holder to convert the bonds into new ordinary shares of the Company at the lower of the following:

(i) the initial conversion price, subject to adjustment, of HK$1.16; and

(ii) the volume-weighted average price of the ordinary shares of the Company, subject to adjustment, for the twenty trading days ending on the day immediately preceding the date of a relevant conversion notice.

In addition, if CB3 remain outstanding on the maturity date or the volume-weighted average price of the ordinary shares of the Company for the twenty trading days (the "Share Price") is ever at or below HK$0.30 (the "Threshold"), the Company will be required to redeem the principal of CB3 at 100% of their face value on the demand of the holder(s) of the CB3. Summaries are disclosed in the Company's circular dated 30 April 2008 and details are contained in the Instrument of the CB3 issued by the Company on 1 June 2008. Since the Share Price triggered the Threshold HK$0.30, the holder of the CB3 has the right to ask the Company to redeem the CB3 on demand, and relevant disclosure was made in the Company's announcement dated 31 March 2009.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

32. Convertible Bonds *(Continued)*

Notes: (Continued)

(b) Convertible bonds issued with derivative component (Continued)

Note (ii) (Continued)

The fair value of the derivative component, representing the embedded options entitled to the holders of CB3, was estimated at the issuance and each balance sheet date using an option pricing model and the change in fair value of that component is recognised in the income statement.

The net proceeds received from the issue of CB3 have been split between the liability element and derivative component as follows:

	HK$'000
Nominal value of CB3 issued	20,000
Derivative component	(12,183)
Liability component at date of issue	7,817
Interest charged for the year	2,599
Liability component at end of the year	10,416

	HK$'000
Derivative component at date of issue	12,183
Fair value gain	(6,963)
Derivative component at end of the year	5,220

The interest charged on CB3 for the year is calculated by applying an effective interest rate of 41.025% to the liability component.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

32. Convertible Bonds *(Continued)*

Notes: (Continued)

(b) *Convertible bonds issued with derivative component (Continued)*

Note (ii) (Continued)

The derivative component of CB3 was revalued at 31 March 2009 and at the date of issue on 1 June 2008 based on valuations by Norton Appraisals Limited and Savills Valuation and Professional Services Limited, independent valuers, respectively, determined using option pricing models. The significant inputs to the models were as follows:

	31 March 2009	1 June 2008
Share price of underlying shares	**HK$0.20**	HK$0.79
Exercise price	**HK$1.16**	HK$1.16
Expected volatility	**112.41%**	87.0%
Expected life	**2.17 years**	3 years
Risk-free rate	**1.40%**	2.45%
Expected dividend yield	**Nil**	Nil

During the year ended 31 March 2009, the Share Price fell below HK$0.30 and triggered the Threshold. Since the holder of the CB3 has the right to ask the Company to redeem the CB3 on demand. Accordingly, CB3 had been reclassified to current liabilities as at 31 March 2009.

33. Redeemable Convertible Cumulative Preference Shares

On 28 July 2006, the Company issued 15,000 redeemable convertible cumulative preference shares of US$0.01 each ("PS") for a total cash consideration of US$15,000,000 (equivalent to approximately HK$117,000,000). The PS carries dividend at 2% per annum, subject to adjustment to 5% on certain special events payable semi-annually in arrears. The maturity date of the PS is falling on the fifth anniversary of 28 July 2006 or such later date, not being later than the seventh anniversary of 28 July 2006, as may be agreed in writing between the Company and the holders of the PS. At any time from 28 July 2006 to maturity date, each PS entitles the holder to convert the preference shares into new ordinary shares of the Company at the lower of the following:

(a) the initial conversion price, subject to adjustment, of HK$1.16; and

(b) the volume-weighted average price of the ordinary shares of the Company, subject to adjustment, for the twenty trading days ending on the day immediately preceding the date of a relevant conversion notice.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

33. Redeemable Convertible Cumulative Preference Shares *(Continued)*

In addition, the holder of the PS shall have the right at any time to require the Company to redeem all or any of the then outstanding PS held by it at the early redemption amount of such number of PS so redeemed, provided that the holder of the PS may not exercise such right prior to the maturity date if and for so long as any of certain special events shall not have occurred. Details are disclosed in the Company's circular dated 16 June 2006.

Special events included:

(i) any consolidation, amalgamation or merger of the Company with any other corporation which results in the Company ceasing to exist as an independent legal entity or any sale of all or substantially all of the assets of the Company or any reorganisation or any other transaction where there is or which will result in a change in control (as defined in the Takeovers Code) of the control of the Company;

(ii) material default by the Company or any of its subsidiaries in the performance, observance or fulfilment of any of the obligations, covenants or conditions contained in any material agreement or instrument to which any of them is a party and, if such default is capable of being remedied, fails to remedy such default within 10 days of being required in writing to do so by any of the holder to the preference shares ("Preference Shareholders");

(iii) the persons who are Directors on the issue date or persons appointed to act as Directors in their stead (the "Replacement Directors"), with the approval of all of the other persons who are acting as Directors at the time of appointment of the Replacement Directors, cease to represent a majority in number of the persons acting as Directors at the relevant time;

(iv) the acceleration of the maturity of any other present or future indebtedness of the Company or any of its subsidiaries exceeding US$1,500,000 in aggregate principal amount outstanding (or its equivalent in any other currency) by reason of an event of default (as described and specified therein) or any such indebtedness exceeding US$1,500,000 (or its equivalent in any other currency) is not paid within any applicable grace period provided for or, if none, on the due date therefore;

(v) a Directors' resolution is passed for the winding-up, insolvency, administration, reorganisation, reconstruction, dissolution or bankruptcy of the Company or for the appointment of a liquidator, receiver, administrator, trustee or similar officer of the Company or of all or a material part of its business or assets;

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

33. Redeemable Convertible Cumulative Preference Shares

(Continued)

(vi) an effective resolution is passed for the winding-up, insolvency, administration, reorganisation, reconstruction, dissolution or bankruptcy of the Company or for the appointment of a liquidator, receiver, administrator, trustee or similar officer of the Company or of all or a material part of its business or assets; a petition is presented or a proceeding is commenced for the winding-up, insolvency, administration, reorganisation, reconstruction, dissolution or bankruptcy of the Company or for the appointment of a liquidator, receiver, administrator, trustee or similar officer of the Company or of all or a substantial part of its business or assets and is not discharged within 5 days; if the Company stops or suspends payments to its creditors generally or is unable to admits its inability to pay its debts as they fall due or seeks to enter into any composition or other arrangement with its creditors or is declared or becomes bankrupt or insolvent; or if a creditor takes possession of all or a material part of the business or assets of the Company or any execution or other legal process is enforced against the business or any substantial asset of the Company and is not discharged within 5 days;

(vii) the listing or trading of the ordinary share on the Stock Exchange (or any stock exchange other than the Hong Kong Stock Exchange on which the ordinary shares, if not then listed on the Hong Kong Stock Exchange, are listed, the "Alternative Stock Exchange", as the case may be) is revoked, withdrawn or suspended for a continuous period of 15 trading days;

(viii) material breach by the Company of any of its representations, warranties, covenants or undertakings in the agreement and, if such breach is capable of being remedied, fails to remedy such breach within 10 days of being required in writing to do so by any of the Preference Shareholders;

(ix) material breach by the Company of any of the covenants or undertakings as set forth in Bye-law 9A(12) and, if such breach is capable of being remedied, fails to remedy such breach within 10 days of being required in writing to do so by any of the Preference Shareholders; or

(x) the auditors of the Company issue a qualified opinion in respect of any audit report of the Company.

As mentioned in Note 32 above, the Group was unable to redeem CB1 which had been matured on 18 May 2009, the Company was in breach of the special event as mentioned in note (ii) above and may trigger the Company's potential early redemption obligation of the redeemable convertible preference shares. Accordingly, the convertible preference shares had been reclassified to current liabilities in the current year as at 31 March 2009.

The fair value of the derivative component, representing the embedded options entitled to the holders of PS, was estimated at the issuance and each balance sheet date using an option pricing model and the change in fair value of that component is recognised in the income statement.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

33. Redeemable Convertible Cumulative Preference Shares

(Continued)

The movement of the liability and derivative components of PS during the year is set out below:

	2009	2008
	HK$'000	*HK$'000*
Liability component		
At beginning of the year	**90,607**	81,138
Interest charged for the year	**10,253**	9,469
At end of the year	**100,860**	90,607

	2009	2008
	HK$'000	*HK$'000*
Derivative component		
At beginning of the year/date of issue	**48,559**	42,569
Fair value (gain) loss	**(23,449)**	5,990
At end of the year	**25,110**	48,559

The interest charged for the year is calculated by applying the effective interest rate of 11.965% to the liability component.

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2009)

33. Redeemable Convertible Cumulative Preference Shares
(Continued)

The derivative component of redeemable convertible cumulative preference shares were revalued at 31 March 2009 and 31 March 2008 based on valuations by Norton Appraisals Limited and Savills Valuation and Professional Services Limited, independent valuers, respectively, determined using option pricing models. The significant inputs to the models were as follows:

	2009	2008
Share price of underlying shares	**HK$0.20**	HK$0.40
Exercise price	**HK$1.16**	HK$1.16
Expected volatility	**145.17%**	81.0%
Expected life	**2.33 years**	3.32 years
Risk-free rate	**1.46%**	1.6%
Expected dividend yield	**Nil**	Nil

34. Deferred Taxation

At the balance sheet date the Group has unused tax losses of approximately HK$44,639,000 (2008: HK$40,045,000) and other temporary differences of HK$15,708,000 (2008: HK$15,496,000) that are available for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses and other temporary differences due to unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately HK$28,931,000 (2008: HK$15,496,000) that will be expired from 2008 to 2013. Other losses may be carried forward indefinitely.

35. Share Capital

	As at 31 March 2009 and 2008	
	Number of shares	*HK$'000*
Authorised:		
Ordinary shares of HK0.1 each	5,000,000,000	500,000
Redeemable convertible cumulative preference shares of US$0.01 each *(Note 33)*	15,000	1
Issued and fully paid:		
Ordinary shares of HK$0.1 each		
At beginning and end of year	234,367,577	23,437

The redeemable convertible cumulative preference shares carry the respective rights and privileges and subject to the restrictions as set out in Note 33 and the Company's circular dated 16 June 2006.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

36. Balance Sheet of the Company

	Notes	2009 HK$'000	2008 HK$'000
Non-current asset			
Investment in subsidiaries		**–**	–
Current assets			
Prepayments, deposits and other receivables		**1,085**	901
Loan receivables		**624**	624
Amount due from subsidiaries	*37*	**191,350**	178,221
Bank balances and cash		**226**	309
		193,285	180,055
Current liabilities			
Other payables and accrued expenses		**7,004**	8,448
Amounts due to subsidiaries	*37*	**38,543**	17,224
Derivative component of convertible bonds		**5,220**	4,237
Derivative component of redeemable convertible cumulative preference shares		**25,110**	48,559
Convertible bonds		**53,359**	–
Redeemable convertible cumulative preference shares		**100,860**	–
		230,096	78,468
Net current (liabilities) assets		**(36,811)**	101,587
		(36,811)	101,587
Non-current liabilities			
Convertible bonds		**–**	68,521
Redeemable convertible cumulative preference shares		**–**	90,607
		–	159,128
		(36,811)	(57,541)
Capital and reserves			
Share capital		**23,437**	23,437
Reserves	*38*	**(60,248)**	(80,978)
		(36,811)	(57,541)

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

37. Amount due from (to) Subsidiaries

The amounts are unsecured, non-interest bearing and repayable on demand.

38. Reserves

The Company

	Share premium	Contributed surplus	Convertible bonds reserve	Share option reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2007	212,308	57,124	3,592	148	(335,188)	(62,016)
Loss for the year and total recognised income and expense for the year	–	–	–	–	(18,962)	(18,962)
At 31 March 2008 and 1 April 2008	212,308	57,124	3,592	148	(354,150)	(80,978)
Profit for the year and total recognised income and expense for the year	–	–	–	–	20,730	20,730
At 31 March 2009	212,308	57,124	3,592	148	(333,420)	(60,248)

39. Share Option Schemes

Pursuant to the share option scheme adopted by the Company in 2001 (the "Old Scheme"), the company may grant options to any directors or full time employees of the Company or its subsidiaries to subscribe for shares in the Company at a subscription price which is the higher of 80% of the average closed price of the Company's shares for the five trading days immediately preceding the date of grant or the nominal value of the Company's shares. The Old Scheme was replaced by the Company's existing share option scheme (the "New Scheme") which was adopted pursuant to a resolution passed on 8 April 2002, and will expire on 7 April 2012. All outstanding options continue to be valid and exercisable in accordance with the terms of the Old Scheme.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

39. Share Option Schemes *(Continued)*

Under the New Scheme, the Board of Directors of the Company may grant options to eligible officers and employees, including directors of the Company and its subsidiaries ("Eligible Persons"), to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties who (i) have previously been and continue to be retained by the Group to provide business, legal or tax consultancy services or other professional services, whose expertise is valuable to the business development of the Group; or (ii) introduce investment opportunities to the Group; or (iii) contribute by way of introduction of new business to the Group.

The maximum number of shares in respect of which options may be granted under the New Scheme and any other schemes of the Company is not permitted to exceed 10% of the shares of the Company in issue at the adoption date. The Company may seek approval by the Company's shareholders in general meeting for granting options beyond the 10% limit, provided that the options in excess of the limit are granted only to Eligible Persons specifically identified by the Company before such approval is sought. Pursuant to a special resolution passed by the shareholders at a special general meeting held on 17 February 2005, the maximum number of options that can be granted by the Company to the Eligible Persons has been refreshed to 10% of number of shares in issue at the date of passing the special resolution. The total number of the shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time.

The number of share in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital in issue or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 28 days from the date of grant. Upon acceptance of the options, the Eligible Person shall pay HK$1 to the Company by way of consideration for the grant. Options may be exercises at any time from the date of grant to the expiry date of the New Scheme. The exercise price is determined by the directors of the Company, and shall be the highest of the closing price of the Company's shares on the date of grant, the average closing price of the shares for the five trading days immediately preceding the date of grant and the nominal value of the Company's shares.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

39. Share Option Schemes *(Continued)*

Particulars of share options granted by the Company as at 31 March 2008 and 2009 are as follows:

Option type	Date of grant	Exercisable period From	Exercisable period To	Exercise price
A	31 August 2001	31 August 2001	15 May 2011	8.6
B	2 February 2004	2 February 2004	7 April 2012	3.4
C	3 March 2005	3 March 2005	7 April 2012	2.325
D	20 June 2005	20 June 2005	7 April 2012	2.33

The following tables summarise the movements in the Company's share options during the year ended 31 March 2009:

Old Scheme

		Number of share options		
	Option type	Outstanding at 1 April 2008	Lapsed/ Exercised	Outstanding at 31 March 2009
Directors	A	25,000	–	25,000

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

39. Share Option Schemes *(Continued)*

New Scheme

	Option type	Number of share options: Outstanding at 1 April 2008	Granted	Lapsed	Outstanding at 31 March 2009
Directors	B	3,000,000	–	–	3,000,000
	C	5,310,000	–	–	5,310,000
Total of directors		8,310,000	–	–	8,310,000
Employees	B	60,000	–	–	60,000
	C	270,000	–	–	270,000
Total of employees		330,000	–	–	330,000
Advisors and consultants	B	9,046,000	–	(4,902,000)	4,144,000
	C	8,622,000	–	(4,200,000)	4,422,000
	D	99,000	–	–	99,000
Total of advisors and consultants		17,767,000	–	(9,102,000)	8,665,000
Total		26,407,000	–	(9,102,000)	17,305,000

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

39. Share Option Schemes *(Continued)*

The following tables summarise the movements in the Company's share options during the year ended 31 March 2008:

Old Scheme

	Option type	Number of share options: Outstanding at 1 April 2007	Lapsed/ Exercised	Outstanding at 31 March 2008
Directors	A	25,000	–	25,000

New Scheme

	Option type	Number of share options: Outstanding at 1 April 2007	Granted	Lapsed	Outstanding at 31 March 2008
Directors	B	6,000,000	–	(3,000,000)	3,000,000
	C	7,110,000	–	(1,800,000)	5,310,000
Total of directors		13,110,000	–	(4,800,000)	8,310,000
Employees	B	60,000	–	–	60,000
	C	270,000	–	–	270,000
Total of employees		330,000	–	–	330,000
Advisors and consultants	B	10,048,000	–	(1,002,000)	9,046,000
	C	9,882,000	–	(1,260,000)	8,622,000
	D	99,000	–	–	99,000
Total of advisors and consultants		20,029,000	–	(2,262,000)	17,767,000
Total		33,469,000	–	(7,062,000)	26,407,000

Note: The directors resigned during the year ended 31 March 2007 remain as advisors within the Group and are therefore continued to be eligible as holders of the options granted under the New Scheme.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

39. Share Option Schemes *(Continued)*

New Scheme *(Continued)*

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2009		2008	
	Average exercise price in HK$ per share	**Number of share options**	Average exercise price in HK$ per share	Number of share options
At beginning of the year	**2.823**	**26,432,000**	2.846	33,494,000
Lapsed	**2.904**	**(9,102,000)**	2.934	(7,062,000)
	2.781	**17,330,000**	2.823	26,432,000

The options outstanding at the end of the year have a weighted average remaining contractual life of 3.09 years (2008: 4.02 years).

The fair values of options granted to the Eligible Persons on 3 March 2005 and 20 June 2005 determined using the Black-Scholes valuation model were HK$33,145,000 and HK$148,000 respectively. The significant inputs into the model were as follows:

	Share option grant date	
	3 March 2005	**20 June 2005**
Share price at the grant date	HK$2.325	HK$2.225
Exercise price	HK$2.325	HK$2.33
Expected volatility based on historical volatility of share	90.12%	70.11%
Expected annual dividend yield, based on historical dividend	Nil	Nil
Expected life of options	7.1 years	6.8 years
Hong Kong Exchange Fund Notes rate	3.8%	3.44%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 1.5 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

40. Disposal of Subsidiaries

For the year ended 31 March 2009

On 2 June 2008, the Group disposed of its entire equity interest in Shanghai Epay Information Technology Company Limited to an independent third party at a cash consideration of RMB300,000 (equivalent to approximately HK$333,000) and the gain on such disposal was approximately HK$2,510,000.

Net liabilities at the date of disposal were as follows:

	HK$'000
Property, plant and equipment	**555**
Inventories	**612**
Trade receivables	**1,555**
Prepayments, deposits and other receivables	**326**
Bank balances and cash	**518**
Trade payables	**(28)**
Other payables	**(5,869)**
Current tax liabilities	**(10)**
Net liabilities disposed of	**(2,341)**
Release of foreign currency translation reserve	**164**
Gain on disposal of subsidiaries	**2,510**
Total consideration satisfied by cash	**333**
Net cash outflow arising on disposal:	
Cash consideration received	**333**
Bank balances and cash disposed of	**(518)**
	(185)

The subsidiary disposed of during the year had no significant impact on the turnover and results of the Group.

The subsidiaries disposed of during the year contributed approximately HK$704,000 to the Group's net operating cash flows, paid approximately HK$12,000 in respect of investing activities and no impact in respect of financing activities.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

40. Disposal of Subsidiaries *(Continued)*

For the year ended 31 March 2008

On 31 January 2008, the Group disposed its entire equity interest in Power Ability Limited and its subsidiary, Shanghai Haoyuan Biotechnology Company Limited to an independent third party at a cash consideration of approximately US$2,000,000 (equivalent to approximately HK$15,600,000).

Net assets at the date of disposal were as follows:

	HK$'000
Property, plant and equipment	4,348
Other intangible assets	851
Inventories	1,748
Trade receivables	1,205
Prepayments, deposits and other receivables	4,520
Bank balances and cash	895
Trade payables	(1,453)
Other payables	(4,033)
Net assets disposed of	8,081
Attributable goodwill	3,232
Release of foreign currency translation reserve	(343)
Minority interests	(6,462)
Gain on disposal of subsidiaries	10,333
Total consideration, net of direct cost of disposal – satisfied by cash	14,841
Net cash inflow arising on disposal:	
Cash consideration received	14,841
Bank balances and cash disposed of	(895)
	13,946

The subsidiaries disposed of during the year contributed approximately HK$4,647,000 to the Group's consolidated turnover and contributed a loss of HK$4,044,000 to the Group's consolidated loss for the year.

The subsidiaries disposed of during the year paid approximately HK$1,144,000 to the Group's net operating cash flows, paid approximately HK$820,000 in respect of investing activities and no effect in respect of financing activities.

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(For the year ended 31 March 2009)

41. Deemed Disposal of Interest in a Subsidiary

For the year ended 31 March 2009

On 2 September 2008, Harvest Network Limited (previously known as Success Gateway Investments Limited, "Harvest Network"), a then wholly-owned subsidiary of the Company and Dr. Li Zhong Yuan ("Dr. Li"), a director and substantial shareholder of the Company and DLB Harvest LLC ("DLB Harvest") and Jade Capital LLC ("Jade Capital"), independent third parties (collectively referred to as the "Subscribers") entered into a subscription agreement (the "Subscription Agreement") where Harvest Network agreed to issue an aggregate 23,000,000 convertible preference shares (the "Subscription Shares") at US$1 each totaling US$23,000,000 and 4,600,000 warrants (the "Warrants") at total of US$230,000, aggregating to a total consideration of US$23,230,000 (equivalent to approximately HK$181,194,000) to the Subscribers. The Warrants carry the right to subscribe for one convertible preference share at a consideration of US$1 per convertible preference share. Furthermore, the Company has agreed to sell and Harvest Network has agreed to redeem 3,000,000 shares after a share split at a cash consideration of US$1 per share.

Harvest Network has agreed to issue the Subscription Shares and sell to DLB Harvest and Dr. Li, 18,000,000 Subscription Shares and 1,500,000 Subscription Shares respectively at a cash consideration of US$1 per Subscription Share. Furthermore, Dr. Li and Jade Capital, shall subscribe an addition of 1,500,000 Subscription Shares and 2,000,000 Subscription Shares respectively at the consideration of US$1.00 per Subscription Share no later than 31 December 2008.

Pursuant to the Subscription Agreement, Jade Capital and Dr. Li shall also subscribe for 4,000,000 Warrants and 600,000 Warrants at the consideration of US$200,000 and US$30,000 respectively. Each Warrant carries the right to subscribe for one convertible preference share at a subscription price of US$1 each at any time during the exercise period, which commences on 31 March 2012 up until 10 years from the date of issue of the Warrants.

The following are the major terms of the Subscription Shares:

(1) Holders of the convertible preference shares shall be entitled to a cumulative dividend calculated at 8% per annum on the issue price of each convertible preference share.

(2) The convertible preference shares will be initially convertible to Harvest Network common shares at a conversion price of US$1, subject to anti-dilution provisions, details of which are set out in the Company's circular dated 30 September 2008 (the "Circular").

(3) Holders of the convertible preference shares have a right to convert the convertible preference shares at any time.

The convertible preference shares will be automatically converted in the event of an underwritten public offering of equity, details of which are set out in the Circular.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

41. Deemed Disposal of Interest in a Subsidiary *(Continued)*

(4) Each holder of the convertible preference shares shall have the right to one vote for each ordinary share into which the convertible preference shares could then be converted. The holders of the convertible preference shares will be entitled to the consent rights of all material aspects of Harvest Network including: change of control or sale, merger or dissolution of the company; declaration of a dividend on common shares; incurrence of indebtedness of more than US$500,000; material change in critical accounting policies; material capital expenditures; amendments of governing documents of the company; redemptions or re-classifications of any of the company's issued securities etc., by reason only of his/her being the holders of the convertible preference shares.

(5) The convertible preference shares are freely transferable, subject to compliance with applicable securities laws, except that no holder of convertible preference shares will transfer such shares to a competitor of Harvest Network.

The conditions precedent to the transaction are detailed as follows:

(1) Share split

Pursuant to the subscription agreement, the existing and unissued common shares of Harvest Network will be subdivided on the basis of 205,000 common shares for one existing common shares. Upon the completion of the share split, the issued share capital of Harvest Network was increased to 20,500,000 shares.

(2) Redemption of shares by Harvest Network

Pursuant to the subscription agreement, the Company has agreed to sell and Harvest Network has agreed to redeem, 3,000,000 ordinary shares after the share split from the Company at a cash consideration of US$1 each. Upon completion, the issued share capital of Harvest Network was reduced to 17,500,000 shares.

A total of 21,550,000 Subscription Shares had been subscribed as at the balance sheet date. The shares subscribed had not been converted to ordinary shares as at the balance sheet date, however, since the Subscription Shares are non-redeemable, and carry the rights that are substantially equivalent to ordinary shares in addition to the preferential dividend, the subscribed convertible preference shares had been regarded as ordinary shares in Harvest Network for the purpose of preparing the consolidated financial statements of the Group. Accordingly, the issuance of such convertible preference shares by Harvest Network increased its total capital to 39,050,000 shares, which resulted in a deemed disposal of 55.19% of equity interest in Harvest Network by the Group.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

41. Deemed Disposal of Interest in a Subsidiary *(Continued)*

Pursuant to the Subscription Agreement, the board of directors of Harvest Network will consists of a total of 8 directors, 4 of whom will be Dr. Li and Chief Executive Officer of Harvest Network, appointed by the Company, 2 directors designated by Jade Capital and 2 directors designated by DLB Harvest.

All decisions and actions taken by the Board will require the affirmative vote or consent of more than 50% of the directors, and in the case of 50%:50% tie, the vote cast by Dr. Li carries the weight of tie-breaker so long as there has not been a change in leadership. Leadership change refers to when Dr. Li no longer serves in the most senior management position in the Company/Harvest Network or is no longer able to serve in his role as Chairman of the Company and/or Executive Vice-Chairman of Harvest Network.

In this regard, the Group retained control of Harvest Network subsequent to the deemed disposal, and Harvest Network continued to be accounted for as a subsidiary of the Group.

The proceeds from the issuance of the Subscription Shares received amounted to HK$168,090,000 and deemed disposal gave rise to the recognition of a minority interests of approximately HK$84,990,000, release of goodwill of approximately HK$28,107,000 and a gain on deemed disposal of approximately HK$54,993,000.

42. Acquisition of Additional Interests in Subsidiaries

(a) On 28 February 2008, Harvest Network, a then wholly owned subsidiary of the Company, entered into a provisional sale and purchase agreement with Panjinfenyuan Technology Investment Limited ("Panjinfenyuan") whereby Harvest Network agreed to acquire the remaining 30% equity interest in Shanghai Harvest from the minority equity holder, Panjinfenyuan, at a consideration of HK$41,500,000. On completion of the acquisition, Harvest becomes a wholly owned subsidiary of the Company. Details of the acquisition were set out in the Company's circular dated 30 April 2008. The transaction was approved by an ordinary resolution passed at the special general meeting held on 20 May 2008.

The consideration for the acquisition was satisfied by HK$21,500,000 in cash and HK$20,000,000 satisfied by the issuance of convertible bonds, details of which are set out in Note 32(b)(ii).

The further acquisition of 30% equity interest in Shanghai Harvest gave rise to a goodwill of approximately HK$28,212,000.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

42. Acquisition of Additional Interests in Subsidiaries *(Continued)*

(b) During the year, the Group had further acquired the remaining 10% equity interest in Shanghai Kejin Information Technology Company Limited ("Shanghai Kejin") at a cash consideration of RMB4,000,000 (equivalent to approximately HK$4,545,000). The further acquisition of 10% equity interest in Shanghai Kejin gave rise to a goodwill of approximately HK$4,103,000.

43. Operating Lease Commitments

The Group as lessee

At the balance sheet date, the total future minimum lease payments under non-cancellable operating leases are payables as follows:

	2009	2008
	HK$'000	*HK$'000*
Within one year	**3,148**	3,150
In the second to fifth years inclusive	**2,711**	2,029
	5,859	5,179

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for average terms of one to five years and rentals are fixed throughout the terms of respective leases.

The Group as lessor

As at 31 March 2008, the total future minimum sublease payments expected to be received under non-cancellable subleases amounted to HK$40,000 (2009: Nil).

44. Related Party Transactions

Compensation of key management personnel (being the directors' emoluments) of the Group are set out in Note 14.

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

45. Events After the Balance Sheet Date

Pursuant to the Company's announcement dated 31 March 2009 (the "Announcement"), the convertible bonds with outstanding principal of HK$20,000,000 by Panjinfenyuan as the convertible bonds holder was due for redemption. The Company was facing liquidity problems and was lack of sufficient cash flow to redeem this convertible bonds and another convertible bonds with outstanding principal of approximately US$5,460,000 when these convertible bonds become due.

Further to the Announcement, a Board meeting was held on 12 May 2009. The Board decided to defer redemption of the convertible bonds and other non-operating related cash outflows as the Company had insufficient cash flow to redeem the convertible bonds. While the Company has requested the holders of the convertible bonds for a stand still of three months in late May 2009, no payment extension in writing has been obtained. A majority of the holders of the convertible bonds, however, has verbally indicated they would not take immediate legal action against the Company to enforce their rights under the convertible bonds.

46. Subsidiaries

Particulars of the principal subsidiaries of the Company as at 31 March 2009 are as follows:

Name of Company	Place of incorporation/ registration and operations	Class of shares held	Issued/ registered capital	Percentage of interest in ownership held by			Principal activities
				Group	Company	Subsidiaries	
Artel Limited	Hong Kong	Ordinary	HK$10	60%	–	60%	Investment holding
Beijing Joyzone Network Technologic Co., Ltd. *(note a)*	PRC	Registered capital	RMB1,000,000	100%	–	100%	General trading by e-commerce
Beijing Universal Medical Assistance Co., Ltd. *(note b)*	PRC	Registered capital	RMB3,000,000	62.36%	–	70%	Provision of exclusive nationwide medical assistance services
Beijing Weichang Medical Clinic Co., Ltd. ("BWC") *(notes c and d)*	PRC	Registered capital	RMB2,000,000	100%	100%	–	Provision of medical services
CHC Investment Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary	US$100	100%	100%	–	Investment holding

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

46. Subsidiaries *(Continued)*

Name of Company	Place of incorporation/ registration and operations	Class of shares held	Issued/ registered capital	Percentage of interest in ownership held by Group	Company	Subsidiaries	Principal activities
CHC (Shanghai) Medical Healthcare Services Limited ("SMHS") *(notes c and d)*	PRC	Registered capital	RMB6,820,000	68.46%	–	68.46%	Provision of healthcare services
China Clinical Trials Centre Limited	British Virgin Islands/ Hong Kong	Ordinary	US$100	100%	–	100%	Clinical trials of drugs and devices
China Healthcare Holdings (Hong Kong) Limited	Hong Kong	Ordinary	HK$10,000	100%	100%	–	Investment holding
China Healthcare Services Investment Limited	British Virgin Islands/Hong Kong	Ordinary	US$137,500	89.09%	–	89.09%	Investment holding
China Medicare Limited	Hong Kong	Ordinary	HK$1,000,000	89.09%	–	100%	Investment holding
Guangdong Harvest Network Technology Company Limited *(note c)*	PRC	Registered capital	RMB10,000,000	44.36% *(note e)*	–	99%	E-distribution of mobile pre-charge etc.
Junghua Enterprises Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary	US$1	100%	–	100%	Investment holding
Shanghai De Yi Er Investment Management Consulting Co., Ltd	PRC	Registered capital	US$10,000,000	44.81% *(note e)*	–	100%	Investment and consultancy
Shanghai De Yi Network Technology Company Limited	PRC	Registered capital	RMB1,000,000	44.81% *(note e)*	–	100%	Sales of mobile phone usage fees by e-commerce
Shanghai Harvest *(note b)*	PRC	Registered capital	RMB40,000,000	44.81% *(note e)*	–	100%	E-distribution of mobile pre-charge etc.

Notes to the Consolidated Financial Statements
(For the year ended 31 March 2009)

46. Subsidiaries *(Continued)*

Name of Company	Place of incorporation/ registration and operations	Class of shares held	Issued/ registered capital	Percentage of interest in ownership held by Group	Company	Subsidiaries	Principal activities
Shanghai Kejin (note c)	PRC	Registered capital	RMB5,000,000	44.81% *(note e)*	–	100%	E-distribution of mobile pre-charge etc.
Shanghai New Everstep Investment Management and Consultancy Limited *(note a)*	PRC	Registered capital	US$920,000	100%	–	100%	Provision of maternal and fetal care service
Shanghai Qiangzhi Biotechnologies Co., Ltd. ("SQB") *(notes c and d)*	PRC	Registered capital	RMB3,000,000	100%	–	100%	Trading of clinical reagents and medical equipments
Shanghai Weichang Investment and Management Consulting Co., Ltd. *(note a)*	PRC	Registered capital	US$3,350,000	100%	–	100%	Investment management and consultancy services
Harvest Network Limited (previously know as Success Gateway Investments Limited)	British Virgin Islands/ Hong Kong	Ordinary Convertible preference Shares	US$100 US$23,000,000	44.81% *(note e)*	–	44.81%	Investment holding
TechCap BioTech Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary	US$1,000	100%	100%	–	Investment holding
West Regent Property Limited	British Virgin Islands/ Hong Kong	Ordinary	US$1	100%	–	100%	Investment holding
Wisdom Profit Investment Limited	Hong Kong	Ordinary	HK$10,000	100%	–	100%	Investment holding and money lending
World Success Investments Limited	Hong Kong	Ordinary	HK$10,000	44.81% *(note e)*	–	100%	Investment and consultancy

Notes to the Consolidated Financial Statements

(For the year ended 31 March 2009)

46. Subsidiaries *(Continued)*

Notes:

(a) Wholly foreign owned enterprises established in PRC.

(b) Sino-foreign equity joint ventures established in PRC.

(c) Domestic enterprises established in PRC.

(d) Through the relevant contractual arrangement, the Group's 100% equity interest in BWC and SQB; 68.46% equity interest in SMHS, are held by PRC residents as individual nominee for and on behalf of the Group.

(e) The Group had the controlling power over the board of directors of Harvest Network, accordingly, Harvest Network and its subsidiaries had been accounted for as subsidiaries of the Group, details are set out in Note 41.

None of the subsidiaries had issued any debt securities at the end of the year or at any time during the year.

47. Comparative Figures

Certain comparative figures have been reclassified to conform with current year's presentation.

Financial Summary

	Year ended 31 March				
	2009	2008	2007	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS					
Turnover	**2,870,719**	2,867,570	1,632,961	6,834	7,446
Profit/(Loss) before tax	**28,503**	(21,909)	(73,372)	(101,863)	(41,371)
Income tax expense	**(1,451)**	(2,091)	(883)	–	–
Profit/(Loss) form continuing operations	**27,052**	(24,000)	(74,255)	(101,863)	(41,371)
Profit/(Loss) from discontinued operations	**–**	–	–	–	(12,390)
Profit/(Loss) for the year	**27,052**	(24,000)	(74,255)	(101,863)	(53,761)
Attributable to:					
Equity holders of the Company	**12,275**	(25,152)	(73,210)	(96,773)	(51,914)
Minority interest	**14,777**	1,152	(1,045)	(5,090)	(1,847)
	27,052	(24,000)	(74,255)	(101,863)	(53,761)

	As at 31 March				
	2009	2008	2007	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS AND LIABILITIES					
Total assets	**280,623**	196,441	198,807	106,650	147,977
Total liabilities	**(224,651)**	(241,040)	(225,137)	(69,564)	(30,360)
Total equity	**55,972**	(44,599)	(26,330)	37,086	117,617