Annual Report
2012

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. 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 801, 8/F
China Insurance Group Building
141 Des Voeux Road Central
Hong Kong

PRINCIPAL BANKERS
The Hong Kong and Shanghai Banking Corporation
Harcourt Road Branch
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10 Harcourt Road
Central
Hong Kong

AUDITORS
Zenith CPA Limited
Unit 318, 3/F,
Shui On Centre,
6-8 Harbour Road,
Wanchai, Hong Kong

LEGAL ADVISER
KING & WOOD Mallesons
13/F Gloucester Tower
The Landmark
15 Queen's Road Central
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
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Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

COMPANY WEBSITE
www.chinahealthcareltd.com

STOCK CODE
673

Chairman's Statement

Dear Shareholders,

During the past financial year, the Group's operating activities have continued to principally focus on opportunities of creating customer value of "better access, better communication and better connectivity" in the PRC.

During the past financial year, as the PRC central bank enacted adverse regulations that don't allow offshore ownership or control in payments sector, and in order to comply with such newly enacted regulations, our Group's strategic growth initiative of early 2010 of expansion into the PRC payments sector had to be curtailed and then aborted.

During the past financial year, the Group continued to sustain a B-to-C consumer service operation in Shandong Province, the 2nd largest provincial mobile top-up market in the PRC, which continues to maintain #1 market share in mobile top-up distribution there, and in additions, develop a growing distribution network of POS-enabled retail outlets there.

During the past financial year, the Group's listing entity China HealthCare Holdings Ltd. ("CHC" or "HoldCo" or the "Company"), as the Group's ultimate holding company, continued to be insolvent due to its obligations of the convertible bond (the "CB1") of outstanding principals of about US$5.00 million and the redeemable convertible preference shares of outstanding principal US$15 million (the "PS"). A viable solution to HoldCo's solvency problem would require injection of substantial external resources, and in practice the Group would have to bring in viable asset(s) and/or project(s) to enable a restructuring of its financial obligations. As such and despite the Company's unsuccessful exercise of a major asset injection during the year (which is the subject of an ongoing legal proceedings with the Company as the plaintiff and the counterparties as defendants in Hong Kong (the "Litigation")), the directors have continued to make every best effort in working with relevant stakeholders for opportunities of bringing viable asset(s) and/or project(s) into the Group.

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, endurance and contribution to the Group's overall performance and results despite HoldCo's financial distress; heavy load of allocating substantial resources to the Litigation and adverse PRC regulatory changes. With the support of our shareholders; stakeholders and partners, I am confident that the Group will be able to work out a solution to HoldCo's solvency problem and generate substantial shareholder value in the future.

Yours sincerely,

Dr. Li Zhong Yuan
Chairman

29 June 2012

Management Discussion and Analysis

RESULTS

For the year ended 31 March 2012, the Group reported a turnover of approximately HK$49.1 million, representing a decrease of 15% as compared to HK$57.6 million for the previous financial year. The Group's net loss from ordinary activities attributable to shareholders for the year was approximately HK$18.6 million as compared to loss of approximately HK$208.2 million for the previous financial year. Basic loss per share for the year was HK$0.04 (2011: HK$0.58).

DIVIDENDS

The Directors do not recommend the payment of any final dividend in respect of the year ended 31 March 2012.

BUSINESS OPERATION

During the past financial year, the Group's business operation continued to be principally engaged in provision of consumer oriented services 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, and increasing mobility. The Group is making its best effort as a consumer oriented service provider to embrace the mega trend in China.

Review of the Group's business operations

The Group's revenue primarily comes from its B-to-C consumer services operation. The operation's business model is oriented around scale, growth, cash flow and outlets of distribution and settlement. During the past financial year, the Group continued to grow a substantial B-to-C consumer service operation in Shandong Province, the 2nd largest provincial mobile top-up market in China, which has been consolidating its #1 market share in mobile top-up distribution there, and in addition, developed a growing distribution network of almost 28,000 POS-enabled retail outlets as of the date there.

For previous several years, the Group's operation of Shanghai mobile top-up, nevertheless, has been facing severe adverse financial impact, successive and substantial downward adjustments of rebate by Shanghai Mobile on distribution of mobile top-up. Under the circumstance and since the beginning of the financial year 2010, the Group has been implementing a strategic growth initiative via its subsidiary Shanghai Harvest Group to position the business operation to move into payments sector. However, since late 2010, the PRC central bank has enacted adverse regulations that virtually would not allow offshore ownership or control in payments sector, and in order to comply with such newly enacted regulations, such strategic growth initiative of expanding into payments sector would have to be aborted. As such and in order to preserve its investment value, the Group had to enter into an agreement to dispose Shanghai Harvest Group during the past financial period, with details of such a very substantial disposal (the "VSD") as disclosed in the circular dispatched on 25 November 2011.

Management Discussion and Analysis

Directors would like to report that the operation of the Group's consumer services business in Shandong has had an increase of about 70% in terms of revenues, based on distribution commission, as compared with the past financial year in 2011.

The Group's business operation of distribution of medical devices/consumables is non-core, and in order to for the Group to concentrate on its major tasks and alleviate the Group's constraints in capital and management resources, the Group disposed it during the year, as disclosed in the annual report for the year ended 31 March 2011.

Review of the Group's financial distress

As of the date, the Group's listing entity China HealthCare Holdings Ltd. ("CHC" or "HoldCo" or the "Company"), as the Group's ultimate holding company, continued to be insolvent due to its obligations of the convertible bond (the "CB1") of outstanding principals of about US$5.00 million and the redeemable convertible cumulative preference shares (the "PS") of outstanding principal of US$15 million.

Having experimented with various ways and means to find a solution to the HoldCo's solvency problem over the previous financial years, the directors continue to consider that a solution would necessarily require injection of substantial external resources, and in practice the Group has to bring in viable asset(s) and/or project(s) to enable a restructuring of its defaulted financial obligations. On or around 19 August 2010, Wingames Investments Limited ("Wingames"), an indirectly wholly-owned subsidiary of the Company, entered into the agreement (the "Agreement") with Mascot Land Limited ("Procurer"), China Zhongfu Industry Co., Ltd. ("China Zhongfu"), Shanghai Zhongfu International Trading Co., Ltd. ("Shanghai Zhongfu"), Anhui Anhe Investment Consulting Co., Ltd. ("Anhui Anhe"), Mr. Wang Ji Sheng and Mr. Ge Qian Song (the "Management Guarantors") (collectively known as "Guarantors"), being the independent third parties, to acquire equity interests of in Shanghai Fu Shou Yuan Industrial Development Co., Ltd. and its affiliated entities, for a total consideration of HK$3,360 million by way of a very substantial acquisition (the "VSA"), details of which have been set out in the Company's circular dated 23 February 2011. The VSA transaction, however, has become the subject of legal proceedings with Wingames and the Company as the plaintiffs and the other sides as the defendants in Hong Kong since May 31, 2011 (the "Litigation"), with relevant details and developments of the Litigation as disclosed in a series of announcements since 3 June 2011.

Despite the Company's unsuccessful exercise of the VSA above, the directors have continued to make every best effort in working with relevant stakeholders to bring viable asset(s) and/or project(s) into the Group to solve its solvency problem.

Management Discussion and Analysis

Facing the financial distress above and as the Group's operations are service oriented and human capital heavy, directors have continued to make every best effort in alleviating the ongoing negative impacts of the financial distress and the heavy load of allocating substantial resources to the Litigation while sustaining the underlying operations.

FUTURE PROSPECT

While the Group's HoldCo is facing financial distress and heavy load of allocating substantial resources to the Litigation, ongoing negative impacts on the Group's operating activities and asset injection efforts, the Group is still trying its very best, and at the same time looking forward to the support and cooperation of our shareholders, stakeholders and business partners, to work out a satisfactory solution to HoldCo's solvency problem as the viable avenue to generate shareholder's value.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 March 2012, the Group's cash and cash equivalents amounted to approximately HK$32.5 million, where about HK$24.7 million is in its subsidiary Harvest Network Ltd. ("Harvest") and its use is restricted for Harvest's working capital and other purpose only.

The Group's total borrowings as at 31 March 2012 amounted to about HK$335.3 million, all of which were represented by convertible bonds and redeemable convertible cumulative preference shares.

On this basis, the gearing ratio is calculated at (1.42) (2011: (1.59)), based on an amount of shareholders' equity of HK$(236,141,000) (2011: HK$(218,793,000)).

CONTINGENT LIABILITIES

As at 31 March 2012, there were no contingent liabilities of the Group.

CHARGE ON GROUP'S ASSETS

As at 31 March 2012, there was no charge on the Group's assets.

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2012, the Group employed 52 (2011: 115) staff members. Total staff cost including Directors' emoluments was HK$13.3 million as compared to HK$18.3 million for the previous year.

Management Discussion and Analysis

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.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Dr. Li Zhong Yuan, aged 50 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. Zhou Bao Yi, aged 50 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 47 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.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Mu Xiangming, aged 56 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 72 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 54 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.

COMPANY SECRETARY

Mr. Tsui Siu Hung Raymond, aged 36, 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 13 years of experience in finance, consulting, accounting and auditing. He is fellow members of the Association of Chartered Certified Accountants and the Hong Kong Institute of the Certified Public Accountants.

Report of the Directors

The directors present their annual report and the audited consolidated financial statements of the Company for the year ended 31 March 2012.

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., and sales of medical devices and consumables. Other than discontinued operation of the sales of medical devices and consumable operations as described in note 14 to the consolidated financial statements, there were no significant changes in the operation of the Company and its subsidiaries (collectively, the "Group").

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 March 2012 and the state of affairs at the date are set out in the consolidated financial statement on pages 25 to 111.

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

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 consolidated financial statements.

CONVERTIBLE BONDS

Details of the Company's convertible bonds are set out in the note 32 to the consolidated financial statements.

REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES

Details of the Company's redeemable convertible cumulative preference shares are set out in the note 31 to the consolidated financial statements.

SHARE CAPITAL

Details of movement in the Company's share capital during the year are set out in note 34 to the consolidated financial statements. There were no movements in either the Company's authorized or issued share capital during the year.

RESERVES

Details of movements in the reserves of the Group during the year are set out in consolidated statement of changes in equity on page 29.

Report of the Directors

DISTRIBUTABLE RESERVES

As at 31 March 2012, the Company had no reserves available for distribution and/or distribution in specie, as calculated in accordance with the Companies Act 1981 of Bermuda.

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. 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 9 to 10 of this annual report.

In accordance with the Company's Bye-law 87, Dr. Yan Shi Yun and Mr. Mu Xiang Ming 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.

Dr. Yan Shi Yun and Mr. Mu Xiang Ming 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.

All Non-Executive Directors and Independent Non-Executive Directors are not appointed for a specific term.

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.

The remuneration of the Directors and the details of the 5 highest-paid employees of the Company and the Group are set out in note 15 to the consolidated financial statements.

Report of the Directors

DIRECTORS' INTERESTS IN CONTRACTS

Except for those disclosed in note 30 to the financial statements, 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 2012, 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)	Interests 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 2012
Dr. Li Zhong Yuan	The Company	Corporate	11,147,000 *(Note 1)*	–	11,147,000	2.21%
		Personal	13,296,000	6,219,000	19,515,000	3.88%
Mr. Martin Treffer	The Company	Corporate	1,295,000 *(Note 2)*	–	1,295,000	0.26%
		Personal	250,000	1,902,000	2,152,000	0.43%
Mr. Zhou Bao Yi	The Company	Personal	1,002,000	–	1,002,000	0.20%
Mr. Mu Xiang Ming	The Company	Personal	261,000	210,000	471,000	0.09%
Dr. Yan Shi Yun	The Company	Personal	–	261,000	261,000	0.05%
Mr. Jiang Bo	The Company	Personal	261,000	–	261,000	0.05%

Report of the Directors

Notes:

1. These shares are held through Pacific Annex Capital Limited which is 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 shares 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 or 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 2012, 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	Interests in underlying shares pursuant to equity derivatives	Total interests in shares and underlying shares	Approximate percentage of shares and underlying shares held to existing total issued shares
Dragonrise Capital Advisors Inc. *(note 1)*	Beneficial owner	62,480,474	–	62,480,474	12.42%
Yeung Ning *(note 1)*	Interests of controlled corporation	62,480,474	–	62,480,474	12.42%
Capital Foresight Limited *(note 2)*	Beneficial owner	–	364,687,500	364,687,500	72.47%
Chen Li Bo *(note 2)*	Interests of controlled corporation	–	364,687,500	364,687,500	72.47%
Yu Feng *(note 2)*	Interests of controlled corporation	–	364,687,500	364,687,500	72.47%
ZhongXing Limited *(note 3)*	Beneficial owner	76,160,474	–	76,160,474	15.13%
Ho Kin *(note 3)*	Interests of controlled corporation	79,736,474	–	79,736,474	15.84%

Notes:

(1) Dragonrise Capital Advisors Inc. was beneficially wholly-owned by Yeung Ning. Therefore, Yeung Ning was deemed to be interested in the shares held by Dragonrise Capital Advisors Inc..

(2) The equity derivatives represent preference shares which entitle the holder thereof to convert for 364,687,500 fully paid shares at an adjusted conversion price of HK$0.32 per share (subject to adjustments). Capital Foresight Limited was beneficially owned as to 36% by Chen Li Bo and 36% by Yu Feng. Therefore, each of Chen Li Bo and Yu Feng was deemed to be interested in the underlying shares held by Capital Foresight Limited.

(3) ZhongXing Limited was wholly-owned by Ho Kin. Therefore, Ho Kin was deemed to be interested in the shares held by ZhongXing Limited.

Report of the Directors

SHARE OPTION SCHEMES

There was no change in any terms of the share option schemes of the Company during the year ended 31 March 2012.

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

	Option type	At 1 April 2011	Granted during the year	Exercised during the year	Lapsed during the year	At 31 March 2012
Directors						
Li Zhong Yuan	A	25,000	–	–	(25,000)	–
	B	1,500,000	–	–	–	1,500,000
	C	2,100,000	–	–	–	2,100,000
	E	2,619,000	–	–	–	2,619,000
Martin Treffer	C	900,000	–	–	–	900,000
	E	1,002,000	–	–	–	1,002,000
Mu Xiang Ming	C	210,000	–	–	–	210,000
Yan Shi Yun	E	261,000	–	–	–	261,000
Total Directors		8,617,000	–	–	(25,000)	8,592,000
Employees	B	60,000	–	–	–	60,000
	C	270,000	–	–	–	270,000
	E	2,349,000	–	–	–	2,349,000
Total employees		2,679,000	–	–	–	2,679,000
Advisors and consultants	B	4,144,000	–	–	–	4,144,000
	C	4,422,000	–	–	–	4,422,000
	D	99,000	–	–	–	99,000
Total advisors and consultants		8,665,000	–	–	–	8,665,000
Total		19,961,000	–	–	(25,000)	19,936,000

Report of the Directors

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 Jun 2005	20/6/2005-7/4/2012	2.330	2.300
E	13 Apr 2010	13/4/2010-12/4/2020	0.500	0.490

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best 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 112 of this 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.

CONNECTED TRANSACTION

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

On 15 September 2011, the Group entered into the agreements with Shanghai Huiqu E-commence Company Limited ("Shanghai Huiqu") and Shanghai Harvest Network Technology Co., Ltd. ("Shanghai Harvest") to sell the entire equity interest in Shanghai Harvest for a total consideration of RMB35,910,836 and 10% equity interest in Shanghai Kejin for a consideration of RMB1. Ms. Zhang Yijuan and Ms. Zhou Lifen, being the substantial shareholders holding 60.98% and 39.02% equity interest of Shanghai Huiqu respectively, are the general manager and financial controller of Shanghai Harvest respectively. Details of which are set out in the Company's shareholders' circular dated 25 November 2011.

Report of the Directors

MAJOR SUPPLIERS AND CUSTOMERS

The largest supplier and the five largest suppliers of the Group accounted for approximately 19.3% and 46.2%, respectively, of the Group's total purchases during the year.

The largest customer and the five largest customers of the Group accounted for approximately 42.3% and 82.6%, respectively, of the Group's total sales for the year.

None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest 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 2012.

DISCLOSURE UNDER CHAPTER 13 OF THE LISTING RULES

As at 31 March 2012, the Group had a loan of US$2.7 million (equivalent to HK$21,051,000) made to Multiline Digital Co. Ltd, an independent third party. Full impairment loss for the loan was made in prior years. Details of the movement are disclosed in note 24 to the consolidated financial statements.

AUDITORS

Except for the change of the Company's auditor from SHINEWING (HK) CPA Limited to Zenith CPA Limited during the year ended 31 March 2011, there was no other change in auditors of the Company in any of the proceeding three years. Zenith CPA Limited retire and a resolution for their re-appointment as and for of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Zhou Bao Yi
Executive Director

29 June 2012

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 2012 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 two 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.

During the year, the Board held 8 meetings, the members of the Board and the attendance of each member are as follows:

Directors	**Number of attendance**
Executive directors	
Dr. Li Zhong Yuan	8/8
Mr. Zhou Bao Yi	8/8
Non-executive director	
Mr. Martin Treffer	7/8
Independent non-executive directors	
Dr. Yan Shi Yun	8/8
Mr. Mu Xiang Ming	8/8
Mr. Jiang Bo	8/8

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 9 to 10 of this annual report.

Corporate Governance Report

CHAIRMAN AND EXECUTIVE DIRECTORS

Dr. Li Zhong Yuan is the Chairman of the Board and an Executive Director of the Company, and Mr. Zhou Bao Yi is an Executive Director of the Company. The Chairman is responsible for providing leadership for the Board of Directors and ensuring that the Board of Directors works effectively. Mr. Zhou Bao Yi is 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.

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. One meeting was held during the year and all committee members attended that meeting.

NOMINATION COMMITTEE

The Company established its Nomination Committee on 30 March 2012 with specific written terms of reference. The Nomination Committee is responsible for reviewing the structure, size and composition of the Board, making recommendations to the Board on appointment of the directors and assessing the independence of independent non-executive directors. The Nomination committee comprises Mr. Mu Xiang Ming as the chairman and Mr. Jiang Bo and Dr. Yan Shi Yun as members.

AUDITOR'S REMUNERATION

The Company's external auditors are Messrs. Zenith CPA Limited. For the year ended 31 March 2012, the external auditor's remuneration for audit services was approximately HK$750,000 and non-audit services was approximately HK$530,000.

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 2012.

Corporate Governance Report

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
Executive Director	
Mr. Zhou Bao Yi	5/5
Independent Non-executive Directors	
Dr. Yan Shi Yun	5/5
Mr. Mu Xiang Ming	5/5
Mr. Jiang Bo	5/5

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

– reviewed with the management and the external auditors the audited consolidated financial statements for the year ended 31 March 2012 and the unaudited interim financial statements for the six months ended 30 September 2011, 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 2012.

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 financial statements for the six months ended 30 September 2011 and for the year ended 31 March 2012, the directors have adopted suitable accounting policies and applied them consistently. The financial statements for the reporting year have been prepared on a going concern basis, details of which are set out in note 2 to the consolidated financial statements.

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

诚丰
Zenith

ZENITH CPA LIMITED
诚丰会计师事务所有限公司
Unit 318, 3/F., Shui On Centre,
6-8 Harbour Road,
Wanchai, Hong Kong

香港湾仔港湾道6-8号
瑞安中心3楼318室

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

We have audited the consolidated financial statements of China Healthcare Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 25 to 111, which comprise the consolidated statement of financial position as at 31 March 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITY *(continued)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

BASIS FOR DISCLAIMER OF OPINION

Scope limitation – Going concern

The Group had net current liabilities of approximately HK$123,861,000 and net liabilities of approximately HK$118,074,000 as at 31 March 2012. In addition, the Group was unable to redeem the convertible bonds ("CB1") and redeemable convertible cumulative preference shares ("PS"), which have been overdue as at 31 March 2012 with carrying amounts of approximately HK$46,643,000 and HK$288,676,000, respectively. Both the holders of CB1 and PS conditionally agreed to extend the redemption date for the CB1 and PS to 17 May 2013.

The consolidated financial statements have been prepared on a going concern basis, the validity of which is depended on the continuous support from the holders of the CB1 and PS and the ability of the Group to restructure its defaulted financial obligations and to generate adequate working capital in the future. However, the evidence available to us was limited. Although the Group received consent letters from the holders of CB1 and PS to conditionally extend the redemption date of the CB1 and PS to 17 May 2013, we were unable to obtain sufficient evidence to satisfy ourselves as to the Group's ability to fulfill the conditions imposed by the holders of the CB1 and PS for the extension. Should the support from the holders of CB1 and PS is not forthcoming and the Group is unable to obtain sufficient financing from other sources, the going concern basis would then be inappropriate.

Should the Group be not able to continue its business as a going concern, adjustments would be necessary to reclassify all non-current assets and liabilities as current assets and liabilities, write down the value of assets to their recoverable amounts and to provide for further liabilities which may arise. The consolidated financial statements have not incorporated any of these adjustments.

Independent Auditor's Report

Disclaimer of opinion

Because of the significance of the matter described in the basis for disclaimer of opinion paragraph, 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 2012 and of the Group's loss and cash flows 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 requirements of the Hong Kong Companies Ordinance.

Emphasis of matter

Other than the disclaimer of opinion stated above, we draw attention to litigations which indicate a major uncertainty related to the outcome of the claims between the Group and other parties. Since the claims are still ongoing, the directors consider it is unable to determine the final outcome of the claims. Accordingly, no provision has been made in the consolidated financial statements. We consider that appropriate disclosure regarding this fundamental uncertainty has been adequately disclosed in note 41 to the consolidated financial statements and our opinion is not qualified in respect of this matter.

Zenith CPA Limited
Certified Public Accountants
Cheng Po Yuen
Practising Certificate Number: P04887
Hong Kong

29 June 2012

Consolidated Statement of Comprehensive Income

Year ended 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
CONTINUING OPERATIONS			
Revenue	10	**49,106**	57,606
Cost of sales		**(16,789)**	(28,676)
Gross profit		**32,317**	28,930
Other income and gains	10	**3,082**	4,374
Selling and distribution expenses		**(11,091)**	(8,953)
Administrative expenses		**(58,018)**	(48,242)
Other operating expenses		**–**	(517)
Finance costs	11	**(102,130)**	(102,603)
Impairment loss on goodwill	18	**–**	(25,012)
Gain on recalculation of liability component of redeemable convertible cumulative preference shares	31	**–**	95,227
Fair value gain/(loss) on derivative component of redeemable convertible cumulative preference shares	31	**114,702**	(115,338)
Fair value loss on derivative component of convertible bonds	32	**–**	(13,211)
LOSS BEFORE TAX FROM CONTINUING OPERATIONS		**(21,138)**	(185,345)
Income tax	13	**(1,957)**	(3,197)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS	12	**(23,095)**	(188,542)
DISCONTINUED OPERATIONS			
(Loss)/profit for the year from discontinued operations	14	**(489)**	6,407
LOSS FOR THE YEAR		**(23,584)**	(182,135)

Consolidated Statement of Comprehensive Income (continued)

Year ended 31 March 2012

	Note	2012 HK$'000	2011 HK$'000
LOSS FOR THE YEAR		**(23,584)**	(182,135)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Exchange differences on translation of foreign operations		**14,632**	12,260
Release of exchange differences upon disposal of subsidiaries		**(11,307)**	(4,482)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX OF NIL		**3,325**	7,778
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(20,259)**	(174,357)
(Loss)/profit for the year attributable to:			
Owners of the Company		**(18,555)**	(208,216)
Non-controlling interests		**(5,029)**	26,081
		(23,584)	(182,135)
Total comprehensive (loss)/income for the year attributable to:			
Owners of the Company		**(17,348)**	(204,259)
Non-controlling interests		**(2,911)**	29,902
		(20,259)	(174,357)
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	16		
Basic and diluted:			
– For loss for the year		**HK$0.0**	HK$(0.6)
– For loss from continuing operations		**HK$0.0**	HK$(0.6)

Consolidated Statement of Financial Position

31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	**1,618**	5,034
Goodwill	18	**–**	–
Other intangible assets	19	**–**	1,329
Prepayment for acquisition of non-current assets	20	**–**	–
Other receivable	23	**4,169**	–
Total non-current assets		**5,787**	6,363
CURRENT ASSETS			
Inventories	21	**–**	2,970
Trade receivables	22	**27,101**	20,447
Prepayments, deposits and other receivables	23	**192,229**	87,201
Loan receivables	24	**–**	–
Restricted bank balances	25	**24,741**	100,173
Cash and bank balances	26	**7,719**	71,998
Total current assets		**251,790**	282,789
CURRENT LIABILITIES			
Trade payables	27	**83**	92
Other payables and accrued expenses	28	**27,339**	34,978
Amount due to a director	29	**2,599**	545
Interest-bearing loans from a director and a shareholder	30	**8,052**	–
Derivative component of redeemable convertible cumulative preference shares	31	**6,875**	121,577
Liability component of redeemable convertible cumulative preference shares	31	**281,801**	–
Derivative component of convertible bonds	32	**–**	–
Liability component of convertible bonds	32	**46,643**	–
Income tax payables		**2,259**	3,496
Total current liabilities		**375,651**	160,688
NET CURRENT (LIABILITIES)/ASSETS		**(123,861)**	122,101
TOTAL ASSETS LESS CURRENT LIABILITIES		**(118,074)**	128,464

Consolidated Statement of Financial Position (continued)

31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT LIABILITIES			
Liability component of redeemable convertible cumulative preference shares	31	–	180,755
Liability component of convertible bonds	32	–	45,188
Deferred tax liabilities	33	–	336
Total non-current liabilities		–	226,279
Net liabilities		**(118,074)**	(97,815)
EQUITY			
Equity attributable to owners of the Company			
Issued capital	34	**50,326**	50,326
Reserves		**(286,467)**	(269,119)
		(236,141)	(218,793)
Non-controlling interests		**118,067**	120,978
Total equity		**(118,074)**	(97,815)

Li Zhong Yuan
Director

Zhou Bao Yi
Director

Consolidated Statement of Changes In Equity

Year ended 31 March 2012

	Attributable to owners 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 options reserve HK$'000 (note f)	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 April 2010	26,202	221,241	57,124	1,047	3,592	13,681	148	(435,794)	(112,759)	90,941	(21,818)
Loss for the year	–	–	–	–	–	–	–	(208,216)	(208,216)	26,081	(182,135)
Other comprehensive income for the year	–	–	–	–	–	3,957	–	–	3,957	3,821	7,778
Total comprehensive income/(loss) for the year	–	–	–	–	–	3,957	–	(208,216)	(204,259)	29,902	(174,357)
Issue of convertible bonds	–	–	–	–	65,000	–	–	–	65,000	–	65,000
Conversion of convertible bonds	23,549	68,905	–	–	(65,000)	–	–	–	27,454	–	27,454
Share options granted	–	–	–	–	–	–	2,898	–	2,898	–	2,898
Share options exercised	575	3,688	–	–	–	–	(1,390)	–	2,873	–	2,873
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	135	135
At 31 March 2011 and 1 April 2011	50,326	293,834*	57,124*	1,047*	3,592*	17,638*	1,656*	(644,010)*	(218,793)	120,978	(97,815)
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(18,555)**	**(18,555)**	**(5,029)**	**(23,584)**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**1,207**	**–**	**–**	**1,207**	**2,118**	**3,325**
Total comprehensive income/(loss) for the year	**–**	**–**	**–**	**–**	**–**	**1,207**	**–**	**(18,555)**	**(17,348)**	**(2,911)**	**(20,259)**
At 31 March 2012	**50,326**	**293,834***	**57,124***	**1,047***	**3,592***	**18,845***	**1,656***	**(662,565)***	**(236,141)**	**118,067**	**(118,074)**

* These reserve amounts comprise the consolidated deficiency in reserves of approximately HK$286,467,000 (2011: HK$269,119,000) in the consolidated statement of financial position.

Consolidated Statement of Changes In Equity (continued)

Year ended 31 March 2012

Notes:

(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 of the Company, as at 31 March 2012, 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 tax of subsidiaries of the Company in the People's Republic of China (the "PRC") 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 set out in note 5 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 5 to the consolidated financial statements.

(f) Share options reserve

Share options reserve represents the fair value of unexercised share options granted by the Company recognised in accordance with the accounting policy of share-based payments set out in note 5 to the consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax:			
From continuing operation		(21,138)	(185,345)
From discontinued operation		(428)	6,584
		(21,566)	(178,761)
Adjustments for:			
Finance costs		102,130	102,603
Interest income		(1,043)	(743)
Equity-settled share options expenses		–	2,898
Amortisation of other intangible assets		253	579
Depreciation		1,866	3,954
Impairment of trade and other receivables		9,597	3,017
Impairment loss of goodwill		–	25,012
Write-down of inventories to net realisable value		–	1,002
Loss on repurchase of convertible bonds		–	43
Fair value loss on derivative component of convertible bonds	32	–	13,211
Fair value (gain)/loss on derivative component of redeemable convertible cumulative preference shares	31	(114,702)	115,338
Gain on recalculation of liability component of redeemable convertible cumulative preference shares	31	–	(95,227)
Gain on disposal of subsidiaries		(14,804)	(1,387)
Loss on disposal of items of property, plant and equipment		6	2,037
Loss on disposal of other intangible assets		–	173
		(38,263)	(6,251)
Decrease/(increase) in inventories		1,082	(469)
Increase in trade receivables		(11,750)	(13,927)
Increase in prepayments, deposits and other receivables		(177,171)	(58,012)
Decrease in trade payables		–	(1,582)
Increase in other payables and accrued expenses		105,524	54,594
Cash used in operations		(120,578)	(25,647)
Income tax paid		(2,136)	(181)
Net cash flows used in operating activities		(122,714)	(25,828)

Consolidated Statement of Cash Flows (continued)

Year ended 31 March 2012

	Note	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(2,711)**	(4,712)
Net cash outflow on disposal of subsidiaries	37	**(40,101)**	(2,175)
Proceeds from disposal of property, plant and equipment		**–**	1,230
Interest received		**1,043**	743
Net cash flows used in investing activities		**(41,769)**	(4,914)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of convertible bonds		**–**	65,000
Proceeds from issue of shares		**–**	2,873
Proceeds from bank loans		**84,770**	–
Repayment of bank loans		**(84,770)**	(34,200)
Repurchase of convertible bonds		**–**	(623)
Interest paid		**(887)**	(313)
Increase/(decrease) in amount due to a director		**2,054**	(4,644)
Increase in interest-bearing loans from a director and a shareholder		**8,000**	–
Net cash flows from financing activities		**9,167**	28,093
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(155,316)**	(2,649)
Effect of foreign exchange rate changes, net		**15,605**	685
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**172,171**	174,135
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**32,460**	172,171
Analysis of cash and cash equivalents:			
Restricted bank balances		**24,741**	100,173
Cash and bank balances		**7,719**	71,998
		32,460	172,171

Notes to the Consolidated Financial Statements

31 March 2012

1. GENERAL INFORMATION

The Company is a limited liability company incorporated in Bermuda and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda; and principal place of business is located at Unit 801, 8/F., China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 44 to the consolidated financial statements. Other than the discontinued operations as described in note 14 to the consolidated financial statements, there was no significant changes in the operation of the Company and its subsidiaries (collectively referred to as the "Group") during the year.

2. BASIS OF PRESENTATION

As at 31 March 2012, the Group had net current liabilities of approximately HK$123,861,000 and net liabilities of approximately HK$118,074,000. In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Groups will has sufficient financial resources to continue as a going concern.

Notwithstanding that the Group incurred a loss attributable to owners of the Company of approximately HK$18,555,000 and reported net cash outflow from operating activities of approximately HK$122,714,000 for the year ended 31 March 2012, in addition, the Group was unable to redeem the convertible bonds ("CB1") which had been due on 18 May 2010 with carrying amount of approximately HK$46,643,000 and redeemable convertible cumulative preference shares ("PS") with initial maturity date of 28 July 2011 with carrying amount of approximately HK$288,676,000 as at 31 March 2012. Both the amounts of CB1 and PS has been overdue and became repayable on demand. The Group has been actively in discussions with the holders of the CB1 for standstills, and a majority of the holders of the CB1 have verbally indicated they would not take immediate legal action against the Company to enforce their rights under the CB1, and these would, de facto, allow the Group to defer the redemption of the CB1, with a view to continue working on a potential restructuring of its capital structure with the holder of the PS ("PS holder"). Also, the Group is currently in discussion with certain prospective external resources providers to bring in viable assets and/or projects to restructure its defaulted financial obligations, and to solve the Group's solvency problem. In the mean time, the Group is implementing stringent cost control measures. The directors of the Company are of the opinion that continuous financial support will be provided by the Group's prospective investors to finance its future working capital and financial requirements, provided that the restructuring of capital structure with PS holder is successful.

Notes to the Consolidated Financial Statements

31 March 2012

2. BASIS OF PRESENTATION *(continued)*

Accordingly, notwithstanding that the Group is unable to redeem the CB1 and PS 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 2012 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.

3. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain financial instruments which are measured at fair value.

The consolidated financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except for when otherwise indicated. The presentation currency is different from the functional currency of the Company, Renminbi ("RMB") as the Company is listed in Hong Kong, and the directors of the Company consider that it is appropriate to present the consolidated financial statements in HK$. The majority of the Company's subsidiaries are operating in the People's Republic of China (the "PRC") with RMB as their functional currency.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Notes to the Consolidated Financial Statements

31 March 2012

3. BASIS OF PREPARATION *(continued)*

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits/accumulated losses, as appropriate.

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

The Group has adopted the following new and revised HKFRSs for the first time for the current year's consolidation financial statements.

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

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in Improvements to HKFRSs 2010, the adoption of the new and revised HKFRSs has had no significant financial effect on the consolidated financial statements.

The principal effects of adopting these HKFRSs are as follows:

(a) HKAS 24 (Revised) Related Party Disclosures

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 40 to the consolidated financial statements.

Notes to the Consolidated Financial Statements

31 March 2012

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

(b) Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendment most applicable to the Group are as follows:

- HKFRS 3 Business Combinations: The amendment clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

  In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holder to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  The amendment also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- HKAS 1 Presentation of Financial Statements: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present to analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 Consolidated and Separate Financial Statements: The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

Notes to the Consolidated Financial Statements

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

The Group has not early applied the following new and revised HKFRSs, that have issued but are not yet effective, in the consolidated financial statements:

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

Apart from the above, the HKICPA has, in June 2012, issued Annual Improvements to HKFRSs 2009 – 2011 Cycle which sets out a collection of amendments to HKFRSs. The amendments contained in Annual Improvements 2009 – 2011 Cycle are effective for annual periods beginning on or after 1 January 2013.

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

Notes to the Consolidated Financial Statements

31 March 2012

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

Further information about those changes that are expected to significant affect the Group is as follows:

Amendments to HKFRS 7 Financial Instruments: Disclosure – Transfers of Financial Assets introduce more extensive quantitative and qualitative disclosure requirements regarding transfer transactions of financial assets (e.g. securitisations), including information for understanding the possible effects of any risks that may remain with the entity that transferred the assets. The Group expects to adopt the amendments from 1 April 2012 and comparative disclosures are not required for any period beginning before that date.

Amendments to HKFRS 7 Financial Instruments: Disclosure – Offsetting Financial Assets and Financial Liabilities set out new disclosure requirements in relation to the offsetting models of financial assets and financial liabilities. The amendments also improve the transparency in the reporting of how companies mitigate credit risk, including disclosure of related collateral pledged or received. The Group expects to adopt the amendments from 1 April 2013.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 Financial Instruments: Recognition and Measurement. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

Notes to the Consolidated Financial Statements
31 March 2012

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

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 April 2015.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 Consolidation – Special Purpose Entities. HKFRS 10 replaces the portion of HKAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures and HK(SIC)-Int 13 Jointly Controlled Entities – Non-Monetary Contributions by Ventures. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 Consolidated and Separate Financial Statements, HKAS 31 Interests in Joint Ventures and HKAS 28 Investments in Associates. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 April 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 April 2013.

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 April 2013.

Notes to the Consolidated Financial Statements

31 March 2012

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

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 April 2013.

HKAS 32 Amendments clarify the requirements for offsetting financial instrument. The amendments address inconsistencies in current practice when applying the offsetting criteria and clarify the meaning of "currently has a legally enforceable right of set-off" and some gross settlement systems may be considered equivalents net settlements. The Group expects to adopt the amendments from 1 April 2014.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from is activities.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any accumulated impairment losses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

Notes to the Consolidated Financial Statements

31 March 2012

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 March. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Notes to the Consolidated Financial Statements
31 March 2012

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charge to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Notes to the Consolidated Financial Statements

31 March 2012

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

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

(a) the party is a person or a close member of that person's family and that person

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

(ii) has significant influence over the Group; or

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

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint venture of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

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

Notes to the Consolidated Financial Statements
31 March 2012

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfy, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of cash item of property, plant and equipment to residual values over its estimated useful life. The principal annual rates used for this purpose are as follows:

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes, which is carried at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on relented borrowed funds during the period of construction. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for use.

Notes to the Consolidated Financial Statements

31 March 2012

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Leases

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Notes to the Consolidated Financial Statements
31 March 2012

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

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

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

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

Notes to the Consolidated Financial Statements

31 March 2012

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost
For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in profit or loss.

Notes to the Consolidated Financial Statements
31 March 2012

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments

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 its liabilities. The Group's financial liabilities are generally classified into 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 and other payables, amount due to a director, interest-bearing loans from a director and a shareholder are subsequently measured at amortised cost, using the effective interest method.

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).

Notes to the Consolidated Financial Statements

31 March 2012

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments *(continued)*

Convertible bonds containing liability and equity components (continued)

In subsequent periods, the liability component of the convertible bonds 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 accumulated losses. 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 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.

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.

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.

Notes to the Consolidated Financial Statements
31 March 2012

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments *(continued)*

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 or losses recognised in profit or loss.

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. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the redeemable convertible cumulative preference shares using effective interest method. Transaction costs relating to derivative component are charged to profit or loss immediately.

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

Notes to the Consolidated Financial Statements

31 March 2012

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Derecognition *(continued)*

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Notes to the Consolidated Financial Statements
31 March 2012

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

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

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Notes to the Consolidated Financial Statements

31 March 2012

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Notes to the Consolidated Financial Statements

31 March 2012

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sales of goods are recognised when the goods are delivered and the title has passed;

(b) commission income represents amounts earned from distribution of mobile pre-charge and is recognised according to agreement terms and as mobile pre-charge are sold to ultimate customers';

(c) consultancy fee income recognised when the relevant service has been rendered; and

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Notes to the Consolidated Financial Statements

31 March 2012

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees after 7 November 2002 and vested on or after 1 January 2005

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period/recognised as an expenses in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

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

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

Share options granted to employees on or before 7 November 2002, or granted after 7 November 2002 and vested before 1 January 2005

The financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in profit or loss in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Share options granted to advisors/consultants

Share options issued in exchange for services are measured at the fair values of the services received, unless that fair value cannot be reliably measured, in which case the services received are measured by reference to the fair value of the share options granted. The fair values of the services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the counterparties render services, unless the services qualify for recognition as assets.

Notes to the Consolidated Financial Statements
31 March 2012

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Retirement benefits costs

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute 5% of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

All borrowing costs are expensed in the period which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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 the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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 year.

Notes to the Consolidated Financial Statements
31 March 2012

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency (i.e. HK$) of the Group at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the foreign currency translation reserve).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or disposal involving loss of control over subsidiaries that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

6. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements.

Going concern and liquidity

As explained in note 2 to the consolidated financial statements, the financial position of the Group indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The directors of the Company are taking active steps to improve the liquidity position of the Group and details are set out in note 2 to the consolidated financial statements. 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 amounts and, to provide for further liabilities which might arise.

Notes to the Consolidated Financial Statements
31 March 2012

6. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Fair value of embedded derivatives

As disclosed in notes 31 and 32 to the consolidated financial statements, the fair values of the derivative components of PS and CB1 at the date of issue, date of conversion and the end of the reporting periods were determined using Binomial Model with reference to the valuations performed by an independent valuer. Application of the valuation model requires the Group 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 CB1 and PS in the period in which such determination is made. During the year ended 31 March 2012, the fair value gain of the derivative components of PS are approximately HK$114,702,000.

Impairment of trade and other receivables

The Group makes impairment of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of the customers and other debtors and the current market condition. The directors of the Company reassess the impairment at the end of each reporting period.

Notes to the Consolidated Financial Statements

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7. 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 owners 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 of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through adjusting 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

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8. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2012	2011
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables:		
Trade receivables	**27,101**	20,447
Deposits and other receivables	**195,979**	84,570
Restricted bank balances	**24,741**	100,173
Cash and bank balances	**7,719**	71,998
Total financial assets	**255,540**	277,188
Financial liabilities		
Financial liabilities at amortised cost:		
Trade payables	**83**	92
Other payables	**24,757**	25,488
Amount due to a director	**2,599**	545
Interest-bearing loans from a director and a shareholder	**8,052**	–
Liability component of convertible bonds	**46,643**	45,188
Liability component of redeemable convertible cumulative preference shares	**281,801**	180,755
	363,935	252,068
Financial liabilities at fair value through profit or loss:		
Derivative component of redeemable convertible cumulative preference shares	**6,875**	121,577
Total financial liabilities	**370,810**	373,645

Notes to the Consolidated Financial Statements

31 March 2012

8. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, deposits and other receivables, restricted bank balances, cash and bank balances, trade and other payables, amount due to a director, interest-bearing loans from a director and a shareholder, CB1 and PS. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include currency 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.

Currency risk

The Group did not have a foreign currency hedging policy as at the end of the reporting period. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The following table details the Group's exposure at the reporting date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	Monetary assets		**Monetary liabilities**	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
RMB	**64,935**	–	**2,599**	1,262
USD	**1,398**	2,587	**335,319**	347,520

Notes to the Consolidated Financial Statements
31 March 2012

8. FINANCIAL INSTRUMENTS *(continued)*

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

Currency risk *(continued)*

The following table details the Group's sensitivity to a 5% (2011: 5%) increase or decrease in the Hong Kong dollar and US dollar against the RMB. Under the linked exchange rate system, the financial impact on exchange difference between Hong Kong dollar and US dollar will be immaterial and therefore no sensitivity analysis has been prepared. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rate.

	Effect on (increase)/decrease in loss for the year	
	2012	2011
	HK$'000	*HK$'000*
RMB	**3,117**	(63)

In management's opinion, the sensitivity analysis is not necessarily representative of the inherent foreign currency risk as the year end exposure does not reflect the exposure during the year.

Notes to the Consolidated Financial Statements

31 March 2012

8. FINANCIAL INSTRUMENTS *(continued)*

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

Credit risk

As at 31 March 2012, 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 statement of financial position.

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 of the Company 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 of the Company consider that the Group's credit risk is significantly reduced.

As at 31 March 2012, the Group has concentration of credit risk as 99.8% (2011: 0.0%) and 99.8% (2011: 68.6%) of the total trade receivables was due from the Group's largest customer and five largest customers, respectively.

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

Notes to the Consolidated Financial Statements

31 March 2012

8. FINANCIAL INSTRUMENTS *(continued)*

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

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.

The maturity profile of the Group's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2012			2011		
	Less than 1 year or on demand *HK$'000*	1 – 5 years *HK$'000*	Total *HK$'000*	Less than 1 year or on demand *HK$'000*	1 – 5 years *HK$'000*	Total *HK$'000*
Non-derivative financial liabilities						
Trade payables	83	–	83	92	–	92
Other payables	24,757	–	24,757	25,488	–	25,488
Amount due to a director	2,599	–	2,599	545	–	545
Interest-bearing loans from a director and a shareholder	8,052	–	8,052	–	–	–
Liability component of convertible bonds*	48,358	–	48,358	–	48,358	48,358
Liability component of redeemable convertible cumulative preference shares*	464,896	–	464,896	–	460,807	460,807
	548,745	–	548,745	26,125	509,165	535,290
Derivative – gross settlement						
Derivative component of redeemable convertible cumulative preference shares*	6,875	–	6,875	–	121,577	121,577

* The maturity profile of redeemable convertible cumulative preference shares and convertible bonds disclosed above will be matured in May 2013, however, the noteholders would have the right to request the Company to early redeem the redeemable convertible cumulative preference shares and convertible bonds before their maturity and therefore reclassified to current liabilities during the year. Further details are set in notes 31 and 32 to the consolidated financial statements.

As explained in note 2 to the consolidated financial statements, the directors of the Company have adopted or plan to adopt certain measures in order to improve the Group's financial and cash flow positions and to maintain the Group as a going concern.

Notes to the Consolidated Financial Statements

31 March 2012

8. FINANCIAL INSTRUMENTS *(continued)*

(c) Fair value and fair value hierarchy

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

- the fair values of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and traded in active markets are determined with reference to quoted market bid prices and ask prices respectively;

- the fair values 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; and

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

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

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

Notes to the Consolidated Financial Statements
31 March 2012

8. FINANCIAL INSTRUMENTS *(continued)*

(c) Fair value and fair value hierarchy *(continued)*

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

	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
31 March 2012				
Financial liabilities at FVTPL				
Derivative financial liabilities	**–**	**6,875**	**–**	**6,875**

	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
31 March 2011				
Financial liabilities at FVTPL				
Derivative financial liabilities	–	121,577	–	121,577

There were no transfers between Level 1 and 2 during the year ended 31 March 2012 and 2011.

9. OPERATING SEGMENT INFORMATION

The Group's operating segments, based on information reported to the directors of the Company being chief operating decision maker, for the purpose of resource allocation and assessment of segment performance focus on types of goods or services delivered or provided.

Segment assets excluded restricted bank balances, cash and bank balances and corporate assets as these assets are managed on a group basis.

Segment liabilities excluded interest-bearing loans from a director and a shareholder, amount due to a director, derivative component of convertible bonds, derivative component of redeemable convertible cumulative preference shares, liability component of convertible bonds, liability component of redeemable convertible cumulative preference shares, deferred tax liabilities and other corporate liabilities as these liabilities are managed on a group basis.

Notes to the Consolidated Financial Statements

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9. OPERATING SEGMENT INFORMATION *(continued)*

No operating segment is presented as the Group basically operated in one single operating segment during the years ended 31 March 2012 and 2011. An operating segment regarding the sales of medical devices and consumables discontinued in current year, details of which the segment information are set out in note 14 to the consolidated financial statements.

The following table is an analysis of the Group's assets and liabilities and other segment information for the years ended 31 March 2012 and 2011:

	B-to-C consumer services		Total	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
SEGMENT ASSETS	**40,852**	81,769	**40,852**	81,769
Corporate and other unallocated assets			**216,725**	207,383
Total assets			**257,577**	289,152
SEGMENT LIABILITIES	**4,973**	17,262	**4,973**	17,262
Corporate and other unallocated liabilities			**370,678**	369,705
Total liabilities			**375,651**	386,967
Other segment information				
Amortisation of other intangible assets	**253**	579		
Depreciation	**1,733**	2,086		
Impairment loss of trade and other receivables	**3,708**	113		
Finance costs	**887**	146		
Capital expenditure*	**2,394**	4,133		

* Capital expenditure excluded goodwill and consists of additions to non-current assets and excluding assets from other intangible assets.

Notes to the Consolidated Financial Statements
31 March 2012

9. OPERATING SEGMENT INFORMATION *(continued)*

Geographical information

For the years ended 31 March 2012 and 2011, the Group's operations and its non-current assets are principally located in the PRC, accordingly no geographical segment information is presented.

Information about major customers

During the year ended 31 March 2012, the Group had transactions with 2 (2011: 2) customers who each contributed over 10% of the Group's total net revenue from continuing operation. A summary of revenue earned from each of these major customers is set out below:

	Year ended 31 March	
	2012	2011
	HK$'000	*HK$'000*
Customer 1	**24,459**	13,715
Customer 2	**20,998**	35,098
	45,457	48,813

10. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represented the commission income earned from distribution of mobile pre-charge and is recognised according to agreement terms and as mobile pre-charge are sold to ultimate customers.

An analysis of other income and gains from continuing operation are as follows:

	2012	2011
	HK$'000	*HK$'000*
Interest income	**1,042**	740
Government grants *(note)*	**1,032**	1,178
Sales of consumables	**6**	346
Consultancy fee income	**934**	291
Others	**68**	1,819
	3,082	4,374

Note: Government grants represent subsidies to foreign owned enterprises as awards for investing in the PRC. There are no unfulfilled conditions or contingencies relating to these grants.

Notes to the Consolidated Financial Statements

31 March 2012

11. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	2012	2011
	HK$'000	*HK$'000*
Interest on loans from a director and a shareholder	**52**	–
Interest on bank loans wholly repayable within five years	**887**	297
Interest on convertible bonds wholly repayable within five years	**1,455**	3,758
Interest on liability component of redeemable convertible cumulative preference shares wholly repayable within five years	**99,736**	98,548
	102,130	102,603

Notes to the Consolidated Financial Statements

31 March 2012

12. LOSS BEFORE TAX

The Group's loss before tax from continuing operations is arrived at after charging/(crediting):

	2012	2011
	HK$'000	*HK$'000*
Amortisation of other intangible assets*	**253**	579
Auditor's remuneration	**750**	1,291
Cost of inventories sold	**4**	40
Depreciation	**1,860**	2,976
Equity-settled share option expenses	**–**	2,898
Fair value loss on derivative component of convertible bonds	**–**	13,211
Fair value (gain)/loss on derivative component of redeemable convertible cumulative preference shares	**(114,702)**	115,338
Loss on repurchase of convertible bonds	**–**	43
Gain on recalculation of liability component of redeemable convertible cumulative preference shares	**–**	(95,227)
Foreign exchange differences, net	**(1,641)**	748
Impairment loss of trade and other receivables*	**7,410**	3,017
Write-down of inventories to net realisable value*	**78**	–
Impairment loss of goodwill	**–**	25,012
Loss on disposal of items of property, plant and equipment*	**6**	1,857
Loss on disposal of other intangible assets*	**–**	173
Minimum leases payments under operating leases for land and buildings	**1,570**	1,320
Research and development expenditure*	**–**	251
Gain on disposal of subsidiaries*	**(11,213)**	–
Staff costs (including directors' remuneration *(note 15)*		
– Salaries and allowances	**12,118**	11,019
– Retirement benefit scheme contributions	**1,796**	4,257
	13,914	15,276

* These items are included in "administrative expenses" in the consolidated statements of comprehensive income.

Notes to the Consolidated Financial Statements

31 March 2012

13. INCOME TAX

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.

Subsidiaries established in Mainland China are subject to the PRC enterprise income tax at the standard rate of 25% (2011: 25%). One of the subsidiaries was registered as a new and high technical enterprise and pursuant to the New Corporate Income Tax Law, this subsidiary is subject to the PRC corporate income tax at a rate of 15% on its assessable profits for the three years ended 31 March 2012.

	2012	2011
	HK$'000	*HK$'000*
Current tax – PRC		
Provision for the year	**1,992**	3,284
Deferred tax *(note 33)*	**(35)**	(87)
Total tax charge for the year	**1,957**	3,197

A reconciliation of the tax expense applicable to loss before tax at the statutory rates of the PRC, where the majority of the Company's subsidiaries are domiciled to the tax expense at the effective tax rates, is as follows:

	2012	2011
	HK$'000	*HK$'000*
Loss before tax from continuing operations	**(21,138)**	(185,345)
Tax at the statutory rate in the PRC of 25%	**(5,285)**	(46,336)
Lower tax rates for specific provinces or enacted by local authority	**1,134**	31,255
Expenses not deductible for tax	**1,843**	20,697
Income not subject to tax	**(155)**	(3,362)
Tax losses not recognised	**3,443**	869
Tax losses utilised from previous periods	**–**	(593)
Others	**977**	667
Tax charge at the Group's effective rate of (9.3%) (2011: (1.7%))	**1,957**	3,197

Notes to the Consolidated Financial Statements

31 March 2012

14. DISCONTINUED OPERATIONS

The (loss)/profit for the year from discontinued operations is analysed as follows:

	2012	2011		
	Sales of Medical Devices and Consumables Group	Sales of Medical Devices and Consumables Group	B-to-B Group	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(note a)	*(note a)*	*(note b)*	
(Loss)/profit of discontinued operations	**(4,080)**	4,130	890	5,020
Gain on disposal *(note 37)*	**3,591**	–	1,387	1,387
(Loss)/profit for the year from discontinued operations	**(489)**	4,130	2,277	6,407

Notes:

(a) In July 2011, the Company entered into a sale agreement to dispose of West Regent Property Limited, which engaged in sales of medical devices and consumables operations. The Group has decided to cease its entire sales of medical devices and consumables operation (collectively referred to as the "Sales of Medical Devices and Consumables Group") because it plans to focus the resources on the Group's B-to-C consumer services. The disposal was completed on 31 July 2011, on which date control of the Sales of the Medical Devices and Consumables Group passed to the acquirer.

(b) In July 2010, the Company entered into a sale agreement to dispose of Junghua Enterprises Holding Limited, CHC (Shanghai) Medical & Healthcare Services Limited and Beijing Weichang Medical Clinic Company Limited (collectively referred to as the "B-to-B Group"), which carried out all of the Group's B-to-B healthcare services operations. The disposal was effected in order to focus the resources on the Group's other business. The disposal was completed on 31 July 2010, on which date control of the B-to-B Group passed to the acquirer.

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14. DISCONTINUED OPERATIONS *(continued)*

Loss/(profit) for the year from discontinued operations is arrived at after charging/(crediting):

	2012 HK$'000	2011 HK$'000
Interest income	(1)	(3)
Cost of inventories sold	6,894	12,759
Depreciation	6	978
Foreign exchange differences, net	–	(819)
Impairment of trade and other receivables	2,187	–
Write-down of inventories to net realisable value	2,134	1,002
Loss on disposal of items of property, plant and equipment	–	180
Minimum leases payments under operating leases for land and buildings	113	470
Staff costs		
– Salaries and allowances	591	2,692
– Retirement benefit scheme contributions	50	381
	641	3,073

The cash flows from discontinued operations were as follows:

	2012 HK$'000	2011 HK$'000
Net cash inflows from operating activities	390	2,740
Net cash outflows from investing activities	–	(2,144)
Net cash outflows from financing activities	–	(19)
Net cash inflows	390	577

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14. DISCONTINUED OPERATIONS *(continued)*

The carrying amounts of the assets and liabilities of the Sales of the Medical Devices and Consumables Group and B-to-B Group at the date of disposal are disclosed in note 37 to the consolidated financial statements.

An analysis of the results of discontinued operations included in the consolidated statement of comprehensive income was as follows:

	2012	2011		
	Sales of Medical Devices and Consumables Group	Sales of Medical Devices and Consumables Group	B-to-B Group	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**8,686**	20,836	3,109	23,945
Expenses	**(12,705)**	(16,529)	(2,219)	(18,748)
(Loss)/profit before tax	**(4,019)**	4,307	890	5,197
Income tax	**(61)**	(177)	–	(177)
(Loss)/profit for the year from discontinued operations and attributable to the owners of the Company	**(4,080)**	4,130	890	5,020

The calculations of basic and diluted loss per share from the discontinued operations are based on:

	2012	2011
	HK$'000	*HK$'000*
(Loss)/profit for the year from discontinued operations	**(489)**	6,407
Less: loss for the year from discontinued operations attributable to non-controlling interests	**–**	(252)
(Loss)/profit attributable to owners of the Company from the discontinued operations	**(489)**	6,155

	2012	2011
Weighted average number of ordinary shares in issue during the year used in the basic and diluted (loss)/earnings per share calculation	**503,259,665**	357,769,137
(Loss)/earnings per share:		
Basic and diluted from discontinued operations	**HK$0.0**	HK$0.0

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15. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES

Directors' emoluments

The emoluments paid or payable to each of the six (2011: six) directors of the Company were as follows:

Year ended 31 March 2012

Name	Directors' fees *HK$'000*	Salaries and other benefits *HK$'000*	Contributions to retirement benefit schemes *HK$'000*	Total *HK$'000*
Executive directors				
Dr. Li Zhong Yuan	–	2,224	12	2,236
Mr. Zhou Bao Yi	–	535	–	535
Non-executive director				
Mr. Martin Treffer	–	–	–	–
Independent non-executive directors				
Mr. Mu Xiang Ming	100	–	–	100
Dr. Yan Shi Yun	100	–	–	100
Mr. Jiang Bo	100	–	–	100
Total	**300**	**2,759**	**12**	**3,071**

Year ended 31 March 2011

Name	Directors' fees *HK$'000*	Salaries and other benefits *HK$'000*	Contributions to retirement benefit schemes *HK$'000*	Total *HK$'000*
Executive directors				
Dr. Li Zhong Yuan	–	2,067	12	2,079
Mr. Zhou Bao Yi	–	511	–	511
Non-executive director				
Mr. Martin Treffer	–	–	–	–
Independent non-executive directors				
Mr. Mu Xiang Ming	100	–	–	100
Dr. Yan Shi Yun	100	–	–	100
Mr. Jiang Bo	100	–	–	100
Total	300	2,578	12	2,890

No director had waived any emoluments during the years ended 31 March 2012 and 2011.

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15. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES *(continued)*

Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, two (2011: two) were directors of the Company whose emoluments are presented above. The emoluments of the remaining three (2011: three) individuals were as follows:

	2012	2011
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**1,703**	1,596
Contributions to retirement benefit schemes	**80**	75
	1,783	1,671

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

	Number of employees	
	2012	2011
Nil to HK$1,000,000	**3**	3

No emoluments have been paid or payable by the Group to any of the directors of the Company 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 during the years ended 31 March 2012 and 2011.

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16. (LOSS)/EARNINGS PER SHARE

	2012	2011
	HK$'000	*HK$'000*
(Loss)/profit attributable to owners of the Company, used in the basis loss per share calculation:		
– From continuing operations	**(18,066)**	(214,371)
– From discontinued operations	**(489)**	6,155
	(18,555)	(208,216)

Number of shares	**2012**	2011
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**503,259,665**	357,769,137

In respect of the diluted loss per share amounts presented, no adjustment has been made to the basis loss per share from continuing and discontinued operations attributable to the owners of the Company are presented for the years ended 31 March 2012 and 2011 as the impact of the convertible bonds and redeemable convertible cumulative preference shares outstanding during these years had either no dilutive effect or an anti-dilutive effect on the basic loss per share amounts presented.

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17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST						
At 1 April 2010	3,458	10,108	9,751	1,281	84	24,682
Additions	543	579	2,496	621	473	4,712
Disposals	(996)	(5,036)	(3,779)	(768)	–	(10,579)
Disposal of subsidiaries *(note 37)*	(2,878)	(5,111)	(1,828)	–	–	(9,817)
Exchange realignment	141	829	324	42	(1)	1,335
At 31 March 2011 and 1 April 2011	268	1,369	6,964	1,176	556	10,333
Additions	363	–	1,497	851	–	2,711
Disposals	–	(300)	(59)	–	–	(359)
Disposal of subsidiaries *(note 37)*	(349)	(1,200)	(7,931)	(354)	(565)	(10,399)
Exchange realignment	8	131	318	52	9	518
At 31 March 2012	290	–	789	1,725	–	2,804
ACCUMULATED DEPRECIATION						
At 1 April 2010	2,903	6,292	6,579	426	–	16,200
Provided for the year	376	1,850	1,464	264	–	3,954
Disposals	(395)	(3,353)	(2,965)	(171)	–	(6,884)
Disposal of subsidiaries *(note 37)*	(2,878)	(4,239)	(1,513)	–	–	(8,630)
Exchange realignment	121	283	235	20	–	659
At 31 March 2011 and 1 April 2011	127	833	3,800	539	–	5,299
Provided for the year	266	217	1,108	275	–	1,866
Disposals	–	(295)	(58)	–	–	(353)
Disposal of subsidiaries *(note 37)*	(211)	(802)	(4,622)	(216)	–	(5,851)
Exchange realignment	13	47	156	9	–	225
At 31 March 2012	195	–	384	607	–	1,186
NET CARRYING VALUES						
At 31 March 2012	95	–	405	1,118	–	1,618
At 31 March 2011	141	536	3,164	637	556	5,034

Notes to the Consolidated Financial Statements

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18. GOODWILL

	HK$'000
COST	
At 1 April 2010	44,755
Eliminated on disposal of subsidiaries	(19,959)
Exchange realignment	1,817
At 31 March 2011 and 1 April 2011	26,613
Eliminated on disposal of subsidiaries	(27,554)
Exchange realignment	941
At 31 March 2012	–
ACCUMULATED IMPAIRMENT	
At 1 April 2010	12,173
Impairment	25,012
Eliminated on disposal of subsidiaries	(11,064)
Exchange realignment	492
At 31 March 2011 and 1 April 2011	26,613
Eliminated on disposal of subsidiaries	(27,554)
Exchange realignment	941
At 31 March 2012	–
NET CARRYING VALUES	
At 31 March 2012	–
At 31 March 2011	–

Notes to the Consolidated Financial Statements

31 March 2012

18. GOODWILL *(continued)*

For the purposes of impairment testing as at 31 March 2011, goodwill set out above have been allocated to the following three individual cash generating units ("CGUs"):

B-to-C consumer services:

- Shanghai Harvest Network Technology Co. Limited and its subsidiary ("Harvest Group")
- Nanjing Wangchi

B-to-B healthcare services:

- Beijing Universal Medical Assistance Co., Ltd. ("BUMA")

Full impairments of all of the CGUs containing goodwill was recognised as at 31 March 2011 and eliminated on disposal of subsidiaries during the year ended 31 March 2012.

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

B-to-B healthcare services

BUMA

BUMA was disposed on 31 July 2010. The goodwill related to BUMA was eliminated on the disposal for the year ended 31 March 2011.

B-to-C consumer services

Harvest Group

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 20% per annum. Harvest Group's cash flows beyond the 5-year period are extrapolated using an average 4% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross profit margin of 0.61%. Such estimation is based on the unit's past performance and management's expectations for the market development. Due to the unfavourable sales performance of existing products, the Group recognised an impairment loss of approximately of HK$23,812,000 for the year ended 31 March 2011 in relation to goodwill of Harvest Group and eliminated on disposal of subsidiaries during the year ended 31 March 2012.

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31 March 2012

18. GOODWILL *(continued)*

B-to-C consumer services *(continued)*

Nanjing Wangchi

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 22% per annum. Nanjing Wangchi's cash flows beyond the 5-year period are extrapolated using an average 28% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross profit margin of 94%. Such estimation is based on the unit's past performance and management's expectations for the market development. Due to the unfavourable sales performance of existing services, the Group recognised an impairment loss of approximately of HK$1,200,000 for the year ended 31 March 2011 in relation to goodwill of Nanjing Wangchi and eliminated on disposal of subsidiaries during the year ended 31 March 2012.

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19. OTHER INTANGIBLE ASSETS

	Computer software
	HK$'000
COST	
At 1 April 2010	2,935
Disposals	(1,284)
Exchange realignment	121
At 31 March 2011 and 1 April 2011	1,772
Disposal of subsidiaries *(note 37)*	(1,835)
Exchange realignment	63
At 31 March 2012	–
AMORTISATION	
At 1 April 2010	923
Charge for the year	579
Disposals	(1,111)
Exchange realignment	52
At 31 March 2011 and 1 April 2011	443
Charge for the year	253
Disposal of subsidiaries *(note 37)*	(715)
Exchange realignment	19
At 31 March 2012	–
CARRYING VALUES	
At 31 March 2012	–
At 31 March 2011	1,329

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

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20. PREPAYMENT FOR ACQUISITION OF NON-CURRENT ASSETS

	2012 HK$'000	2011 HK$'000
Cost	7,361	6,889
Impairment	(7,648)	(7,361)
Exchange realignment	287	472
	–	–

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 in development of e-healthcare service network in women and children.

21. INVENTORIES

	2012 HK$'000	2011 HK$'000
Raw materials	–	370
Finished goods	–	2,600
	–	2,970

Notes to the Consolidated Financial Statements
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22. TRADE RECEIVABLES

	2012	2011
	HK$'000	*HK$'000*
Trade receivables	**27,101**	20,727
Impairment	**–**	(280)
	27,101	20,447

The normal credit period granted to customers of the distribution of mobile pre-charge is 180 days. The credit terms granted to other customers generally ranged from 10 to 90 days.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	2012	2011
	HK$'000	*HK$'000*
Within 1 month	**2,016**	5,222
1 to 3 months	**3,917**	11,593
Over 3 months	**21,168**	3,632
	27,101	20,447

Included in the Group's trade receivables balances are debtors with aggregate carrying amount of approximately HK$14,910,000 (2011: HK$3,632,000) which were past due as at the reporting date for which the Group has not provided for impairment loss.

Notes to the Consolidated Financial Statements

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22. TRADE RECEIVABLES *(continued)*

Aging of trade receivables which are past due but not impaired:

	2012 HK$'000	2011 HK$'000
Within 90 days	**6,316**	–
91 to 120 days	**2,091**	573
Over 120 days	**6,503**	3,059
	14,910	3,632

Trade receivables that were past due but not impaired were related to a number of independent customers for whom there is no recent history of default. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Movements in the impairment of trade receivables:

	2012 HK$'000	2011 HK$'000
At 1 April	**280**	9,020
Amount written off as uncollectable	**–**	(9,062)
Impairment loss recognised	**2,187**	–
Disposal of subsidiaries	**(2,467)**	(72)
Exchange realignment	**–**	394
At 31 March	**–**	280

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23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2012	2011
	HK$'000	*HK$'000*
Other receivables	**122,934**	48,627
Less: Non-current portion of other receivable *(note a)*	**(4,169)**	–
	118,765	48,627
Deposits *(note b)*	**73,045**	35,943
Prepayments	**419**	2,631
Current portion of prepayment, deposits and other receivables	**192,229**	87,201

Notes:

(a) Included in the Group's other receivables under non-current portion and current portion are amounts of approximately HK$4,169,000 and HK$3,701,000, respectively, with respect to a loan of RMB8,000,000 (equivalent to approximately HK$9,674,000) granted by the Group to an independent third party pursuant to a loan agreement dated 26 July 2011. The loan was pledged by the borrower's properties situated in Mainland China.

(b) Included in the Group's deposits as at 31 March 2012 are amounts of approximately HK$5,900,000 paid to the High Court of Hong Kong Special Administrative Region of which to provide security for court costs, and approximately RMB37,928,000 (equivalent to approximately HK$44,000,000) deposit held under escrow account in relation to the litigation set out in note 41 to the consolidated financial statements.

None of the above assets is either past due or impaired. The financial assets included in the above balances related to receivables for which no recent history of default.

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24. LOAN RECEIVABLES

	2012	2011
	HK$'000	*HK$'000*
Loans advanced to independent third parties	**21,675**	39,964
Amount written off as uncollectible	**–**	(18,289)
Impairment	**(21,675)**	(21,675)
	–	–

25. RESTRICTED BANK BALANCES

The restricted bank balances amount of approximately HK$24,741,000 (2011: HK$100,173,000) represented the balances which are subject to restrictions pursuant to the subscription agreement signed by Harvest Network and subscribers of the non-redeemable convertible preference shares of Harvest Network. The restricted bank balances carry interest at market rates ranged from 0.4% to 0.5% (2011: 0.36% to 0.4%) per annum.

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

	2012	2011
	HK$'000	*HK$'000*
RMB	**19,501**	68,795
HK$	**91**	95
US$	**5,149**	31,283
	24,741	100,173

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26. CASH AND BANK BALANCES

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

	2012	2011
	HK$'000	*HK$'000*
RMB	**783**	55,532
HK$	**6,407**	14,430
US$	**529**	1,654
Euro	**–**	382
	7,719	71,998

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

27. TRADE PAYABLES

An aged analysis of trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2012	2011
	HK$'000	*HK$'000*
Within 1 month	**–**	84
Over 3 months	**83**	8
Total	**83**	92

The trade payables are non-interest-bearing and normally settled from 30 to 60 day terms.

The average credit period on purchases of goods ranged from 30 to 60 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

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28. OTHER PAYABLES AND ACCRUED EXPENSES

	2012	2011
	HK$'000	*HK$'000*
Other payables *(note a)*	**24,757**	25,488
Accrued expenses	**2,035**	1,188
Deposit received *(note b)*	**434**	7,011
Receipt in advance	**113**	1,291
	27,339	34,978

Notes:

(a) Other payables are non-interest-bearing and have an average term of 30 days.

(b) 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.

29. AMOUNT DUE TO A DIRECTOR

The amount due to a director is unsecured, interest free and repayable on demand.

30. INTEREST-BEARING LOANS FROM A DIRECTOR AND A SHAREHOLDER

The loans from a director and a shareholder with the total outstanding principal and interest of approximately HK$4,030,000 and HK$4,022,000, respectively. The loans are unsecured, bear interest at the Hong Kong Best Leading Rate and repayable within one year.

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31. REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES

On 28 July 2006, the Company issued 15,000 PS of US$0.01 each for a total cash consideration of US$15,000,000 (equivalent to 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 (i.e. 27 July 2011) 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. The conversion price was adjusted to HK$0.3201 per share (subject to adjustment) due to new ordinary shares of the Company were issued at HK$0.3201 per share on 7 May 2010; and

(b) 0.9 times 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, the holder of the PS shall have the right at any time to require the Company to redeem all or any of the 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.

The Group was unable to redeem the PS on maturity date. During the year ended 31 March 2011, the PS holder signed a consent letter to agree a maturity extension to 17 May 2013 with all other terms and conditions of the PS being retained unchanged and to a standstill of redemption rights under the PS before the extended maturity date of PS as long as the Group is pursuing viable opportunities of asset injection; and that upon the completion of such asset injection, the PS holder agrees to turn the outstanding PS to equity of the Group. Accordingly, the PS had been reclassified to non-current liabilities as at 31 March 2011. Due to the uncertainty of the outcome of the Group's ongoing negotiations with the PS holder and potential investors during the year, the PS had been reclassified to current liabilities as at 31 March 2012.

The fair value of the derivative component, representing the conversion right entitled to the holders of PS, was estimated at the issuance and the end of each reporting period using Binomial Model and the change in fair value of that component is recognised in profit or loss.

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31. REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES *(continued)*

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

	2012	2011
	HK$'000	*HK$'000*
Liability component		
At 1 April	**180,755**	176,820
Exchange realignment	**1,310**	614
Interest charged for the year	**99,736**	98,548
Gain on recalculation of liability component of PS	**–**	(95,227)
At 31 March	**281,801**	180,755

	2012	2011
	HK$'000	*HK$'000*
Derivative component		
At 1 April	**121,577**	6,239
Fair value (gain)/loss on derivative component of PS	**(114,702)**	115,338
At 31 March	**6,875**	121,577

On 18 May 2009, due to the Group's default in the redemption on the CB1, the Company's early redemption obligation of PS was triggered. The liability component included the early redemption obligation at that day is approximately HK$114,218,000 with effective interest rate of 60% per annum.

As at 31 March 2012, the effective interest rate of the liability component of PS is 62% (2011: 60%) per annum.

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31. REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES *(continued)*

The derivative component of PS were revalued at 31 March 2012 and 31 March 2011 based on valuations by Avista Valuation Advisory Limited, an independent qualified valuer not connected to the Group, determined using Binomial Model. The significant inputs to the models were as follows:

	2012	2011
Share price of underlying shares	**HK$0.345**	HK$1.10
Exercise price	**HK$0.3201**	HK$0.3201
Expected volatility	**83.70%**	71.90%
Expected life	**1.13 years**	2.13 years
Risk-free rate	**0.16%**	0.937%
Expected dividend yield	**Nil**	Nil

32. CONVERTIBLE BONDS

	2012	2011
	HK$'000	*HK$'000*
Liability component of convertible bonds		
Convertible bonds issued with equity component *(note a)*	**46,643**	45,188
Convertible bonds issued with derivative component *(note b)*	**–**	–
	46,643	45,188
Derivative component of convertible bonds *(note b)*	**–**	–

The liability component of the convertible bonds is repayable on demand.

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32. CONVERTIBLE BONDS *(continued)*

Notes:

(a) Unsubordinated convertible bonds contains liability and equity components

On 19 May 2005, the Company issued CB1 with a nominal value of US$6,600,000 due on 18 May 2009. 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 redeem the principal of CB1 at 100% of their face value.

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

	2012	2011
	HK$'000	*HK$'000*
Carrying amount at 1 April	**45,188**	44,320
Exchange realignment	**–**	(2)
Interest charged for the year	**1,455**	1,450
Repurchase during the year	**–**	(580)
Carrying amount at 31 March	**46,643**	45,188

The effective interest rate of the liability component of CB1 is 5.135% per annum.

As at and up to 31 March 2011, CB1 with aggregate principal amount of US$1,210,000 (equivalent to approximately HK$9,372,000) had been repurchased by the Group at an aggregate consideration of approximately HK$4,818,800. There is no repurchase of CB1 by the Group during the year ended 31 March 2012.

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32. CONVERTIBLE BONDS *(continued)*

Notes: (continued)

(a) Unsubordinated convertible bonds contains liability and equity components *(continued)*

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 CB1 had triggered the Company's early redemption obligation of CB1 and PS. Subsequent to the maturity date of CB1, the Company reached an understanding with the major holder of CB1 to conditionally postpone the payment by the Company of the outstanding debts of CB1 for three years to 17 May 2013 if the Group can fulfil the conditions requested by the major holder of CB1, which is a successful injection of substantial external resources into the Group, in short, and as long as no additional issuance of any debts by the Group that will rank pari passu with the CB1 upon and after successful injection of substantial external resources. Due to the uncertainty of the outcome of the Group's ongoing negotiations, CB1 had been reclassified to current liabilities as at 31 March 2012.

(b) Unsubordinated convertible bonds contains liability and derivative components

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.

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.

During the year ended 31 March 2011, the holders of CB3 have exercised the conversion right to convert the convertible bonds at conversion price of HK$0.3201 into 32,431,552 new ordinary shares in two conversions in August 2010 and one conversion on 24 November 2010. As the directors of the Company consider the fluctuation of the market share price of the shares of the Company during August 2010 is immaterial, therefore, valuations dated on 31 August 2010 and 24 November 2010 were adopted as basis for the purpose of calculating the conversion of ordinary shares. The fair value of the derivative component at 31 August 2010 and 24 November 2010 was revalued based on the valuations by Avista Valuation Advisory Limited, an independent qualified valuer not connected to the Group.

The fair value of the derivative component, representing the conversion right entitled to the holders of CB3, was estimated at the issuance and the end of each reporting period using Binomial Model and the change in fair value of that component is recognised in profit or loss.

Notes to the Consolidated Financial Statements

31 March 2012

32. CONVERTIBLE BONDS *(continued)*

Notes: (continued)

(b) Unsubordinated convertible bonds contains liability and derivative components *(continued)*

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

	2012	2011
	HK$'000	*HK$'000*
Liability component		
At 1 April	–	7,827
Interest charged for the year	–	2,308
Reclassify unpaid interests to other payables	–	(1,938)
Conversion during the year	–	(8,197)
At 31 March	–	–

	2012	2011
	HK$'000	*HK$'000*
Derivative component		
At 1 April	–	6,046
Fair value loss on derivative component of CB3	–	13,211
Conversion during the year	–	(19,257)
At 31 March	–	–

The effective interest rate of the liability component of CB3 is 41.025% per annum for the year ended 31 March 2011.

Notes to the Consolidated Financial Statements
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32. CONVERTIBLE BONDS *(continued)*

Notes: (continued)

(b) Unsubordinated convertible bonds contains liability and derivative components *(continued)*

The derivative component of CB3 was revalued at 24 November 2010, 31 August 2010, 31 March 2010 and 28 February 2010 based on valuations by Avista Valuation Advisory Limited, independent qualified valuers not connected to the Group, determined using Binomial Model. The significant inputs to the models were as follows:

	24 November 2010	31 August 2010	31 March 2010	28 February 2010
Share price of underlying shares	HK$0.90	HK$0.85	HK$0.41	HK$0.46
Exercise price	HK$0.3201	HK$0.3201	HK$0.35	HK$0.41
Expected volatility	69.5%	72.4%	108.2%	118.6%
Expected life	0.5 year	0.75 years	1.17 years	1.25 years
Risk-free rate	0.280%	0.240%	0.302%	0.312%
Expected dividend yield	Nil	Nil	Nil	Nil

Subordinated convertible notes of RMB13,275,000

On 5 April 2010, the Company issued subordinated convertible notes with a nominal value of RMB13,275,000 (equivalent to HK$15,000,000) due on 4 April 2011 ("SCN1"). SCN1 carries zero coupon rate and entitles the holder to convert the notes into 46,860,356 new ordinary shares of the Company, which fixed the conversion price at RMB0.2832885 (equivalent to HK$0.3201) per share, during the period before the maturity date. If SCN1 remain outstanding on the maturity date, the Company will redeem the principal amount of SCN1 at 100% by issuance of new ordinary shares of the Company at RMB0.2832885 per share.

SCN1 was classified as equity and recorded in the convertible bonds reserve. SCN1 ranked subordinated to existing convertible bonds.

During the year ended 31 March 2011, the holders of SCN1 have converted the SCN1 into new ordinary shares of the Company.

Notes to the Consolidated Financial Statements

31 March 2012

32. CONVERTIBLE BONDS *(continued)*

Notes: (continued)

(b) Unsubordinated convertible bonds contains liability and derivative components *(continued)*

Subordinated convertible notes of RMB44,250,000

On 5 April 2010, the Company entered into a subscription agreement with subscribers to issue subordinated convertible notes with a nominal value of RMB44,250,000 (equivalent to approximately HK$50,000,000) due on one year after the date of issuance ("SCN2"). SCN2 carries zero coupon rate and entitles the holder to convert the notes into 156,201,187 new ordinary shares of the Company, which fixed the conversion price of RMB0.2832885 (equivalent to approximately HK$0.3201) per share, within one year after the date of issuance. If SCN2 remain outstanding on the maturity date, the Company will redeem the principal amount of SCN2 at 100% by issuance of new ordinary shares of the Company at RMB0.2832885 per share. The subscribers subscribed for the SCN2 in the total amount of RMB44,250,000 in aggregate during the year ended 31 March 2011.

SCN2 was classified as equity and recorded in the convertible bonds reserve. SCN2 ranked subordinated to existing convertible bonds.

During the year ended 31 March 2011, the holders of SCN2 have converted the SCN2 into new ordinary shares of the Company.

33. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities of the Group during the year are as follows:

	Fair value adjustment on intangible assets from business combinations	
	2012	2011
	HK$'000	*HK$'000*
At 1 April	**336**	423
Credit to profit or loss *(note 13)*	**(35)**	(87)
Disposal of subsidiaries *(note 37)*	**(301)**	–
At 31 March	**–**	336

At the end of the reporting period, the Group has unused tax losses of approximately HK$13,807,000 (2011: HK$12,925,000) that are available for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses due to unpredictability of future profit streams.

Notes to the Consolidated Financial Statements
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34. SHARE CAPITAL

	Number of shares	Share capital
		HK$'000
Authorised:		
Ordinary shares of HK0.1 each		
At 1 April 2010, 31 March 2011 and 31 March 2012	5,000,000,000	500,000
Issued and fully paid:		
Ordinary shares of HK$0.1 each		
At 1 April 2010	262,021,577	26,202
Issue of new shares through conversion of convertible bonds *(note a)*	235,493,088	23,549
Exercise of share options *(note b)*	5,745,000	575
At 31 March 2011 and 1 April 2011 and 31 March 2012	503,259,665	50,326

Notes:

(a) During the year ended 31 March 2011, the holders of CB3, SCN1 and SCN2 converted convertible bonds with aggregate value of HK$75,381,340 into 235,493,088 ordinary shares of HK$0.1 each in the Company. The details of conversion are as follow:

Conversion period	No. of ordinary shares of HK$0.1 each	Price per share	Conversion principal amount
		HK$	*HK$*
CB3			
August-November 2010	32,431,552	0.3201	10,381,340
SCN1			
May-November 2010	46,860,351	0.3201	15,000,000
SCN2			
August 2010-March 2011	156,201,185	0.3201	50,000,000
Total	235,493,088		75,381,340

(b) On 14 September 2010, 28 October 2010, 5 November 2010, 24 November 2010 and 2 February 2011, a total of 5,745,000 share options were converted into 5,745,000 ordinary shares of HK$0.1 each in the Company with exercise price of HK$0.5 per share.

All the shares issued rank pari passu in all respect with the existing shares of the Company.

Notes to the Consolidated Financial Statements

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35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2012	2011
	HK$'000	*HK$'000*
NON-CURRENT ASSET		
Investments in subsidiaries	–	–
CURRENT ASSETS		
Prepayments, deposits and other receivables	72,887	22,729
Amounts due from subsidiaries *(note a)*	17,880	–
Cash and bank balances	6,275	13,820
Total current assets	97,042	36,549
CURRENT LIABILITIES		
Other payables and accrued expenses	19,641	9,860
Amounts due to subsidiaries *(note a)*	4,150	110,413
Interest-bearing loans from a director and a shareholder	8,052	–
Derivative component of redeemable convertible cumulative preference shares	6,875	121,577
Liability component of convertible bonds	57,069	–
Liability component of redeemable convertible cumulative preference shares	281,801	–
Total current liabilities	377,588	241,850
NET CURRENT LIABILITIES	(280,546)	(205,301)
NON-CURRENT LIABILITIES		
Liability component of convertible bonds	–	55,623
Liability component of redeemable convertible cumulative preference shares	–	180,755
Total non-current liabilities	–	236,378
Net liabilities	(280,546)	(441,679)
EQUITY		
Share capital	50,326	50,326
Reserves		
Share premium	293,834	293,834
Contributed surplus	57,124	57,124
Convertible bonds reserve	3,592	3,592
Share options reserve	1,656	1,656
Accumulated losses	(687,078)	(848,211)
Total equity	(280,546)	(441,679)

Note:

(a) These balances are unsecured, non-interest bearing and repayable on demand.

Notes to the Consolidated Financial Statements

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36. SHARE OPTIONS SCHEMES

Pursuant to the share option scheme adopted by the Company in 2001 (the "Old Scheme"), the Company may grant options to any directors of the Company 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.

Under the New Scheme, the Board of Directors of the Company may grant options to eligible officers and employees, including the 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.

Notes to the Consolidated Financial Statements
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36. SHARE OPTIONS SCHEMES *(continued)*

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.

Particulars of share options granted by the Company as at 31 March 2012 and 2011 are as follows:

Option type	**Date of grant**	**Exercisable period**		**Exercise price**
		From	**To**	*HK$*
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
E	13 April 2010	13 April 2010	12 April 2020	0.5

The following tables summarise the movements in the Company's share options during the year ended 31 March 2012:

Old Scheme

		Number of share options		
	Option type	**Outstanding at 1 April 2011**	**Lapsed**	**Outstanding at 31 March 2012**
Directors	A	25,000	(25,000)	–

Notes to the Consolidated Financial Statements
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36. SHARE OPTIONS SCHEMES *(continued)*

New Scheme

	Option type	Number of share options Outstanding at 1 April 2011	Lapsed/ Exercised	Outstanding at 31 March 2012
Directors	B	1,500,000	–	1,500,000
	C	3,210,000	–	3,210,000
	E	3,882,000	–	3,882,000
Total of directors		8,592,000	–	8,592,000
Employees	B	60,000	–	60,000
	C	270,000	–	270,000
	E	2,349,000	–	2,349,000
Total of employees		2,679,000	–	2,679,000
Advisors and consultants	B	4,144,000	–	4,144,000
	C	4,422,000	–	4,422,000
	D	99,000	–	99,000
Total of advisors and consultants		8,665,000	–	8,665,000
Total		19,936,000	–	19,936,000

The following tables summarise the movements in the Company's share options during the year ended 31 March 2011:

Old Scheme

	Option type	Number of share options Outstanding at 1 April 2010	Lapsed/ Exercised	Outstanding at 31 March 2011
Directors	A	25,000	–	25,000

Notes to the Consolidated Financial Statements

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36. SHARE OPTIONS SCHEMES *(continued)*

New Scheme

	Option type	Number of share options: Outstanding at 1 April 2010	Granted during the year	Exercised during the year	Outstanding at 31 March 2011
Directors	B	1,500,000	–	–	1,500,000
	C	3,210,000	–	–	3,210,000
	E	–	5,406,000	(1,524,000)	3,882,000
Total of directors		4,710,000	5,406,000	(1,524,000)	8,592,000
Employees	B	60,000	–	–	60,000
	C	270,000	–	–	270,000
	E	–	6,570,000	(4,221,000)	2,349,000
Total of employees		330,000	6,570,000	(4,221,000)	2,679,000
Advisors and consultants	B	4,144,000	–	–	4,144,000
	C	4,422,000	–	–	4,422,000
	D	99,000	–	–	99,000
Total of advisors and consultants		8,665,000	–	–	8,665,000
Total		13,705,000	11,976,000	(5,745,000)	19,936,000

Notes to the Consolidated Financial Statements
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36. SHARE OPTIONS SCHEMES *(continued)*

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

	2012		2011	
	Weighted average exercise price in HK$ per share	**Number of share options**	Weighted average exercise price in HK$ per share	Number of share options
At 1 April	**2.070**	**19,961,000**	2.783	13,730,000
Granted	**–**	**–**	0.5	11,976,000
Exercised	**–**	**–**	0.5	(5,745,000)
Lapsed	**8.6**	**(25,000)**	–	–
At 31 March	**2.062**	**19,936,000**	2.070	19,961,000

The options outstanding at the end of the year have a weighted average remaining contractual life of 2.52 years (2011:3.52 years).

The estimated fair value of the share options granted on 13 April 2010 is approximately HK$2,898,000 were calculated using Binomial Option Pricing Model. The inputs to the model were as follows:

	13 April 2010
Share price of underlying share	HK$0.49
Exercise price	HK$0.5
Expected volatility	101%
Expected life	10 years
Risk-free rate	2.82%
Expected dividend yield	Nil

Notes to the Consolidated Financial Statements

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36. SHARE OPTIONS SCHEMES *(continued)*

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

For the year ended 31 March 2012, no expense in relation to share options granted by the Company was recognised. The Group recognised the total expense of approximately HK$2,898,000 for the year ended 31 March 2011 in relation to share options granted by the Company.

37. DISPOSAL OF SUBSIDIARIES

	2012			2011
	West Regent Group	Shanghai Harvest Group	Total	B-to-B Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(note a)	*(note b)*		*(note c)*
Net assets/(liabilities) disposal of:				
Other intangible asset *(note 19)*	–	1,120	1,120	–
Property, plant and equipment *(note 17)*	58	4,490	4,548	1,187
Goodwill	–	–	–	8,922
Inventories	–	1,888	1,888	–
Trade and other receivables	6,654	101,080	107,734	37,952
Cash and bank balances	544	39,557	40,101	2,175
Trade and other payables	(10,612)	(102,560)	(113,172)	(56,240)
Tax payables	–	(1,270)	(1,270)	–
Deferred tax liabilities *(note 33)*	–	(301)	(301)	–
	(3,356)	44,004	40,648	(6,004)
Non-controlling interests	–	–	–	135
Foreign currency translation reserve released upon disposed	(235)	(11,072)	(11,307)	4,482
Gain on disposal	3,591	11,213	14,804	1,387
Satisfied by:				
Cash consideration received or receivables	–	44,145	44,145	–

Notes to the Consolidated Financial Statements
31 March 2012

37. DISPOSAL OF SUBSIDIARIES *(continued)*

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries are as follows:

	2012			2011
	West Regent Group	Shanghai Harvest Group	Total	B-to-B Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash consideration	–	–	–	–
Less: cash and cash equivalent balances disposed of	(544)	(39,557)	(40,101)	(2,175)
Net cash outflow in respect of the disposal of subsidiaries	(544)	(39,557)	(40,101)	(2,175)

Notes:

(a) In July 2011, the Group disposed of West Regent Property Limited and its subsidiary (collectively referred to as the "West Regent Group"), which carried out the sales of medical devices and consumables of the Group, to an independent third party for a consideration of HK$1 and the gain on disposal was approximately HK$3,591,000.

(b) In December 2011, the Group disposed of Shanghai Harvest Network Technology Company Limited ("Shanghai Harvest") and its subsidiaries (collectively referred to as the "Shanghai Harvest Group"), which carried out B-to-C consumer services of the Group, to a connected person in Shanghai Harvest for a consideration of approximately RMB35,911,000 (equivalent to approximately HK$44,145,000) and the gain on disposal was approximately HK$11,213,000.

(c) In July 2010, the Group disposed of Junghua Enterprises Holdings Limited and its subsidiaries, CHC (Shanghai) Medical & Healthcare Services Limited and Beijing Weichang Medical Clinic Company Limited (hereinafter collectively referred to as "B-to-B Group"), which carried out B-to-B healthcare services of the Group, to an independent third party for a consideration of HK$1 and the gain on disposal was approximately HK$1,387,000.

38. MAJOR NON-CASH TRANSACTIONS

For the year ended 31 March 2011, convertible bonds with liability component and derivative component of approximately HK$8,197,000 and HK$19,257,000 respectively were converted into approximately 32,431,000 ordinary shares of the Company of HK$0.1 each.

Notes to the Consolidated Financial Statements

31 March 2012

39. OPERATING LEASE COMMITMENTS

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases are payables as follows:

	2012	2011
	HK$'000	*HK$'000*
Within one year	**513**	2,300
In the second to fifth years inclusive	**142**	830
	655	3,130

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

40. RELATED PARTY TRANSACTIONS

In addition to the transactions details elsewhere in the consolidated financial statements, the Group entered into the following related party transactions with related parties during the year:

(a) During the year ended 31 March 2012, the Group disposed the Shanghai Harvest Group to a connected person. Details of which are set out in note 37 to the consolidated financial statements and the Company's shareholders' circular dated 25 November 2011.

(b) Compensation of key management personnel of the Group are set out in note 15 to the consolidated financial statements.

(c) Save as disclosed in note 30 to the consolidated financial statements, the interest expenses were charged based on the Hong Kong Best Lending Rate with outstanding principal amounts of each HK$4,000,000 granted by a director and a shareholder. The interest payables to a director and a shareholder as at 31 March 2012 were HK$30,000 and HK$22,000, respectively.

Notes to the Consolidated Financial Statements
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41. LITIGATIONS

On or around 19 August 2010, Wingames Investments Limited ("Wingames"), an indirectly wholly-owned subsidiary of the Company, entered into the agreement (the "Agreement") with Mascot Land Limited ("Procurer"), China Zhongfu Industry Co., Ltd. ("China Zhongfu"), Shanghai Zhongfu International Trading Co., Ltd. ("Shanghai Zhongfu"), Anhui Anhe Investment Consulting Co., Ltd. ("Anhui Anhe"), Mr. Wang Ji Sheng and Mr. Ge Qian Song (the "Management Guarantors") (collectively known as "Guarantors"), being the independent third parties, to acquire equity interests of in Shanghai Fu Shou Yuan Industrial Development Co., Ltd. ("Shanghai FSY") and its affiliated entities, for a total consideration of HK$3,360 million by way of a very substantial acquisition (the "VSA"), details of which have been set out in the Company's circular dated 23 February 2011. The VSA transaction, however, has become the subject of legal proceedings with Wingames and the Company as the plaintiffs and the other sides as the defendants in Hong Kong since May 31, 2011 (the "Litigation"), with relevant details and developments of the Litigation as disclosed in a series of announcements since 3 June 2011.

The latest status of the litigations has been as disclosed in the Company's announcement dated 1 March 2012. China Zhongfu, Shanghai Zhongfu, Anhui Anhe and Shanghai FSY commenced legal proceedings against the Company and others in Shanghai, China.

42. COMPARATIVE AMOUNTS

During the year, the directors of the Company have determined to discontinue the sales of medical devices and consumables business, accordingly the consolidated statement of comprehensive income has been reclassifying to the discontinued operations. Prior year figures have been re-presented accordingly.

43. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors of the Company on 29 June 2012.

Notes to the Consolidated Financial Statements
31 March 2012

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the principal subsidiaries are as follows:

Name of Company	Place of incorporation/ registration and operations	Class of shares held	Issued/ registered capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
CHC Investment Holdings Limited	British Virgin Islands/Hong Kong	Ordinary	US$100	100%	–	Investment holding
Wingames Investments Limited	British Virgin Islands/Hong Kong	Ordinary	US$1	–	100%	Investment holding
Rich Base International Investments Limited	Hong Kong	Ordinary	HK$1	–	100%	Investment holding
China Clinical Trials Centre Limited	British Virgin Islands/Hong Kong	Ordinary	US$100	–	100%	Clinical trials of drugs and devices
China Healthcare Holdings (Hong Kong) Limited	Hong Kong	Ordinary	HK$10,000	100%	–	Investment holding
Shandong Harvest Mobile Communication Technology Company Limited *(note b)*	PRC	Registered capital	RMB14,000,000	–	44.76% *(note c)*	E-commerce distribution of mobile pre-charge
Shanghai De Yi Er Investment Management Consulting Co., Ltd *(note a)*	PRC	Registered capital	US$10,000,000	–	44.76% *(note c)*	Investment and consultancy
Shanghai New Everstep Investment Management and Consultancy Limited *(note a)*	PRC	Registered capital	US$920,000	–	100%	Provision of maternal and fetal care service

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31 March 2012

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(continued)*

Name of Company	Place of incorporation/ registration and operations	Class of shares held	Issued/ registered capital	Percentage of equity contributable to the Company Direct	Indirect	Principal activities
Shanghai Weichang Investment and Management Consulting Co., Ltd. *(note a)*	PRC	Registered capital	US$3,350,000	–	100%	Investment management and consultancy services
Harvest Network Limited	British Virgin Islands/ Hong Kong	Ordinary Convertible preference shares	US$205 US$21,600,000	–	44.76% *(note c)*	Investment holding
TechCap BioTech Holdings Limited	British Virgin Islands/Hong Kong	Ordinary	US$1,000	100%	–	Investment holding
Wisdom Profit Investment Limited	Hong Kong	Ordinary	HK$10,000	–	100%	Trading of clinical reagents and medical equipments
World Success Investments Limited	Hong Kong	Ordinary	HK$10,000	–	44.76% *(note c)*	Investment and consultancy

Notes to the Consolidated Financial Statements

31 March 2012

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(continued)*

Notes:

(a) Wholly-foreign-owned enterprises established under the PRC Law.

(b) Sino-foreign equity joint ventures established under the PRC Law.

(c) 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.

The above list includes the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results of the year or formed a substantial portion of the assets or liabilities of the Group. To give details of all the other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

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

Financial Summary

	Year ended 31 March				
	2012	2011	2010	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS					
Turnover	**49,106**	57,606	2,769,760	2,870,719	2,867,570
(Loss)/profit before tax	**(21,138)**	(185,345)	(95,252)	35,034	(21,909)
Income tax expense	**(1,957)**	(3,197)	(386)	(1,451)	(2,091)
(Loss)/profit for the year from continuing operations	**(23,095)**	(188,542)	(95,638)	33,583	(24,000)
(Loss)/profit for the year from discontinued operations	**(489)**	6,407	(3,173)	–	–
(Loss)/profit for the year	**(23,584)**	(182,135)	(98,811)	33,583	(24,000)
Attributable to:					
Owners of the Company	**(18,555)**	(208,216)	(89,695)	18,806	(25,152)
Non-controlling interests	**(5,029)**	26,081	(9,116)	14,777	1,152
	(23,584)	(182,135)	(98,811)	33,583	(24,000)

	As at 31 March				
	2012	2011	2010	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS AND LIABILITIES					
Total assets	**257,577**	289,152	294,892	280,623	196,441
Total liabilities	**(375,651)**	(386,967)	(316,710)	(218,120)	(241,040)
Net (liabilities)/assets	**(118,074)**	(97,815)	(21,818)	62,503	(44,599)