THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China HealthCare Holdings Limited (the "Company"), you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

China HealthCare Holdings Limited
中國衛生控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 673)

SUBSCRIPTION OF REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES
VERY SUBSTANTIAL ACQUISITION
AND
AMENDMENTS TO THE BYE-LAWS

Financial Adviser to the Company

Hercules

Hercules Capital Limited

Financial Adviser and Placing Agent in respect of the Convertible Preference Shares

ROTHSCHILD

A notice convening a special general meeting of China HealthCare Holdings Limited to be held at Rooms 1001-2, 10/F., Man Yee Building, 68 Des Voeux Road Central, Hong Kong, on Monday, 10 July 2006 at 10:00 a.m. is set out on pages 148 to 185 of this circular. A form of proxy for use at the special general meeting is also enclosed. Whether or not you are able to attend the special general meeting, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the meeting if they so wish.

16 June 2006

* *For identification purpose only*

CONTENTS

In this document, the following expressions have the meanings set out below unless the context requires otherwise:

"Acquisition"	the acquisition of the Sale Shares by the Purchaser from the Vendors in accordance with the terms and conditions of the Sale and Purchase Agreement
"Announcement"	the announcement issued by the Company dated 28 April 2006 relating to the matters contained in this circular
"associate"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Bye-laws"	the Bye-laws of the Company
"CN Conversion Period"	any time from the date of issue and up to the maturity date of the Convertible Notes
"CN Conversion Price"	the price at which the CN Conversion Shares will be issued upon the conversion of the Convertible Notes by the Noteholder(s)
"CN Conversion Share(s)"	the Shares to be issued by the Company pursuant to the conversion by the Noteholder(s) of the Convertible Notes
"Company"	China HealthCare Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
"connected persons"	has the meaning ascribed to it under the Listing Rules
"Conversion Period"	any time during the period from the date of issue of the Convertible Preference Shares and ending on the Maturity Date of the Convertible Preference Shares
"Conversion Price"	the price per Conversion Share at which the Convertible Preference Shares are to be converted into Conversion Shares
"Conversion Shares"	the Shares to be issued by the Company upon the conversion of the Convertible Preference Shares which shall rank pari passu with the existing Shares
"Convertible Preference Shares"	the unlisted redeemable convertible cumulative preference shares of US$0.01 each in the capital of the Company

"Convertible Notes"	the convertible notes of a principal amount of HK$18.4 million to be issued by the Company, as part of the consideration for the Acquisition, to the First Vendor in accordance with the terms and conditions of the Sale and Purchase Agreement
"Directors"	the directors of the Company
"Enlarged Group"	the Group after completion of the Acquisition
"First Vendor"	Mr. Hou Shu Ming, a merchant who is independent of and not connected with the Company, the Subscribers or any of their respective associates. Mr. Hou is currently the vice president of Weishenjuhe (Beijing) Technologies Ltd. (維深巨合(北京)科技有限公司), which is principally engaged in the business of information technologies. Weishenjuhe (Beijing) Technologies Ltd. is independent and not connected with the Company or any of its associates
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Initial CN Conversion Price"	HK$1.16 per CN Conversion Share, subject to adjustment, if any
"Initial Conversion Price"	HK$1.16 per Conversion Share, subject to adjustment, if any
"Latest Practicable Date"	14 June 2006, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"Noteholder(s)"	the person(s) or corporation(s) who is or are for the time being the registered holder(s) of the Convertible Notes
"PRC"	People's Republic of China, and for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region and Taiwan
"Purchaser"	Success Gateway Investments Limited (勝基投資有限公司), a wholly-owned subsidiary of the Company
"Sale and Purchase Agreement"	the sale and purchase agreement dated 6 April 2006 entered into between the Purchaser and the Vendors in relation to the Acquisition
"Sale Shares"	70% of the entire registered capital of the Target

"Second Vendor"	Panjinfenyuan Technology Investment Limited (盤錦鋒源科技投資有限公司), a company incorporated under the laws of the PRC, which is beneficially owned as to 50% by Mr. Tian Chengwang and 50% by Mr. Li Guoming. Both Mr. Tian and Mr. Li are independent of and not connected with the Company or any of its associates
"SGM"	the special general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving, among other things, the Subscription, the Acquisition and amendments to the Bye-laws
"Share(s)"	ordinary share(s) of HK$0.1 each in the issued share capital of the Company
"Shareholder(s)"	the holder(s) of the Share(s)
"Subscribers"	OZ Master Fund, Ltd., OZ Asia Master Fund, Ltd., OZ Global Special Investments Master Fund, L.P. and Fleet Maritime, Inc.
"Subscription"	the subscription of the Subscription Shares by the Subscribers upon and subject to the terms and conditions of the Subscription Agreement
"Subscription Agreement"	the subscription agreement dated 5 April 2006 entered into between the Company and the Subscribers in relation to the Subscription
"Subscription Shares"	15,000 Convertible Preference Shares to be issued by the Company to the Subscribers in accordance with the terms and conditions of the Subscription Agreement
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Target"	Shanghai Harvest Network Technology Co. Limited, a company incorporated in the PRC and it is owned as to 66.7% by the First Vendor, 28.3% by the Second Vendor and 5.0% by Shanghai Hende Technology Limited, an independent third party which is incorporated under the law of PRC and principally engaged in investment holding
"Target Group"	Target and its subsidiaries
"Vendors"	the First Vendor and the Second Vendor

"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"%"	per cent.

In this circular, RMB and US$ are converted into HK$ on the basis of RMB 1.04 = HK$1 and US$1 = HK$ 7.76 (unless otherwise stated) for illustrative purpose.

China HealthCare Holdings Limited
中國衛生控股有限公司*

(incorporated in Bermuda with limited liability)
(Stock Code: 673)

Executive Directors:
Li Zhong Yuan
Lee Jong Dae
Ni Aimin
Deng Ku Hon

Non-executive Directors:
Robin Willi
Martin Treffer

Independent non-executive Directors:
Ma Yin Ming
Li Xiao Ru
Mu Xiangming

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business in Hong Kong:
Room 1001-2, 10/F.
Man Yee Building
68 Des Voeux Road Central
Hong Kong

16 June 2006

To the Shareholders and, for information only, the holders of convertible bonds

Dear Sirs,

SUBSCRIPTION OF REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES
VERY SUBSTANTIAL ACQUISITION
AND
AMENDMENTS TO THE BYE-LAWS

INTRODUCTION

On 5 April 2006, the Company entered into the Subscription Agreement with the Subscribers in relation to the subscription by the Subscribers of the Subscription Shares at a total subscription price of US$15 million (approximately HK$116.4 million). The Subscription Shares can be converted at any time during the Conversion Period into Conversion Shares at the Conversion Price. The Subscription Shares will be issued under a special mandate and thus the Subscription is subject to Shareholders' approval.

* *For identification purpose only*

On 6 April 2006, the Purchaser, a wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement to acquire from the Vendors the Sale Shares, which represent 70% of the entire issued share capital of the Target, for a total consideration of HK$36.4 million, of which HK$18 million shall be satisfied in cash and approximately HK$18.4 million shall be satisfied by the issuance of the Convertible Notes. The Noteholder(s) has/have the right to convert all or part of the Convertible Notes into CN Conversion Shares at the CN Conversion Price per CN Conversion Share during the CN Conversion Period. The Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and is therefore subject to Shareholders' approval pursuant to Rule 14.49 of the Listing Rules.

To incorporate the rights, privileges and restrictions of the Convertible Preference Shares in the Bye-laws, a resolution will also be proposed at the SGM to amend the Bye-laws of the Company.

The purpose of this circular is to provide you with, among other things, (i) further details of the Subscription, the Acquisition and the proposed amendments to the Bye-laws; (ii) financial information relating to the Group, the Target Group and the Enlarged Group; (iii) the notice of the SGM; and (iv) other information as required under the Listing Rules.

THE SUBSCRIPTION

The Subscription Agreement

Date	:	5 April 2006
Issuer	:	the Company
Subscribers	:	the Subscribers

The Subscription

Pursuant to the Subscription Agreement, the Company has agreed to issue and sell to the Subscribers the Subscription Shares for a total cash consideration of US$15 million (approximately HK$116.4 million), which shall be paid by the Subscribers in cash at completion of the Subscription. N M Rothschild & Sons Ltd. is the placing agent and financial adviser to the Company in connection with the Subscription.

The Subscription Shares can be converted at any time during the Conversion Period into Conversion Shares at the Conversion Price. If the Subscription Shares are fully converted into Conversion Shares at the Initial Conversion Price of HK$1.16, 100,344,827 Conversion Shares, representing approximately 42.8% of the existing issued share capital of the Company and approximately 29.98% and 28.62% of the total issued share capital of the Company as enlarged by the issue of the Conversion Shares and the issue of the Conversion Shares and the CN Conversion Shares, respectively, will be issued.

Each of the Subscribers has agreed that it shall not, for a period of six months following the date of issue of the Subscription Shares, seek to convert more than 50% of the Subscription Shares initially purchased by it.

Principal terms of the Convertible Preference Shares

Issue Price : US$1,000 per Convertible Preference Share

Ranking : The Company shall not (unless such sanction has been given by holders of the Convertible Preference Shares as would be required for a variation of the special rights attaching to the Convertible Preference Shares or unless otherwise provided in the Bye-laws) create or issue any shares ranking, as regards order in the participation in the profits of the Company or in the assets of the Company on a winding-up or otherwise, senior and in priority to the Convertible Preference Shares, but the Company may issue, without obtaining the consent of the holders of the Convertible Preference Shares, shares ranking pari passu with the Convertible Preference Shares.

Dividend : cumulative dividend of 2% per annum payable semi-annually in arrears on the Issue Price of each Subscription Share, which represents a reduction from the dividend rate of 5% per annum on the Issue Price if and so long as none of the Special Events (as defined below) shall have occurred:

Special Events include:

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

(b) a material default by the Group in any material agreement or instrument to which the Group is a party;

(c) the persons who are Directors on the date of issue of the Convertible Preference Shares or persons appointed to act as Directors in their stead cease to represent a majority in number of the persons acting as Directors at the relevant time;

(d) the acceleration of the maturity of any other present or future indebtedness of the Group exceeding US$1.5 million in aggregate principal amount outstanding (or its equivalent in any other currency) by reason of an event of default (as described and specified therein) or any such indebtedness exceeding US$1.5 million (or its equivalent in any other currency) is not paid within any applicable grace period provided for or, if none, on the due date therefor;

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

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

(g) the listing or trading of the Shares on the Stock Exchange is revoked, withdrawn or suspended for a continuous period of 15 trading days;

(h) a material breach by the Company of any of its representations, warranties, covenants or undertakings in Subscription Agreement;

(i) a material breach by the Company of certain of the covenants or undertakings as set forth in the Bye-laws; and

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

Maturity Date : the date falling on the fifth anniversary of the date of issue of the Convertible Preference Shares or such later date, not being later than the seventh anniversary of the date of issue of the Convertible Preference Shares, as may be agreed in writing between the Company and the holders of the Convertible Preference Shares.

Redemption : Unless previously redeemed, purchased and cancelled or converted, the Convertible Preference Shares will be redeemed at 100% of their Issue Price plus any accrued but unpaid Dividend on the Maturity Date.

So long as the aggregate number of Convertible Preference Shares outstanding would, if converted, amount to 5% or more of the total issued Shares (including the Shares deemed to be issued upon conversion of such Convertible Preference Shares), a holder of the Convertible Preference Shares shall have the right at any time to require the Company to redeem all or any of the then outstanding Convertible Preference Shares held by it at the Early Redemption Amount of such number of Convertible Preference Shares so redeemed; provided, however, that a holder of the Convertible Preference Shares may not exercise such right prior to the Maturity Date if and for so long as any of the Special Events, as defined previously, shall not have occurred.

Early Redemption Amount : In relation to each Convertible Preference Share, its Issue Price plus a premium expressed in US dollars and rounded up to the nearest US cent determined in accordance with the following formula:

$(US\$1,000 + D) \times 1.2^{n}$

where

D = accrued but unpaid Dividend to the date fixed for redemption of the relevant Convertible Preference Shares

n = the number of days outstanding divided by 360

Conversion Right : The holders of the Convertible Preference Shares shall have the right to convert any Convertible Preference Share into Conversion Shares at any time during the Conversion Period at the Conversion Price

Conversion Period: Any time during the period from the date of issue of the Convertible Preference Shares and ending on the Maturity Date

Conversion Price : As of any date of conversion, the lower of (a) the Initial Conversion Price; and (b) the volume-weighted average price of the Shares for the twenty trading days ending on the day immediately preceding the date of a relevant conversion notice multiplied by a factor of 0.9x, in each case converted into US dollars at the rate of US$1.00 to HK$7.76.

The Initial Conversion Price will be subject to anti-dilution provisions, including subdivision or consolidation of the Shares, capitalization issue, capital distribution and rights issue, grant of options, warrants or similar rights to the Shareholders at a price per Share which is less than 90% of the market price at the date of the announcement of the terms of the offer or grant.

In addition, the Initial Conversion Price will be subject to a full ratchet adjustment in the event that the Company issues Shares or securities convertible or exchangeable into Shares at an effective purchase price or conversion price less than the Initial Conversion Price. Detailed terms relating to adjustments of the Initial Conversion Price are set out in Appendix VII of this circular.

The Initial Conversion Price represents:

(a) a discount of approximately 31.8% to the closing price of HK$1.70 per Share as quoted on the Stock Exchange on 4 April 2006, being the last trading day before the date of the Announcement;

(b) a discount of approximately 31.8% to the closing price of HK$1.70 per Share as quoted on the Stock Exchange over the last 5 trading days up to and including 4 April 2006, being the last trading day immediately before the date of the Announcement;

(c) a premium of approximately 141.7% over the unaudited net asset value of the Company of approximately HK$0.48 per Share as at 30 September 2005, being the date on which the latest interim results of the Company were made up;

(d) a premium of approximately 251.5% over the unaudited consolidated net tangible asset value of the Company of HK$0.33 per Share as at 30 September 2005, being the date on which the latest interim results of the Company were made up;

The Initial Conversion Price was arrived at after arm's length negotiation between the parties and based on the volume-weighted average closing price of the Shares as quoted on the Stock Exchange over the 20 trading days (excluding those days on which the daily trading volume of the Shares was exceptionally high or low) up to and including 24 March 2006, the date on which the Company and the Subscribers agreed on the Initial Conversion Price pending the execution of the Subscription Agreement, multiplied by a factor of 0.9x.

The Board, including the independent non-executive Directors, considers the Initial Conversion Price fair and reasonable and in the interests of the Shareholders and the Company as a whole in light of the fact that the closing price of the Shares on 24 March 2006 was HK$1.25 per Share, and the 20 day volume-weighted average closing price of the Shares as quoted on the Stock Exchange prior to and including 24 March 2006 was HK$1.29 per Share, which basically reflects the market average of the Shares over the same period.

Voting : The holder(s) of the Convertible Preference Shares will not be entitled to attend or vote at any general meeting of the Company by reason only of his/her being the holder(s) of the Convertible Preference Shares, unless a resolution is to be proposed at a general meeting for winding-up the Company or a resolution is to be proposed which if passed would vary or abrogate the rights or privileges of the holder(s) of the Convertible Preference Shares.

Transferability : The Convertible Preference Shares may, subject to the prior approval of the Stock Exchange and all relevant rules if applicable, only be assigned or transferred to (i) an affiliate of any of the Subscribers; (ii) one or more funds which is affiliated to or has management agreements with any of the Subscribers or its affiliates; or (iii) such other transferee as may be consented to in advance by the Company.

Conditions Precedent

Completion of the Subscription Agreement is conditional upon, inter alia, the following conditions being fulfilled:

(a) the passing by the Shareholders at the SGM of the resolutions to approve, amongst other things, the Subscription and the allotment and issue of any Conversion Shares which may fall to be issued upon exercise of the conversion rights attaching to the Convertible Preference Shares and the amendments to the Bye-laws for the creation of the Convertible Preference Shares;

(b) the Listing Committee of the Stock Exchange having granted the approval of the listing of, and permission to deal in, the Conversion Shares that may fall to be issued upon exercise of the conversion rights attaching to the Convertible Preference Shares;

(c) the receipt by the Subscribers of the Group's consolidated financial statements for the year ended 31 March 2006, audited by RSM Nelson Wheeler and which meet the following requirements (such information will be provided to the Subscribers only after it has been published by the Company):

  (i) the auditors' report on the financial statements shall not contain any material exception or qualification;

  (ii) the Group's total assets shall exceed its total liabilities; and

  (iii) the financial statements shall reflect that the Group does not have any contingent liability as of 31 March 2006;

(d) the Subscribers having received from the legal advisers to the Company the legal opinions on the Group.

Save for conditions (a) and (b), the above conditions may be waived by the Subscribers at their discretion. In the event that any of the conditions is not fulfilled or waived by the Subscribers by 31 August 2006, the Subscription Agreement shall cease and determine and the parties shall be released from all obligations and liabilities under it, save for any antecedent breaches of the provisions under the Subscription Agreement.

Completion

Completion of the Subscription Agreement shall take place on or before the seventh day following the date on which the above conditions are fulfilled or waived, as the case may be, or such other time and date as may be mutually agreed by the Company and the Subscribers.

Information of the Subscribers

The Subscribers are investment funds which are managed by Och-Ziff Capital Management Group, a global institutional asset management firm managing in excess of US$16 billion. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, none of the Subscribers and their respective beneficial owners is a connected person of the Company, the Vendors or their respective associates.

Reasons for the Subscription and proposed use of proceeds

The Directors are of the view that additional funding is needed for further development of the Company's existing business and for general working capital purposes. The Company has considered various financing methods, including both debt financing and equity financing. Nevertheless, in view of the fact that the Group is still operating at an investment and development stage and its business is not fixed asset intensive, and significant fixed assets are required to secure bank borrowings of material amounts, it is difficult for the Group to secure conventional bank financing of amounts comparable to the proceeds from the Subscription. The Company has engaged N M Rothschild & Sons Ltd. in the U.K. as its adviser for fund raising since August 2005, and has discussed with various financial institutions regarding various forms of financing. The Subscribers and the proposed Convertible Preference Shares issue were selected by the Directors based on a number of factors including the size of the proceeds, the timing and the reputation of the Subscribers. Furthermore, in light of the rising interest rate for borrowings and the present financial position of the Company, the Directors do not consider that debt financing would be feasible or in the interests of the Company and its Shareholders.

In addition, the Directors do not believe that a rights issue or an open offer is a better fund raising exercise at the present development stage of the Company. Even if the Company could succeed in procuring an underwriter, the Shares to be issued in either a rights issue or an open offer would need to be at a deep discount which would result in immediate and significant dilutions to Shareholders who do not participate. In contrast, the Convertible Preference Shares and the Convertible Notes would provide/save sufficient funds for the Company to carry out its business plan so that existing Shareholders could enjoy the possible benefits without having to suffer potential immediate and significant dilutions or alternatively being forced to pay additional money.

The Directors consider that the Subscription will provide new funding to the Group for expansion of the existing business and new business development, which in turn will further increase shareholder value as well as enhance the financial position of the Group. The net proceeds from the Subscription is estimated to be approximately HK$108.3 million, of which HK$93.1 million shall be applied for establishing and operating model clinical facilities in specialty medicines, upgrading the Group's integrated call center, marketing, distribution and settlement infrastructure for its emergency medical assistance and health/wellness management services etc. and the general operating expenses associated with the Company's existing clinics in Beijing and Shanghai. The remaining balance of the proceeds is planned for general working capital purposes. As of the Latest Practicable Date, no negotiations or definitive agreements have been reached in relation to the future plans of the Company.

The Directors also consider that the terms of the Subscription Agreement, which were negotiated on an arm's length basis and agreed on normal commercial terms between the parties involved, are fair and reasonable and the Subscription is in the interests of the Shareholders and the Company as a whole.

Application for listing

The Conversion Shares will be issued under a special mandate proposed to be sought from the Shareholders at the SGM. No application will be made for the listing of the Convertible Preference Shares. However, the Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

THE ACQUISITION

The Sale and Purchase Agreement

Date : 6 April 2006

Vendors : the Vendors

The First Vendor is a businessman and the Second Vendor is a private company incorporated under the laws of the PRC with principal business activity of investment holding.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the First Vendor, the Second Vendor and its beneficial owners and their respective associates are not connected persons of the Company, the Subscribers and their respective associates.

Purchaser : the Purchaser, a wholly-owned subsidiary of the Company

Pursuant to the Sale and Purchase Agreement, the Purchaser agreed to acquire from the First Vendor 66.7% of the existing issued share capital of the Target at a total consideration of HK$34.684 million, of which HK$16.284 million shall be satisfied in cash from internal resources of the Group and approximately

HK$18.400 million shall be satisfied by the issuance of the Convertible Notes. According to the same agreement, the Company also agreed to acquire from the Second Vendor 3.3% of the existing issued share capital of the Target at a total consideration of HK$1.716 million which shall be satisfied in full by cash. After arms' length negotiation between the Purchaser and the Vendors, the Vendors are willing to sell part of their shareholdings in the Target only. Accordingly, only 70% equity interest of the Target is acquired by the Company. Upon completion of the Acquisition, the Target shall be owned as to 70% by the Purchaser, 25% by the Second Vendor and 5% by Shanghai Hengde Technology Limited (上海恆德科技有限公司), an independent third party which is independent of and not connected with the Company or its associates.

The consideration has been determined after arm's length negotiations and on commercial terms with reference to the historical earnings and business potential and growth prospect of the Target Group. The Target Group recorded audited consolidated net profit of approximately RMB6.8 million (approximately HK$6.5 million) for the year ended 31 December 2005. According to information from the Ministry of Information Industry of the PRC, as at 31 December 2003, China Mobile Communications Corporation ("China Mobile") had 177 million mobile phone customers, of which approximately 93 million were pre-paid customers while China United Telecommunications Limited ("China Unicom") had approximately 92 million mobile phone customers, among which 46% of the GSM customers and 5% of the CDMA customers were pre-paid customers. The Directors expect that the demand of B-to-C e-payment services for the telecommunication sector shall continue to grow in line with the increase in number of mobile phone users in the foreseeable future. Increasing demands on e-payment services for other sectors are also expected in the coming years.

The total consideration represents a price/earnings ratio of approximately 8.0 times with reference to the Target's audited consolidated net profit of RMB6.8 million (approximately HK$6.5 million) for the year ended 31 December 2005 of the Target and a premium of 50.3% to its audited net asset value of approximately RMB36.0 million (approximately HK$34.6 million) as at 31 December 2005. The Directors, including the independent non-executive Directors, consider that the terms of the Sale and Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Principal terms of the Convertible Notes

Principal Amount	:	HK$18.4 million
CN Conversion Price	:	The CN Conversion Price, as of any date of conversion, is the lower of (a) the Initial CN Conversion Price, as adjusted from time to time in accordance with the terms of the Convertible Notes, including share split, consolidation or sub-division of the shares, bonus issue, rights issue, capitalisation of profits or reserves, capital distribution or other dilutive events

of the Company; and (b) the volume-weighted average price of the Shares for the twenty trading days ending on the day immediately preceding the date of a relevant conversion notice multiplied by a factor of 0.9x, but in any case no lower than HK$0.30;

The Initial CN Conversion Price was arrived at after arm's length negotiation between the parties and based on the volume-weighted average closing price of the Shares as quoted on the Stock Exchange over the 20 trading days (excluding those days on which the daily trading volume of the Shares was exceptionally high or low) up to and including 24 March 2006, multiplied by a factor of 0.9x.

The Board, including the independent non-executive Directors, considers the Initial CN Conversion Price fair and reasonable and in the interests of the Shareholders and the Company as a whole in light of the fact that the closing price of the Shares on 24 March 2006 was HK$1.25 per Share, and the 20 day volume-weighted average closing price of the Shares as quoted on the Stock Exchange prior to and including 24 March 2006 calculated as above-mentioned was HK$1.29 per Share, which basically reflects the market average of the Shares over the same period.

The Initial CN Conversion Price represents:

(a) a discount of approximately 31.8% to the closing price of HK$1.70 per Share as quoted on the Stock Exchange on 4 April 2006, being the last trading day before the date of the Announcement;

(b) a discount of approximately 31.8% to the closing price of HK$1.70 per Share as quoted on the Stock Exchange over the last five trading days up to and including 4 April 2006, being the last trading day immediately before the date of the Announcement;

(c) a discount of approximately 3.3% to the closing price of HK$1.20 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(d) a premium of approximately 141.7% over the unaudited net asset value of the Company of approximately HK$0.48 per Share as at 30 September 2005, being the date on which the latest interim results of the Company were made up; and

(e) a premium of approximately 251.5% over the unaudited consolidated net tangible asset value of the Company of HK$0.33 per Share as at 30 September 2005, being the date on which the latest interim results of the Company were made up.

Interest :	The Convertible Notes will bear interest at a rate of 2% per annum on the outstanding principal amount of the Convertible Notes, which will be payable by the Company semi-annually in arrears in equal installments starting the 180th day of the date of issue of the Convertible Notes.
Maturity date :	the date falling four years after the date of the issue of the Convertible Notes, extendable for a further one year at the option of the Company.
Redemption :	The Company may redeem the Convertible Notes in whole at 100% at any time after the 2nd anniversary of issuance and prior to the maturity date of the Convertible Notes by way of a notice in advance of 30 business days. The Convertible Notes shall be mandatorily redeemed by the Company at 100% on the maturity date. If the trading price of the Shares falls below HK$0.30, the holder(s) of the Convertible Notes shall have the right to request the Company to redeem the Convertible Notes immediately. For avoidance of doubt, the floor of HK$0.30 for the CN Conversion Price shall still apply if such redemption right is not exercised and the Convertible Notes are converted under such circumstances.
CN Conversion Period :	The Convertible Notes are convertible at any time from the date of issue and up to the maturity date of the Convertible Notes.
Conversion Rights :	The Noteholder(s) has/have the right to convert all or part of the Convertible Notes in amounts of HK$100,000 or its integral multiple into CN Conversion Shares at the CN Conversion Price during the CN Conversion Period.
CN Conversion Shares :	The number of CN Conversion Shares to be issued upon full conversion of the Convertible Notes at the Initial CN Conversion Price will be 15,862,068 Shares, representing approximately 6.8% of the existing issued share capital of the Company and 6.3% of the issued share capital as enlarged by the issue of the CN Conversion Shares upon conversion of the Convertible Notes in full and 4.5% of the issued share capital as enlarged by the issue of the CN Conversion Shares upon conversion of the Convertible Notes in full and the issue of the Conversion Shares upon conversion of the Convertible Preference Shares in full. The CN Conversion Shares will rank pari passu in all respects with the Shares in issue on the date of conversion.
Voting Right :	The Noteholder(s) will not be entitled to attend or vote at any general meeting of the Company by reason only of his/her being the Noteholder(s).
Transferability :	The Convertible Notes may be assigned or transferred to any third party or parties other than a connected person of the Company unless necessary approvals

and consents by independent shareholders of the Company have been obtained with respect to any assignment or transfer of the Convertible Notes to a connected person of the Company. Prompt notice will be given to the Stock Exchange of each transfer.

Listing of the Convertible Notes : No application will be made for the listing of the Convertible Notes in any exchange of any jurisdiction.

The CN Conversion Shares will be issued under a special mandate proposed to be sought from the Shareholders at the SGM. Application will be made to the Stock Exchange for the listing of, and permission to deal in, the CN Conversion Shares.

Conditions Precedent

Completion of the Sale and Purchase Agreement is conditional upon, inter alia,:

(a) the satisfactory completion of the due diligence review by the Purchaser on, but not limited to, the legal, financial and operational matters of the Target;

(b) the passing of ordinary resolutions by the Shareholders approving the Sale and Purchase Agreement and the transactions contemplated thereunder, the issue of the Convertible Notes and the issue of the CN Conversion Shares upon the conversion of the Convertible Notes at the SGM;

(c) the granting of the listing of and permission to deal in the CN Conversion Shares by the Listing Committee of the Stock Exchange;

(d) issuance by such authority of an approval certificate approving the conversion of the Target into a sino-foreign equity joint venture and its adoption of the JV contract and JV Articles of Association, key terms of which are set out in "Others" below;

(e) issuance by the relevant administration of industry and commerce of a business licence confirming the conversion of the Target into a sino-foreign equity joint venture, with contents including the same business scope as set out in the Target's present business licence; and

(f) the obtaining of the consent in writing from the minority shareholder of the Target to waive all (if any) pre-emptive rights that it may have in respect of the Sale Shares.

The Purchaser may waive condition (a) at any time by notice in writing to the Vendors. However, as at the Latest Practicable Date, the Purchaser had no intention to waive such condition. In the event that the conditions precedent is not fulfilled (or waived in the case of condition (a)) by 31 August 2006 or a later date, in any case no later than 31 December 2006, agreed mutually by the contracting parties, then the Sale and Purchase Agreement shall cease to be of any effect and the parties shall be released from all obligations and liabilities under it, save for any antecedent breaches of the provisions under the Sale and Purchase Agreement.

Completion

Completion of the Sale and Purchase Agreement shall take place on the third business day following the date on which the above conditions are fulfilled or waived, as the case may be, or such other time and date as may be mutually agreed by the Purchaser and the Vendors.

Others

According to the proposed JV Contract and JV Articles of Association, the Target shall have five directors, three of which shall be nominated by the Purchaser and the remaining positions shall be nominated by the Second Vendor. Both the Purchaser and the Second Vendor shall enjoy a right of first refusal in respect of any transfer of Shares in the Target.

Information of the Target

The Target was incorporated under PRC laws in November 2000. It has an authorized and issued share capital of RMB40 million. The Target Group is principally engaged in B-to-C e-payment services and distributions. Technologically the Target Group has developed and been continuously improving its proprietary platform of comprehensive e-commerce services and proprietary multi-functional POS systems. Through the Target Group's proprietary platform, customers can settle bills of public services, make payments for pre-paid services and conduct e-commerce transactions. The Target beneficially owns the intellectual property right of such proprietary platform and a certificate of the software copyright for the platform was granted to the Target by the National Copyright Administration of the People's Republic of China on 7 August 2002.

As its initial focus, the Target Group has been successfully conducting its B-to-C business in mobile phone pre-payment field through its POS systems, where the two exclusive wireless operators in China, China Mobile and China Unicom, are its strategic partners; almost 4,000 of its proprietary e-charge POS systems have been placed in all major convenience store chains and other retail spots throughout the city of Shanghai; and it has achieved dominant market share of about 25% in the Shanghai mobile prepayment market.

Of particular significance and relevance to the Company, the Target Group's proprietary e-commerce platform together with its vast number of almost 4,000 proprietary e-pos machines spreading all over Shanghai not only serve as a well-versed settlement and service system but much more importantly also as marketing network and distribution channels in Shanghai applicable to e-cash of various B-to-C businesses.

The audited consolidated financial results of the Target Group, which have been prepared in accordance with accounting principles generally accepted in Hong Kong, for each of the two years ended 31 December 2004 and 2005 are summarized as follows:

	For the year ended 31 December	
	2004	**2005**
	(RMB'000)	*(RMB'000)*
Revenue, net of sale discounts	1,716,296	1,993,407
Profit/(loss) before taxation and extraordinary items	(747)	8,558
Profit/(loss) after taxation, extraordinary items and minority interests	(1,846)	6,781

The improvements in turnover and results of the Target Group for the year ended 31 December 2005 were a result of the substantial increase in demand and penetration of the e-payment service in the PRC during the period. The profit margin was also improved as the Target Group achieved certain economies of scale. The net loss incurred for the year ended 31 December 2004 was due mainly to provisions made for account receivables.

As at 31 December 2005, the Target Group had audited consolidated net asset value of approximately RMB36.0 million.

Reasons for and effects of the Acquisition

The Group is principally engaged in the provision of healthcare services in the PRC since 2004; the production and distribution of biotechnology products and investment holding.

During the past year, the Group discontinued its loss making business of sourcing and distribution of electronic parts and components and devoted most of its resources to create a platform for the provision of integrated healthcare services for foreign visitors, expatriates and PRC nationals in the PRC. The Directors believe the prospect of healthcare services in the PRC is highly promising and remain optimistic towards building up a successful business franchise in this segment.

In developing the business of consumer friendly B-to-C health/wellness service provision, the Company has secured a unique access to the infrastructure of Chinese healthcare providers, i.e. a nationwide network of 914 hospitals, via a public-private partnership with the wholly-owned institutions of the Chinese Ministry of Health in the form of strategic equity holdings in and alliances with the Company at both holding company and operating company levels. With such a background and in building up an integrated value chain of health/wellness service provision in China, the Company has been searching for ways and means to have its own direct B-to-C access/settlement platform in health and wellness to distribute its consumer medicine products (i.e. packages of bundled health and wellness services) efficiently, effectively and conveniently, and the Target meets the Company's requirement in these aspects considering the fact of the effective e-settlement system, made up of the Target Group's proprietary e-commerce platform and the e-pos machines which scatter all over the city, and its wide-reach and easy access to the customers.

In addition, upon completion of the Acquisition, the Target will become a subsidiary of the Company and the accounts of the Target will be consolidated into the Group's accounts. As set out in Appendix II of this circular, the Target Group recorded turnover (net of sale discounts) of approximately RMB 784 million, RMB 1,716 million and RMB 1,993 million in the three years ended 31 December 2003, 2004 and 2005 respectively, representing a growth of over 150% during the three-year period. Although the Target Group had a net loss of approximately RMB 1.8 million in 2004 because of the written-off of significant amount of account receivables, which is non-recurrent in nature, the net profit attributable to shareholders of the Target Group increased by approximately 12.6 times from approximately RMB 0.5 million in 2003 to RMB 6.8 million in 2005. Based on the track record of the Target Group, the Directors believe that the performance of the Target Group shall continue to be promising and the Group's overall performance and revenue base shall be further improved with the consolidation of the results from the Target Group. Furthermore, as the Target Group has already attained a large customer base in the mass market, the Group can reach the existing customers of the Target Group easily for promotion of the Group's products. In light of the above, the Directors consider that the Acquisition will enhance the Group's overall business performance and substantially strengthen its revenue base and consumer reach.

The Subscription and the Acquisition, both of which are subject to Shareholders' approval, are independent transactions and not inter-conditional. The Company will pursue the Acquisition, subject to Shareholders' approval, even if the Subscription lapses. Therefore, part of the consideration of the Acquisition will be satisfied by the issuance of the Convertible Notes instead of cash to ensure that the Group has sufficient working capital for its daily operations.

Taking into account the above factors, the Board, including the independent non-executive Directors, is of the view that the terms of the Acquisition are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

CHANGE IN THE SHAREHOLDING STRUCTURE OF THE COMPANY

Assuming that there are no changes in the issued share capital of the Company prior to the completion of the Subscription and the Acquisition, the effects on the shareholding structure of the Company upon (i) full conversion of the Subscription Shares; (ii) full conversion of the Convertible Notes; and (iii) full conversion of the Subscription Shares and Convertible Notes will be as follows:

	Existing Shareholding structure as at the date of the Announcement		Shareholding structure upon full conversion of the Subscription Shares at the Initial Conversion Price		Shareholding structure upon full conversion of the Convertible Notes at the Initial CN Conversion Price		Shareholding structure upon full conversion of the Subscription Shares and Convertible Notes at the Initial Conversion Price and Initial CN Conversion Price respectively	
	No. of Shares	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*
Guo Kang Pharmaceutical & Medical Supplies Ltd. *Note 1*	17,000,000	7.25	17,000,000	5.08	17,000,000	6.79	17,000,000	4.85
Orient Access International Inc.	17,300,000	7.38	17,300,000	5.17	17,300,000	6.91	17,300,000	4.94
China Healthcare Services Ltd.	20,243,000	8.64	20,243,000	6.05	20,243,000	8.09	20,243,000	5.78
Pacific Annex Capital Limited *Note 2*	11,147,000	4.76	11,147,000	3.33	11,147,000	4.46	11,147,000	3.18
Timenew Limited *Note 2*	8,661,000	3.70	8,661,000	2.59	8,661,000	3.46	8,661,000	2.47
Dr. Li Zhong Yuan	4,635,000	1.98	4,635,000	1.38	4,635,000	1.85	4,635,000	1.32
Dr. Ni Aimin	750,000	0.32	750,000	0.22	750,000	0.30	750,000	0.21
Mr. Lee Jong Dae	3,026,500	1.29	3,026,500	0.91	3,026,500	1.21	3,026,500	0.87
Mr. Deng Ku Hon	432,000	0.18	432,000	0.13	432,000	0.17	432,000	0.12
Mr. Robin Willi	912,000	0.39	912,000	0.27	912,000	0.37	912,000	0.26
2Trade Group Limited *Note 3*	1,295,000	0.55	1,295,000	0.39	1,295,000	0.52	1,295,000	0.37
Mr. Martin Treffer *Note 5*	250,000	0.11	250,000	0.07	250,000	0.10	250,000	0.07
The Subscribers	–	–	100,344,827	29.98	–	–	100,344,827	28.62
The First Vendor	–	–	–	–	15,862,068	6.34	15,862,068	4.52
Other public Shareholders	148,716,077	63.45	148,716,077	44.43	148,716,077	59.43	148,716,077	42.42
	234,367,577	100.00	334,712,404	100.00	250,229,645	100.00	350,574,472	100.00
Shares held by connected persons of the Company	31,108,500	13.27	131,453,327	39.27	31,108,500	12.43	131,453,327	37.49
Shares in public hands	203,259,077	86.73	203,259,077	60.73	219,121,145	87.57	219,121,145	62.51

Notes:

1. Guo Kang Pharmaceutical & Medical Supplies Limited is beneficially owned by International Health Cooperation and Exchange Centre of the Ministry of Health, the PRC, who are not connected persons of the Company or its associates.

2. Pacific Annex Capital Limited and Timenew Limited are wholly owned by Dr. Li Zhong Yuan and thus Dr. Li Zhong Yuan is deemed to be interested in the Shares held by Pacific Annex Capital Limited and Timenew Limited.

3. 2Trade Group Limited is as to 35% beneficially owned by Mr. Martin Treffer and thus Mr. Martin Treffer is deemed to be interested in the Shares held by 2Trade Group Limited.

4. In accordance with the Listing Rules, Pacific Annex Capital Limited, Timenew Limited, Dr. Li Zhong Yuan, Dr. Ni Aimin, Mr. Lee Jong Dae, Mr. Deng Ku Hon, Mr. Robin Willi, 2Trade Group Limited and Mr. Martin Treffer are connected persons of the Company.

5. To the best knowledge of the Directors and information available to date, none of Orient Access International Inc., China Healthcare Services Ltd. and their respective beneficial owners is connected person of the Company and each of Guo Kang Pharmaceutical & Medical Supplies Ltd., Orient Access International Inc., China Healthcare Services Ltd. and Pacific Annex Capital Limited are independent of each other.

6. The above table is for illustrative purpose only and the Conversion Price and CN Conversion Price are subject to adjustments as described in this circular.

If the Convertible Notes are converted into CN Conversion Shares based on the initial CN Conversion Price of HK$1.16 per Share, the number of CN Conversion Shares to be issued to the First Vendor upon full conversion of the Convertible Notes will be 15,862,068 new Shares, representing approximately 6.8% of the existing issued share capital of the Company and approximately 6.3% of the total issued share capital of the Company as enlarged by the issue of the CN Conversion Shares. If the Convertible Notes are converted into CN Conversion Shares based on the minimum CN Conversion Price of HK$0.30 per Share, the number of CN Conversion Shares to be issued to the First Vendor upon full conversion of the Convertible Notes will be 61,333,333 new Shares, representing approximately 26.2% of the existing issued share capital of the Company and approximately 20.7% of the total issued share capital of the Company as enlarged by the issue of the CN Conversion Shares. The Acquisition will not result in a change of control of the Company.

As at Latest Practicable Date, the Company had an aggregate of 33,704,000 outstanding share options with exercise prices in the range of HK$2.325 to HK$8.600 each. The Company also had outstanding convertible bonds in aggregate principal amount of approximately US$6.6 million which might be converted into 20,388,118 Shares by the holders of the bonds at a conversion price of HK$2.525 per Share, subject to adjustment, during the period from 19 May 2005 to 18 May 2009. The exercise in full of the subscription rights attaching to the outstanding share options and convertible bonds, the Convertible Preference Shares and the Convertible Notes would result in the issue of an aggregate of 170,299,013 Shares, which represent approximately 42.1% of the enlarged issued share capital of the Company. Save for the aforesaid, as at the Latest Practicable Date, the Company had no other outstanding options, warrants, derivatives or other securities that are convertible into Shares.

Upon full exercise of the subscription rights attaching to the outstanding share options and convertible bonds, the Convertible Preference Shares and the Convertible Notes, there shall be 239,509,263 Shares, which represent approximately 59.2% of the share capital of the Company on fully diluted basis, in public hands. The Company undertakes that it shall take appropriate steps to ensure that not less than 25% of the Shares then in issue will be held in public hands from time to time and will make further announcements in relation to any action taken in respect of the public float of the Shares to ensure strict compliance with the Listing Rules.

As the issue of Conversion Shares and CN Conversion Shares will have a dilutive effect on Shareholders, the Company will keep the Shareholders informed of all relevant details relating to any conversion of the Convertible Preference Shares or Convertible Notes in the following manner:

(a) the Company will make a monthly announcement (the "Monthly Announcement") on the website of the Stock Exchange. Such announcement will be made on or before the fifth working day following the end of each calendar month and will include the following details in a table form:

  (i) whether any conversion of the Convertible Preference Shares and Convertible Notes has occurred during the relevant month and, if so, details of the conversion(s), including the conversion date, number of new Shares issued and the conversion price for each conversion. If there is no conversion during the relevant month, the Company will make a statement to that effect;

  (ii) the number of Shares to be issued upon conversion of the outstanding Convertible Preference Shares and Convertible Notes after the conversion of any of the Convertible Preference Shares or Convertible Notes, if any;

  (iii) the total number of Shares issued and/or cancelled pursuant to other transactions, including Shares issued pursuant to exercise of options under any share option scheme(s) of the Company and/or Shares cancelled pursuant to any repurchase of Shares by the Company, with a breakdown of the Shares concerned by the relevant transactions; and

  (iv) the total issued share capital of the Company as at the commencement and the last day of the relevant month;

(b) in addition to the Monthly Announcement, if the cumulative amount of new Shares issued pursuant to the conversion of the Convertible Preference Shares and/or Convertible Notes reaches 5% of the issued share capital of the Company as disclosed in the last public announcement made by the Company in respect of the Convertible Preference Share and/or Convertible Notes (as the case may be) (and thereafter in a multiple of such 5% threshold), the Company will make an announcement on the website of the Stock Exchange; and

(c) should any general disclosure obligation of the Company arise under Rule 13.09 of the Listing Rules, a further announcement will be made as and when appropriate.

Save for the issue of convertible bonds in aggregate principal amount of US$6.6 million (approximately HK$51.2 million) by the Company to eleven independent professional, institutional and individual investors who are not connected persons of the Company on 18 May 2005, the Company has not carried out any equity fund raising activities in the 12 months immediately preceding the Latest Practicable Date. As of the Latest Practicable Date, the outstanding principal of the aforementioned convertible bonds remained at US$6.6 million. To the best knowledge of the Directors and information available to date, the subscribers of the US$6.6 million convertible bonds are independent of and not connected with the Subscribers, Vendors and/or any of their respective associates.

AMENDMENTS TO THE BYE-LAWS

To incorporate the rights, privileges and restrictions of the Convertible Preference Shares in the Bye-laws, a resolution will be proposed at the SGM to amend the Bye-laws of the Company. Details of the proposed amendments are set out in the notice of SGM.

BUSINESS REVIEW AND FUTURE PROSPECT

1 April 2005 signifies a clean start for the Group's exclusive focus to create a business platform to develop an integrated healthcare services' offering targeted primarily at foreign visitors to China, expatriate workers and, most importantly, the burgeoning affluent consumer segment along the country's eastern coastal cities. The Group, working in an expansive public-private partnership with the Chinese Ministry of Health (the "MOH") and leading public hospitals in China, and via other strategic partnerships with leading international healthcare institutions, continues to build up and fine tune its delivery platform for interrelated and complementary healthcare and wellness businesses.

Currently, the core businesses of the Group in healthcare include: (i) Emergency Assistance Medical Services ("EAMS"), which provide post-pay, emergency medical assistance nationwide via the 914 Network Hospitals selected by MOH (the Group continues to be the sole designated entity authorized by the MOH with the right to utilize such a nationwide hospital network); (ii) Health Asset Management Services ("HAMS"), a membership program which provides health management packages ranging from comprehensive medical consultations and check-ups to 24-hour private doctoral services as well as "Green Channel" access to leading Chinese medical institutions and practitioners for the affluent Chinese population and expatriates; and (iii) Franchise Medical Specialties, which provide premium specialty centers and cosmetic surgery clinics for the wealthy Chinese citizens and, to a lesser extent, expatriates.

During the current financial year, while all business lines of the Group in healthcare are still in development stage they have made substantial progress. With the successful membership promotion programs and alliances with channel partners, the membership of EAMS is expected to grow significantly in the current and coming years. The Group's Franchised Medical Specialties have been building up brands by treating patients and completing procedures since their openings.

SGM

Under the Listing Rules, the Acquisition constitutes a very substantial acquisition and thus it is subject to Shareholders' approval. As the Subscription Shares will be issued under a special mandate, the Subscription is subject to Shareholders' approval as well.

Dr. Li Zhong Yuan, Mr. Lee Jong Dae and Dr. Ni Aimin, who own 10.44%, 1.29% and 0.32% respectively of the issued share capital of the Company, were involved in the negotiations of the Subscription and the Acquisition. However, as none of them nor any other Shareholders have any material interests in the transactions, no Shareholders are required to abstain from voting on the resolutions to be proposed at the SGM.

Set out on pages 148 to 185 of this circular is a notice of the SGM, at which resolutions will be proposed and, if consider appropriate, passed to approve the Subscription, the Acquisition and the proposed amendments to the Bye-laws.

RECOMMENDATION

The Directors consider that the terms and conditions of the Subscription Agreement and the Sale and Purchase Agreement are fair and reasonable and the Subscription, the Acquisition and the proposed amendments to the Bye-laws are in the interests of the Company and the Shareholders as a whole and accordingly recommend the Shareholders to vote in favour of the respective resolutions to be proposed at the SGM to approve the Subscription Agreement, the Sale and Purchase Agreement and the transactions contemplated thereunder and the proposed amendments to the Bye-laws.

ADDITIONAL INFORMATION

Your attention is drawn to the financial information relating to the Group, the Target and the Enlarged Group and other information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
China HealthCare Holdings Limited
Li Zhong Yuan
Chairman

1. SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last three financial years, as extracted from the audited financial statements, is set out below.

Results

	Year ended 31 March		
	2005	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	34,763	222,797	245,373
Loss before taxation	(53,761)	(52,236)	(63,380)
Taxation	–	–	–
Loss before minority interests	(53,761)	(52,236)	(63,380)
Minority interests	1,847	189	–
Net loss for the year	(51,914)	(52,047)	(63,380)
Loss per share	HK$(0.24)	HK$(0.37)	HK$(0.88)
Dividend per share	–	–	–

Assets and liabilities

	As at 31 March		
	2005	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	147,977	158,328	191,104
Total liabilities and minority interests	41,414	36,166	131,104
Net assets	106,563	122,162	60,000

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 MARCH 2005

The following information has been extracted from the audited consolidated financial statements of the Group for the year ended 31 March 2005. References to page number in this section are to the page numbers of such annual report of the Company for the year ended 31 March 2005.

Auditors' Report prepared by RSM Nelson Wheeler as extracted from the annual report of the Company for the year ended 31 March 2005

To the shareholders of
China HealthCare Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 26 to 73 which have been prepared in accordance with accounting principles generally accepted in Hong Kong, other than as set out below.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

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

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Disagreement about accounting treatment

Included in investments in securities and loan receivables of the Group as at 31 March 2005 are carrying amounts of unlisted investment in Hamilton Apex Technology Ventures, L.P. (the "Partnership"), amounting to HK$21,026,000 and a secured term loan of HK$21,026,000 which is secured by the borrower's investment in the Partnership. As more fully explained in notes 18 and 19 to the financial statements, both the Group and the borrower had failed to meet capital calls pursuant to the partnership agreements and accordingly the general partners declared that the Group and the borrower were in default. Among various default remedial actions as set out in the partnership agreement, the general partners can at their sole discretion declare, by notice of forfeiture to the Group and the borrower, that their interests in the Partnership are forfeited. Furthermore, the general partners have the right to seek for replacement investors until investments in the Partnership of the Group and the borrower are fully replaced and forfeited.

As disclosed in notes 18 and 19 to the financial statements, the general partners had taken action to transfer a portion of each of the Group's and the borrower's investments in the Partnership with a capital value of HK$639,000 (equivalent to US$82,000) to other investors, without paying any consideration to the Group and the borrower. In addition, each of the Group and the borrower also transferred another portion of their investments in the Partnership with a capital value of HK$7,371,000 (equivalent to US$945,000) to another investor at a consideration which may be less than the capital value and will only be received upon the liquidation of the Partnership.

Except for the above, no further information is available to the Group relating to the investments in securities. Consequently we have been unable either to obtain sufficient reliable information or to carry out any alternative auditing procedures to satisfy ourselves as to the value and ownership of the Group's interest in the Partnership included in the consolidated balance sheet as at 31 March 2005.

In our opinion, full provision for impairment loss in respect of the Group's investments in securities of HK$21,026,000 and full provision for the loan receivable of HK$21,026,000 should be recognised in the financial statements to reduce the net assets of the Group as at 31 March 2005 and to increase the loss of the Group for the year then ended by the same amounts.

Qualified opinion arising from disagreement about accounting treatment

Except for the failure to recognise the impairment loss in respect of the investments in securities and make a provision for the loan receivable as mentioned in the section of "Disagreement about accounting treatment", in our opinion the financial statements give a true and fair view of the state of affairs of the Group and the Company as at 31 March 2005 and of the results and cashflow of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

RSM Nelson Wheeler
Certified Public Accountants

Hong Kong, 27 July 2005

Consolidated Income Statement
For the year ended 31 March 2005

	Note	2005 HK$'000	2004 HK$'000
Turnover	7	34,763	222,797
Cost of sales and services		(40,739)	(225,555)
Gross loss		(5,976)	(2,758)
Other operating income	7	92	140
Gain on disposal of subsidiaries		–	5,676
Gain on disposal of discontinued operations		–	14,923
Administrative expenses		(34,794)	(40,329)
Provision for doubtful debts		(792)	(10,598)
Impairment losses recognised in respect of investments in securities		(695)	(8,053)
Impairment losses of goodwill		(7,192)	–
Loss on disposal of investment securities		–	(3,955)
Loss on disposal of other investments		–	(2,726)
Amortisation of intangible assets		(3,582)	(1,591)
Other operating expenses		(118)	(442)
Loss from operations	8	(53,057)	(49,713)
Finance costs	9	(704)	(2,523)
Loss before taxation		(53,761)	(52,236)
Taxation	12	–	–
Loss before minority interest		(53,761)	(52,236)
Minority interest		1,847	189
Net loss from ordinary activities attributable to shareholders	28	(51,914)	(52,047)
Loss per share			
– Basic (HK$)	13	(0.24)	(0.37)

Consolidated Balance Sheet

At 31 March 2005

	Note	2005 HK$'000	2004 HK$'000
Non-current assets			
Property, plant and equipment	14	6,890	642
Intangible assets	15	39,447	13,289
Interest in an associate	17	1	1
Investments in securities	18	22,588	23,283
		68,926	37,215
Current assets			
Inventories	20	3,356	2,206
Trade receivables	21	3,748	15,406
Prepayments, deposits and other receivables		3,603	10,681
Loan receivables	19	21,026	21,426
Bank balances and cash		47,318	71,394
		79,051	121,113
Current liabilities			
Trade payables	22	960	4,116
Other payables and accrued liabilities		8,769	8,788
Obligations under finance leases	23	–	67
Amounts due to directors	24	5,714	2,282
Convertible bonds	25	17,300	–
		32,743	15,253
Net current assets		46,308	105,860
Total assets less current liabilities		115,234	143,075
Non-current liabilities			
Convertible bonds	25	–	20,460
		115,234	122,615
Capital and reserves			
Share capital	26	21,707	19,977
Reserves	27	84,856	102,185
		106,563	122,162
Minority interests		8,671	453
		115,234	122,615

Balance Sheet
At 31 March 2005

	Note	2005 HK$'000	2004 HK$'000
Non-current assets			
Property, plant and equipment	14	22	291
Investments in subsidiaries	16	16,634	50,515
Investments in securities	18	1,333	1,333
		17,989	52,139
Current assets			
Prepayments, deposits and other receivables		255	2,222
Bank balances and cash		7,300	50,860
		7,555	53,082
Current liabilities			
Other payables and accrued liabilities		2,820	2,789
Obligations under finance leases	23	–	67
Convertible bonds	25	17,300	–
		20,120	2,856
Net current (liabilities)/assets		(12,565)	50,226
Total assets less current liabilities		5,424	102,365
Non-current liabilities			
Convertible bonds	25	–	20,460
		5,424	81,905
Capital and reserves			
Share capital	26	21,707	19,977
Reserves	27	(16,283)	61,928
		5,424	81,905

Consolidated Statement of Changes in Equity
For the year ended 31 March 2005

	Share capital	Share premium	Contributed surplus	Capital reserve	Translation reserve	Special reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2003	10,023	55,531	182,659	1,255	(1,270)	33,728	(221,926)	60,000
Release of reserves upon disposals of subsidiaries	–	–	(125,535)	(1,255)	1,270	(33,728)	159,248	–
Issue of shares as consideration for the acquisition of investments in securities	1,230	9,225	–	–	–	–	–	10,455
Issue of shares on conversion of convertible bonds	4,515	27,000	–	–	–	–	–	31,515
Issue of shares on exercise of share options	750	6,750	–	–	–	–	–	7,500
Issue of shares by private placements	3,459	63,749	–	–	–	–	–	67,208
Share issue expenses	–	(2,469)	–	–	–	–	–	(2,469)
Loss for the year	–	–	–	–	–	–	(52,047)	(52,047)
At 31 March 2004	19,977	159,786	57,124	–	–	–	(114,725)	122,162
Issue of shares on conversion of convertible bonds	730	2,430	–	–	–	–	–	3,160
Issue of shares by private placements	1,000	35,000	–	–	–	–	–	36,000
Share issue expenses	–	(2,861)	–	–	–	–	–	(2,861)
Exchange differences arising on translation of financial statements of overseas operations	–	–	–	–	16	–	–	16
Loss for the year	–	–	–	–	–	–	(51,914)	(51,914)
At 31 March 2005	**21,707**	**194,355**	**57,124**	**–**	**16**	**–**	**(166,639)**	**106,563**

Consolidated Cash Flow Statement

For the year ended 31 March 2005

	2005	2004
	HK$'000	*HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss from operations	(53,057)	(49,713)
Adjustments for:		
Provision for doubtful debts	792	10,598
Amortisation of intangible assets	3,582	1,591
Interest income	(92)	(81)
Gain on disposal of subsidiaries	–	(5,676)
Gain on disposal of discontinued operations	–	(14,923)
Depreciation	1,098	1,722
Impairment losses recognised in respect of investments in securities	695	8,053
Impairment losses of goodwill	7,192	–
Loss on disposal of other investments	–	2,726
Loss on disposal of investment securities	–	3,955
Provision for obsolete inventories	–	1,498
Loss on disposal of property, plant and equipment	118	442
Operating cash flows before movements in working capital	(39,672)	(39,808)
Decrease in inventories	1,399	6,464
Decrease/(Increase) in trade receivables	14,352	(1,207)
Decrease in prepayments, deposits and other receivables	34,444	3,212
Decrease in trade payables	(4,399)	(1,188)
Decrease in other payables and accrued liabilities	(13,905)	(4,964)
Increase/(Decrease) in amounts due to directors	3,432	(5,773)
Cash used in operations	(4,349)	(43,264)
Interest paid	(73)	(2,321)
Interest on obligations under finance leases	(1)	(202)
Net cash outflow from operating activities	(4,423)	(45,787)

	Note	2005 HK$'000	2004 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		92	81
Purchase of property, plant and equipment		(5,651)	(122)
Proceeds from disposal of property, plant and equipment		307	800
Purchase of investments in securities		–	(11,638)
Proceeds from disposal of investments in securities		–	11,552
Advances of loan receivables		(200)	(400)
Repayment of loan receivable		600	361
Repayment of exchangeable loan receivables		–	14,500
Acquisition of subsidiaries	*29*	(47,889)	(10,548)
Disposal of subsidiaries		–	(763)
Net cash (used in)/generated from investing activities		(52,741)	3,823
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans raised		1,887	–
Repayment of bank loans		(1,887)	–
Issue of convertible bonds		–	50,000
Issue of shares net of expenses		33,139	72,239
Repayment of obligations under finance leases		(67)	(2,652)
Payment to related companies		–	(5,005)
Redemption on bonds		–	(5,460)
Net cash generated from financing activities		33,072	109,122
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(24,092)	67,158
Effect of foreign currency exchange rate changes		16	–
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		71,394	4,236
CASH AND CASH EQUIVALENTS AT END OF YEAR, REPRESENTED BY BANK BALANCES AND CASH		47,318	71,394

Notes to the Financial Statements

For the year ended 31 March 2005

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability with its shares listed on The Stock Exchange of Hong Kong Limited.

During the year, the Group was principally engaged in sourcing and distribution of electronic parts and components, producing and trading of biotechnology products, provision for medical consultancy and agency services and investment holding. In November 2004, the Group ceased its business of sourcing and distribution of electronic parts and components as set out in note 6.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effect for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared under the historical cost convention.

The financial statements have been prepared on a going concern basis. The continuation of the Group's business depends upon future profitable operation of the Group and the success of obtaining additional outside financing to meet its future working capital and financial requirements.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and the principal accounting policies adopted are as follows:

(a) Basis of consolidation

Consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

A subsidiary is an entity in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Goodwill

Goodwill arising on acquisition represents the excess of the cost of investments over the Group's interest in the fair value of identifiable net assets of subsidiaries and associates when acquired, and is amortised on a straight line basis over its economic useful life.

(c) Associate

An associate is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significance influence is exercised in its management.

The Group's investments in associates include the Group's share of the net assets of the associates (plus the premium paid/less any discount on acquisition in so far as it has not already been written off or amortised). The Group's share of post-acquisition profits or losses of associates is included in the consolidated income statement.

In the Company's balance sheet the investments in associates are stated at cost less impairment losses, if any. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised in the consolidated income statement.

(d) Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are stated at cost less impairment losses, if any. The carrying amounts of individual investment securities are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investment securities is reduced to its fair value. The amount of the reduction is recognised as an expense in the income statement. The reduction is written back to income statement when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Other investments are carried at fair value. At each balance sheet date the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the income statement. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the income statement as they arise.

(e) Impairment

The carrying amounts of assets are reviewed at each balance sheet date to assess whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the carrying amount of the asset to its recoverable amount. Such impairment losses are recognised as an expense in the income statement immediately.

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

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses and are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight line basis. The principal annual rates are as follows:

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

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. Cost was calculated using the first-in-first-out basis in prior year for inventories under the discontinued operation. In the current year, cost is calculated on weighted average cost method.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(h) Cash and cash equivalents

Cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value, having been within three months of maturity at acquisition.

(i) Finance leases

Leases where substantially transfer to the Group and the Company all the risks and rewards of ownership of assets, other than legal title, are accounted for as finance leases. At inception finance lease is capitalised at the lower of the fair value of the leased asset or, if lower, the present value of the minimum lease payments.

Lease payments are allocated between the capital and finance charges. The corresponding rental obligations, net of finance charges, are recorded as obligations under finance leases. Finance charges are charged to the income statement in proportion to the capital balances outstanding.

(j) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the income statement on a straight line basis over the lease term.

(k) Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the approximate rates of exchange ruling on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling on the balance sheet date. Gains and losses resulting from this translation policy are recognised in the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or expenses in the period in which the operations is disposed of.

(l) Employee benefits

Obligations for contributions to defined contribution retirement plans, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as expenses in the income statement as incurred.

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group and the Company has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(n) Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowable. Hong Kong profits tax is provided at the rate prevailing for the year based on the assessable profit for the year less allowable losses, if any, brought forward.

Deferred taxation is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where 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 taxation is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

(o) Revenue recognition

Revenue from the sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Revenue from the provision of services is recognised when the services are rendered.

Dividend income is recognised when the right to receive payment is established.

Interest income is accrued on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(p) Discontinuing operations

A discontinuing operation is a clearly distinguishable component of the Group's business that is disposed of or abandoned pursuant to a single plan, and which represents a separate major line of business or geographical area of operations.

(q) Research and development expenditure

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

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its economic useful life.

Where no internally-generated intangible assets can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

(r) Patents and trademarks

Patents and trademarks are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

5. SEGMENTAL INFORMATION

For management purposes, the Group is currently organised into three operating divisions – producing and trading of biotechnology products, provision for medical consultancy and agency services and investment holding and its business of sourcing and distribution of electronic parts and components was discontinued during the year as set out in note 6. These divisions are the basis on which the Group reports its primary segment information.

The Group's operations are principally located in Hong Kong and other regions of the People's Republic of China ("PRC").

Business Segments

An analysis of the Group's revenue, results, certain asset, liability and expenditure information by business segments is as follows:

Consolidated income statement

For the year ended 31 March 2005

	Continuing operations			Discontinued operations	
	Producing and trading of biotechnology products	Provision for medical consultancy and agency services	Investment holding	Sourcing and distribution of electronic parts and components	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue	**7,081**	**365**	**–**	**27,317**	**34,763**
Segment results	**(1,564)**	**(4,836)**	**(11,327)**	**(12,390)**	**(30,117)**
Other operating income					**92**
Unallocated corporate expenses					**(23,032)**
Loss from operations					**(53,057)**
Finance costs					**(704)**
Loss before taxation					**(53,761)**
Taxation					**–**
Loss before minority interest					**(53,761)**
Minority interest					**1,847**
Loss for the year					**(51,914)**

For the year ended 31 March 2004

	Continuing operations	Discontinued operations		
	Investment holding	**Sourcing and distribution of electronic parts and components**	**Manufacturing of electronic parts and components**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue	–	93,753	129,044	222,797
Segment results	(21,923)	(11,196)	(9,210)	(42,329)
Other operating income				140
Unallocated corporate expenses				(28,123)
Gain on disposal of discontinued operations				14,923
Gain on disposal of subsidiaries				5,676
Loss from operations				(49,713)
Finance costs				(2,523)
Loss before taxation				(52,236)
Taxation				–
Loss before minority interest				(52,236)
Minority interest				189
Loss for the year				(52,047)

Consolidated balance sheet

For the year ended 31 March 2005

	Continuing operations			Discontinued operations	
	Producing and trading of biotechnology products	Provision for medical consultancy and agency services	Investment holding	Sourcing and distribution of electronic parts and components	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS					
Segment assets	**9,597**	**5,206**	**61,564**	**–**	**76,367**
Unallocated corporate assets					**71,610**
Consolidated total assets					**147,977**
LIABILITIES					
Segment liabilities	**1,328**	**896**	**–**	**–**	**2,224**
Unallocated corporate liabilities					**30,519**
Consolidated total liabilities					**32,743**

For the year ended 31 March 2004

	Continuing operations	Discontinued operations		
	Investment holding	Sourcing and distribution of electronic parts and components	Manufacturing of electronic parts and components	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS				
Segment assets	43,073	17,620	–	60,693
Unallocated corporate assets				97,635
Consolidated total assets				158,328
LIABILITIES				
Segment liabilities	3,000	4,116	–	7,116
Unallocated corporate liabilities				28,597
Consolidated total liabilities				35,713

Other information

For the year ended 31 March 2005

	Continuing operations			Discontinued operations		
	Producing and trading of biotechnology products *HK$'000*	Provision for medical consultancy and agency services *HK$'000*	Investment holding *HK$'000*	Sourcing and distribution of electronic parts and components *HK$'000*	Unallocated corporate assets *HK$'000*	Consolidated *HK$'000*
Additions to property, plant and equipment	**1,495**	**5,807**	**–**	**–**	**477**	**7,779**
Additions to intangible assets	**1,415**	**–**	**35,517**	**–**	**–**	**36,932**
Provision for doubtful debts	**792**	**–**	**–**	**–**	**–**	**792**
Impairment losses recognised in respect of investments in securities	**–**	**–**	**695**	**–**	**–**	**695**
Impairment losses of goodwill	**–**	**–**	**7,192**	**–**	**–**	**7,192**
Amortisation of intangible assets	**142**	**–**	**3,440**	**–**	**–**	**3,582**
Depreciation	**386**	**188**	**–**	**1**	**523**	**1,098**

For the year ended 31 March 2004

	Continuing operations	Discontinued operations			
	Investment holding *HK$'000*	Sourcing and distribution of electronic parts and components *HK$'000*	Manufacturing of electronic parts and components *HK$'000*	Unallocated corporate assets *HK$'000*	Consolidated *HK$'000*
Additions to property, plant and equipment	–	10	–	112	122
Additions to intangible assets	14,880	–	–	–	14,880
Provision for doubtful debts	5,598	–	–	5,000	10,598
Provision for obsolete inventories	–	1,498	–	–	1,498
Impairment losses recognised in respect of investments in securities	8,053	–	–	–	8,053
Amortisation of intangible assets	1,591	–	–	–	1,591
Depreciation	–	2	556	1,164	1,722

GEOGRAPHICAL SEGMENTS

The following table provides an analysis of the Group's turnover by geographical markets, irrespective of the origin of the goods and services:

	Turnover	
	2005	**2004**
	HK$'000	*HK$'000*
Hong Kong and PRC	34,183	187,959
Other Asian countries	580	31,481
United States of America	–	159
Europe and others	–	3,198
	34,763	222,797

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical areas in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong and PRC	146,415	152,828	44,711	15,002
Other Asian countries	229	4,167	–	–
United States of America	1,333	1,333	–	–
	147,977	158,328	44,711	15,002

6. DISCONTINUED OPERATIONS

In November 2004, the Group ceased its business of sourcing and distribution of electronic parts and components.

The results of the Group's sourcing and distribution electronic parts and components business for the period from 1 April 2004 to 31 October 2004 which have been included in the consolidated financial statements are as follows:

	Period ended 31/10/2004 *HK$'000*	**Year ended 31/03/2004** *HK$'000*
Turnover	27,317	93,753
Cost of sales	(36,056)	(100,092)
Gross loss	(8,739)	(6,339)
Administrative expenses	(3,651)	(4,857)
Loss before taxation	(12,390)	(11,196)
Taxation	–	–
Net loss from ordinary activities attributable to shareholders	(12,390)	(11,196)

The carrying amounts of Group's assets and liabilities relating to the sourcing and distribution of electronic parts and components business as at 31 October 2004 and 31 March 2004 are as follows:

	31/10/2004 *HK$'000*	**31/03/2004** *HK$'000*
Total assets	–	17,620
Total liabilities	(100)	(4,116)
Net (liabilities)/assets	(100)	13,504

The net cash flows attributable to the Group's sourcing and distribution of electronic parts and components business for the current and previous periods included in the consolidated cash flow statements are as follows:

	Period ended 31/10/2004 *HK$'000*	**Year ended 31/03/2004** *HK$'000*
Operating activities	1,207	(26,007)
Investing activities	8	(10)
Net cash inflows/(outflows)	1,215	(26,017)

7. REVENUE AND TURNOVER

	2005	2004
	HK$'000	*HK$'000*
Turnover		
Sales of goods	34,398	222,797
Service income	365	–
	34,763	222,797
Other operating income		
Interest income on bank deposits	92	81
Sundry income	–	59
	92	140
Total revenue	34,855	222,937

8. LOSS FROM OPERATIONS

Loss from operations is stated after charging the following:

	2005	2004
	HK$'000	*HK$'000*
Auditors' remuneration		
Current year	630	700
Underprovision in prior years	180	540
	810	1,240
Depreciation		
Owned assets	1,098	1,107
Assets held under finance leases	–	615
	1,098	1,722
Exchange losses	18	285
Loss on disposal of property, plant and equipment	118	442
Operating lease payments in respect of:		
Land and buildings	1,347	2,922
Motor vehicles	–	230
	1,347	3,152
Provision for obsolete inventories	–	1,498
Staff costs:		
Staff costs (including directors' emoluments)	14,964	27,423
Contributions to retirement benefit scheme	141	386
	15,105	27,809

9. FINANCE COSTS

	2005	2004
	HK$'000	*HK$'000*
Interest on:		
Bank loans and overdrafts	73	38
Bonds	–	461
Convertible bonds	630	382
Obligations under finance leases	1	202
Other borrowings wholly repayable within five years	–	344
Promissory note	–	1,096
	704	2,523

10. DIRECTORS' EMOLUMENTS

	2005	2004
	HK$'000	*HK$'000*
Directors' fees	–	–
Other emoluments		
Salaries and other benefits		
– current year	6,892	7,543
– underprovision in prior years	1,350	1,623
Contributions to retirement benefit scheme	42	36
	8,284	9,202

No directors' fees are payable to independent non-executive directors in both years.

The emoluments of the directors for the current year were within the following bands:

	2005 Number of directors	**2004 Number of directors**
Nil – HK$1,000,000	6	2
HK$1,000,001 – HK$1,500,000	–	1
HK$1,500,001 – HK$2,000,000	2	1
HK$2,000,001 – HK$2,500,000	–	2
HK$2,500,001 – HK$3,000,000	1	–
	9	6

The under-provided directors' emoluments in respect of prior years amounting to HK$1,350,000 (2004: HK$1,623,000) have not been considered in the above disclosure of the directors' current year emoluments within the bands and the comparative figures have not been revised to reflect the underprovision.

11. EMPLOYEES' EMOLUMENTS

Of the five highest paid employees in the Group, four (2004: four) were directors of the Company whose emoluments are included in note 10 above. The emoluments of the remaining individual in 2004 and 2005 were as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Salaries and other benefits	880	822
Contributions to retirement benefit scheme	12	5
	892	827

During the both years, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss in office. In addition, during the both years, no director waived any emoluments.

12. TAXATION

(a) No provision for Hong Kong Profits Tax and overseas tax has been made in the financial statements as the Group has no assessable profit for the year.

(b) The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Group as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Loss before taxation	(53,761)	(52,236)
Tax at the Hong Kong Profits Tax rate of 17.5% (2004: 17.5%)	(9,408)	(9,141)
Tax effect of income that is not taxable in determining taxable profit	(12)	(3,666)
Tax effect of expenses that are not deductible in determining taxable profit	6,369	10,882
Tax effect of tax losses not recognised due to uncertainty on future profit streams	3,688	1,757
Tax effect of difference on depreciation between tax and accounting purposes	66	168
Effect of different tax rates operating in other jurisdiction	(703)	–
Taxation charge	–	–

13. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the following data:

	2005 *HK$'000*	2004 *HK$'000*
Net loss from ordinary activities attributable to shareholders	(51,914)	(52,047)
Weighted average number of ordinary shares for the purpose of basic loss per share	215,523,741	142,057,905

No diluted loss per share have been presented for both years as there are no dilutive potential ordinary shares in issue for the years and the exercise of the Company's outstanding convertible bonds and options are not assumed since their exercise would decrease the loss per share.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
THE GROUP					
Cost					
At 1 April 2004	–	–	592	1,888	2,480
Additions	3,950	394	1,307	–	5,651
Disposals/write off	–	(147)	(643)	(458)	(1,248)
Acquired on acquisition of subsidiaries	55	853	1,060	160	2,128
At 31 March 2005	4,005	1,100	2,316	1,590	9,011
Accumulated depreciation					
At 1 April 2004	–	–	280	1,558	1,838
Provided for the year	106	244	368	380	1,098
Elimination on disposals/ write off	–	(107)	(250)	(458)	(815)
At 31 March 2005	106	137	398	1,480	2,121
Net book value					
At 31 March 2005	3,899	963	1,918	110	6,890
At 31 March 2004	–	–	312	330	642

	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
THE COMPANY			
Cost			
At 1 April 2004 and 31 March 2005	93	1,430	1,523
Accumulated depreciation			
At 1 April 2004	52	1,180	1,232
Provided for the year	19	250	269
At 31 March 2005	71	1,430	1,501
Net book value			
At 31 March 2005	22	–	22
At 31 March 2004	41	250	291

At 31 March 2005, the net book value of motor vehicle held under finance leases by the Group and the Company amounted to HK$Nil (2004: HK$250,000).

15. INTANGIBLE ASSETS

	Patent *HK$'000*	Goodwill *HK$'000*	Total *HK$'000*
THE GROUP			
Cost			
At 1 April 2004	–	14,880	14,880
Arising on acquisition of subsidiaries	1,415	35,517	36,932
At 31 March 2005	1,415	50,397	51,812
Accumulated amortisation and impairment losses			
At 1 April 2004	–	1,591	1,591
Amortisation provided for the year	141	3,441	3,582
Impairment losses provided for the year	–	7,192	7,192
At 31 March 2005	141	12,224	12,365
Net book value			
At 31 March 2005	1,274	38,173	39,447
At 31 March 2004	–	13,289	13,289

Patent is amortised over 10 years and goodwill are amortised over 5 to 19 years.

16. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2005	**2004**
	HK$'000	*HK$'000*
Unlisted investment, at cost	19	19
Amounts due from subsidiaries	262,612	200,968
	262,631	200,987
Impairment losses	(19)	(19)
Provision for non-recovery	(245,978)	(150,453)
	16,634	50,515

The amounts due from subsidiaries are unsecured and interest free. In the opinion of the directors, no repayment will be demanded within the next twelve months and accordingly, the amounts are shown as non-current.

Particulars of the subsidiaries of the Company as at 31 March 2005 are as follows:

Name of company	Place of incorporation/ registration and operations	Issued/ registered capital	Percentage of interest in ownership Directly	Indirectly	Principal activities
Card Symbols Limited	British Virgin Islands/Hong Kong	US$1	–	100%	Investment holding
Fullway Technology Limited	British Virgin Islands/Hong Kong	US$1,000	–	51.67%	Investment holding
TechCap BioTech Holdings Limited	British Virgin Islands/Hong Kong	US$1,000	100%	–	Investment holding
TechCap Electronics Limited	Hong Kong	HK$2	–	100%	Dormant
TechCap Holdings (Hong Kong) Limited	Hong Kong	HK$10,000	100%	–	Investment holding
West Regent Property Limited	British Virgin Islands/Hong Kong	US$1	–	100%	Investment holding
Power Ability Limited	British Virgin Islands/Hong Kong	US$10,000	–	51%	Investment holding and trading of medical equipments
Shanghai Haoyuan Biotech Company Limited (“SHB”)	PRC	RMB8,090,970	–	100%	Developing, producing and marketing NAT clinical reagents and medical equipments
Junghua Enterprises Holdings Limited	British Virgin Islands/Hong Kong	US$1	–	100%	Investment holding
China Healthcare Services Investment Limited	British Virgin Islands/Hong Kong	US$137,500	–	89.09%	Investment holding

Name of company	Place of incorporation/ registration and operations	Issued/ registered capital	Percentage of interest in ownership Directly	Indirectly	Principal activities
Beijing Universal Medical Assistance Company Limited ("BUMA")	PRC	RMB3,000,000	–	70%	Providing exclusive nationwide medical assistance services
Shanghai Weichang Investment Management & Consulting Company Limited ("SWI")	PRC	US$350,000	100%	–	Investment management and consultancy services
China Medicare Limited	Hong Kong	HK$1,000,000	–	100%	Investment holding and medicare
China Clinical Trials Centre Limited	British Virgin Islands/Hong Kong	US$100	–	100%	Clinical trials of drugs and devices
CHC Investment Holdings Limited (Formerly known as TechCap Investment Holdings Limited)	British Virgin Islands/Hong Kong	US$100	100%	–	Investment holding
Wisdom Profit Investment Limited	Hong Kong	HK$10,000	–	100%	Investment holding and money lending
Young Honest Limited	Hong Kong	HK$10,000	–	100%	Dormant

SHB and SWI are wholly owned foreign enterprises and BUMA is a sino-foreign equity joint venture.

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

17. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Share of net assets	1	1

Particulars of the associate of the Group as at 31 March 2005 are as follows:

Name of company	Place of incorporation/ registration and operations	Issued/ registered capital	Class of shares held	Percentage of interest in ownership Directly	Percentage of interest in ownership Indirectly	Principal activities
Moment Touch Management Limited	British Virgin Islands/ Hong Kong	US$100	Ordinary	–	40%	Cosmetic products marketing/sales

18. INVESTMENTS IN SECURITIES

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Equity securities:				
Unlisted investments	31,336	31,336	9,000	9,000
Impairment losses	(8,748)	(8,053)	(7,667)	(7,667)
	22,588	23,283	1,333	1,333

Included in the Group's unlisted investments as at 31 March 2005 is an investment in Hamilton Apex Technology Ventures, L.P. (the "Partnership"), a Delaware Limited Partnership formed in California, amounting to US$2.7 million (equivalent to HK$21,026,000) (2004: HK$21,026,000). The Partnership is licensed under the Small Business Investment Act of 1958, as amended, as a Small Business Investment Company for the purpose of investing in debt or equity securities of companies in United States of America. The Group committed to contribute additional capital of US$12.3 million (equivalent to HK$95,940,000) to the Partnership upon the request by the general partners of the Partnership. However, the Group failed to meet capital calls and the general partners declared that the Group was in default. Under the Partnership Agreement, the general partners have the right to seek replacement investors until the Group's investments are fully replaced and forfeited. The general partners had taken action to transfer a portion of the Group's investment in the Partnership with a capital value of HK$639,000 (equivalent to US$82,000) to other investors without paying any consideration to the Group and another portion of capital contribution to the Partnership with capital value of HK$7,371,000 (equivalent to US$945,000) to another investor procured by the Group at a consideration to be received upon the liquidation of the Partnership, which is determined by the lesser of (i) the attributable portion of proceeds generated from the transferred portion of its investment in the Partnership upon liquidation; and (ii) HK$7,371,000 (equivalent to US$945,000) plus an annual interest of 8% accruing from date of transfer.

The directors consider that the Group's investment position in the Partnership is and will be basically preserved and the Group's investment position in the Partnership will generate positive return in the future, which will compensate for the dilution of the Group's interest in the Partnership as mentioned above. Accordingly, the directors determined that the recoverable amount of the investment in the Partnership will not be less than the carrying amount of HK$21,026,000 and no disposal nor impairment loss has been recognised in respect of the investment in the Partnership.

19. LOAN RECEIVABLES

	THE GROUP	
	2005	**2004**
	HK$'000	*HK$'000*
Secured term loans	21,026	21,026
Unsecured term loans	–	400
	21,026	21,426

The secured term loan as at 31 March 2005 amounting to HK$21,026,000 (2004: HK$21,026,000) bears interest at 2% over Hong Kong prime rates and is repayable on 29 September 2005. The loan is secured by the borrower's investments in the Partnership (see note 18 above). However, the borrower had failed to meet the capital calls and the general partners also declared that the borrower was in default. Under the Partnership Agreement, the general partners have the right to seek replacement investors until the borrower's investments are fully replaced and forfeited. The general partners had taken action to transfer a portion of the borrower's investment in the Partnership with a capital value of HK$639,000 (equivalent to US$82,000) to other investors without paying any consideration to the borrower and another portion of the capital contribution to the Partnership with a capital value of HK$7,371,000 (equivalent to US$945,000) to another investor procured by the borrower at a consideration to be received upon the liquidation of the Partnership, which determined by the lesser of (i) the attributable portion of proceeds generated from the transferred portion of its investment in the Partnership upon liquidation; and (ii) HK$7,371,000 (equivalent to US$945,000) plus an annual interest of 8% accruing from date of transfer.

The directors consider that the borrower's investment position in the Partnership is and will be basically preserved and the borrower's investment position in the Partnership will generate a positive return in the future, which will compensate for the dilution of the borrower's interest in the Partnership mentioned above. Accordingly, the directors determined that the recoverable amount of the loan receivable will not be less than the carrying amount of HK$21,026,000 and no provision for the loan receivable has been made in the financial statements.

20. INVENTORIES

	THE GROUP	
	2005	**2004**
	HK$'000	*HK$'000*
Raw materials	1,311	–
Finished goods	2,045	2,206
	3,356	2,206

21. TRADE RECEIVABLES

The Group allows a credit period of 10 to 60 days to its customers. The aged analysis of the Group is as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Within 30 days	1,595	3,370
31 to 60 days	392	7,736
61 to 90 days	638	2,553
91 to 120 days	167	769
Over 120 days	956	978
Total	3,748	15,406

22. TRADE PAYABLES

The aged analysis of the Group is as follows:

	2005	2004
	HK$'000	*HK$'000*
Within 30 days	555	607
31 – 60 days	13	2,305
61 – 90 days	7	795
over 90 days	385	409
Total	960	4,116

23. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP AND THE COMPANY			
	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under finance leases within one year	–	68	–	67
Less: future finance charges	–	(1)	–	–
Present value of lease obligations	–	67	–	67

It is the Group's policy to lease certain of its motor vehicles under finance leases with a lease term of 3 years. For the year ended 31 March 2005, there were no obligations under finance leases.

24. AMOUNTS DUE TO DIRECTORS

The amounts due to directors are unsecured, interest-free and have no fixed terms of repayment.

25. CONVERTIBLE BONDS

	THE GROUP AND THE COMPANY	
	2005	2004
	HK$'000	*HK$'000*
At 1 April	20,460	1,975
Issued during the year	–	50,000
Converted during the year	(3,160)	(31,515)
At 31 March	17,300	20,460
Amount due for settlement within 12 months (shown under current liabilities)	17,300	–
Amount due for settlement after 12 months	–	20,460
	17,300	20,460

Included in the convertible bonds as at 31 March 2005 is an amount of HK$17,300,000 which issued on 27 June 2003 and matures on 27 June 2005 ("CB"). CB carry interest at 3% per annum payable monthly in arrears with the first interest payment due on 31 July 2003 and the last interest payment due on 27 June 2005. Each CB entitles the holder to convert the bonds into new shares of the Company at a conversion price, subject to adjustment, of HK$1 per share during the period from 27 June 2003 to 27 June 2005. In addition, if the CB remain outstanding on the maturity date, the Company will redeem the principal of the CB at 100% of face value of the bonds. Subsequent to the balance sheet date HK$17,300,000 CB has been converted into 17,300,000 shares of HK$0.1 per share in the Company.

26. SHARE CAPITAL

Ordinary shares of HK$0.1 each

	THE GROUP AND THE COMPANY	
	Number of shares	**Amount**
		HK$'000
Authorised:		
Balance at 1 April 2003, 31 March 2004 and 31 March 2005	5,000,000,000	500,000
Issued and fully paid:		
Balance at 1 April 2003	100,231,577	10,023
Issue of shares as consideration for the acquisition of investment in securities	12,300,000	1,230
Issue of shares on conversion of convertible bonds	45,150,000	4,515
Issue of shares on exercise of share options	7,500,000	750
Issue of shares by private placements	34,586,000	3,459
Balance at 31 March 2004	199,767,577	19,977
Issue of shares by private placements	10,000,000	1,000
Issue of shares on conversion of convertible bonds	7,300,000	730
Balance at 31 March 2005	217,067,577	21,707

Non-voting preference shares of HK$10 each

	THE GROUP AND THE COMPANY	
	Number of shares	**Amount**
		HK$'000
Authorised:		
Balance at 1 April 2003, 31 March 2004 and 31 March 2005	100,000,000	1,000,000
Issued and fully paid at 1 April 2003, 31 March 2004 and 31 March 2005	–	–

Details of changes in the share capital of the Company are as follows:

(a) Pursuant to the sale and purchase agreement of 3 July 2003 in relation to the acquisition of 35% equity interest in Global United Holdings Limited ("Global United") which was subsequently disposed of as mentioned in note 30(b), the Company issued and allotted 12,300,000 new ordinary shares of HK$0.1 each in the Company at an issue price of HK$0.85 per share representing a premium of approximately 1.55% to the average closing market price of the Company's shares for the ten trading days ended 3 July 2003. These new shares were issued under the specific mandate granted to the directors at the special general meeting of the Company held on 20 August 2003 and rank pari passu with the existing shares in issue in all respects.

(b) On 30 September 2003, the Company has entered into a subscription agreement with Guo Kang Pharmaceutical & Medical Supplies Limited ("Guo Kang") in relation to the subscription by Guo Kang and the allotment by the Company of 17,000,000 new ordinary shares of HK$0.1 each in the Company at a subscription price of HK$0.85 per share. The proceeds were intended to be used for investments in medical, pharmaceutical and healthcare related projects. These new shares were issued under the specific mandate granted to the directors at the special general meeting of the Company held on 27 November 2003 and rank pari passu with the existing shares in issue in all respects.

(c) On 27 January 2004, an arrangement was made for a private placement of 17,586,000 ordinary shares of HK$0.1 each in the Company held by certain shareholders of the Company, at a price of HK$3.0 per share representing a discount of approximately 3.23% to the average closing market price of the Company's shares for the ten trading days ended 27 January 2004.

    Pursuant to a subscription agreement of the same date, the aforesaid shareholders subscribed for 17,586,000 new ordinary shares of HK$0.1 each in the Company at a subscription price of HK$3.0 per share. The proceeds were intended to be used for investments in medical, pharmaceutical and healthcare related projects. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 30 September 2003 and rank pari passu with the existing shares in issue in all respects.

(d) During the year ended 31 March 2004, the Company had issued a total of 45,150,000 ordinary shares of HK$0.1 each in the Company upon the conversion of convertible bonds as follows:

Conversion price per share	Amount of convertible bonds converted *HK$'000*	Shares issued upon conversion	Share capital increased upon conversion *HK$'000*
HK$0.1	1,515	15,150,000	1,515
HK$1.0	30,000	30,000,000	3,000
		45,150,000	4,515

(e) On 18 February 2004, an arrangement was made for a private placement of 10,000,000 ordinary shares of HK$0.1 each in the Company held by a corporate shareholder of the Company, at a price of HK$3.6 per share representing a discount of approximately 6.6% to the average closing market price of the Company's shares for the ten trading days ended 16 February 2004.

Pursuant to a subscription agreement of the same date, the corporate shareholder subscribed for 10,000,000 new ordinary shares of HK$0.1 each in the Company at a subscription price of HK$3.6 per share. The proceeds were intended to be used for investments in medical, pharmaceutical and healthcare related projects and for general working capital purposes. These new shares were issued under the specific mandate granted to the directors at the special general meeting of the Company held on 2 April 2004 and rank pari passu with the existing shares in issue in all respects.

(f) During the year ended 31 March 2005, the Company had issued a total of 7,300,000 ordinary shares of HK$0.1 each in the Company upon the conversion of convertible bonds as follows:

Conversion price per share	Amount of convertible bonds converted *HK$'000*	Shares issued upon conversion	Share capital increased upon conversion *HK$'000*
HK$0.1	460	4,600,000	460
HK$1.0	2,700	2,700,000	270
		7,300,000	730

(g) Details of issue of ordinary shares upon exercise of share options for the year ended 31 March 2004 are set out in note 35.

27. RESERVES

Details of the movements in the reserves of the Group are set out in Consolidated Statement of Changes in Equity on page 29.

	Share premium *HK$'000*	Contributed surplus *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
THE COMPANY				
At 1 April 2003	55,531	57,124	(87,465)	25,190
Shares issued at premium	106,724	–	–	106,724
Share issue expenses	(2,469)	–	–	(2,469)
Loss for the year	–	–	(67,517)	(67,517)
At 31 March 2004	159,786	57,124	(154,982)	61,928
Shares issued at premium	37,430	–	–	37,430
Share issue expenses	(2,861)	–	–	(2,861)
Loss for the year	–	–	(112,780)	(112,780)
At 31 March 2005	194,355	57,124	(267,762)	(16,283)

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

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus 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:

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

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

In the opinion of the directors, as at 31 March 2005, the Company did not have any reserve available for distribution to shareholders.

28. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2005 dealt with in the financial statements of the Company was HK$112,780,000 (2004: HK$67,517,000).

29. ACQUISITION OF SUBSIDIARIES

On 11 June 2004 and 20 May 2004, the Group completed the acquisition of 100% equity interest in Junghua Enterprises Holdings Limited and 100% interest in West Regent Property Limited for a consideration of HK$30,000,000 and HK$26,500,000 respectively.

During the year ended 31 March 2004, the Group acquired the entire interest in Card Symbols Limited and 51% interest in Fullway Technology Limited for a consideration of HK$13,850,000 and HK$1,698,000 respectively.

	2005	**2004**
	HK$'000	*HK$'000*
Net assets acquired:		
Property, plant and equipment	2,128	–
Intangible assets	1,415	–
Interest in an associate	–	1
Investments in securities	–	1,310
Inventories	2,549	–
Bank balances and cash	2,111	–
Trade receivable	3,486	–
Prepayments, deposits and other receivables	33,866	–
Trade payables	(1,251)	–
Other payables and accrued liabilities	(13,256)	(1)
Minority interests	(10,065)	(642)
Net assets acquired	20,983	668
Goodwill on acquisition	35,517	14,880
	56,500	15,548
Satisfied by:		
Cash consideration	50,000	10,548
Assignment of loan receivables	–	5,000
Investments in securities (see *note 30(b)*)	6,500	–
	56,500	15,548
Net cash outflow arising on acquisition:		
Cash consideration	(50,000)	(10,548)
Bank balances and cash acquired	2,111	–
	(47,889)	(10,548)

The subsidiaries acquired during the year contributed HK$7,446,000 of revenue and HK$8,126,000 of loss before tax for the period between the dates of acquisition and the balance sheet date.

30. MAJOR NON-CASH TRANSACTIONS

During the year, the Group had the following major non-cash transactions:

(a) Conversion of the convertible bonds into the Company's shares is set out in note 26(f) above.

(b) The Group acquired 100% equity interest in West Regent Property Limited from Jung-I Development Limited ("Jung-I") at the consideration of HK$26,500,000 which was partially settled by the transfer of 35% equity interest in Global United at a consideration of HK$6,500,000 and the remaining balance of HK$20,000,000 was settled by cash payment. At the 2004's balance sheet date, the 35% equity interest in Global United had been transferred to Jung-I and HK$6,500,000 was recorded as deposit for acquisition in 2004's consolidated balance sheet.

31. DEFERRED TAXATION

At the balance sheet date the Group has unused tax losses arising of approximately HK$39,378,000 (2004: HK$20,736,000) 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. The tax losses may be carried forward either from 2 to 5 years or indefinitely.

32. CONTINGENT LIABILITIES

The Group and the Company had no contingent liabilities at the balance sheet date (2004: Nil).

33. CAPITAL COMMITMENTS

	THE GROUP	
	2005	**2004**
	HK$'000	*HK$'000*
Capital expenditure contracted but not provided for in the financial statements	–	20,000

On 7 February 2005, the Company incorporated a wholly owned subsidiary in PRC with required capital contribution of US$350,000 (equivalent to HK$2,730,000). However, the capital has not been contributed by the Company at 31 March 2005.

34. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP		THE COMPANY	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Land and buildings:				
Within one year	1,194	47	53	–
In the second to fifth year, inclusive	48	–	–	–
	1,242	47	53	–

35. SHARE OPTION SCHEMES

Pursuant to the share option scheme adopted by the Company in 2001 (the "Old Scheme"), the Company may grant options to any directors or full time employees of the Company or its subsidiaries to subscribe for shares in the Company at a subscription price which is the higher of 80% of the average closing 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 directors of the Company and its subsidiaries, 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 ("Scheme Mandate Limit"), without prior approval from the Company's shareholders. The Scheme Mandate Limit may be refreshed by approval of the Company's shareholders in general meeting. However, the total number of the shares of the Company which may be issued upon exercise of all options to be granted under the New Scheme and any other schemes of the Company as refreshed must not exceed 10% of the shares of the Company in issue as at the date of approval of the limit ("Refreshed Limit"). Options previously granted under the New Scheme and any other schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the New Scheme and other schemes of the Company or exercised options) will not be counted for the purposes of calculating the limit as refreshed. The Company may seek separate approval by the Company's shareholders in general meeting for granting options beyond the 10% limit under Scheme Mandate Limit and Refreshed Limit provided that the options in excess of the limit are granted only to eligible persons mentioned in New Scheme ("Eligible Persons") specifically identified by the Company before such approval is sought. Notwithstanding the aforesaid, the limit on the 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. No options may be granted under any schemes of the Company if this will result in the limit being exceeded.

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

Options granted must be taken up within the period as specified in the offer letter and no consideration of grant needs to be paid. Options may be exercised 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.

In accordance with the rules of the New Scheme with the approval from the Company's shareholders on the special general meeting held on 17 February 2005, the maximum number of options that can be granted by the Company to the Eligible Persons is increased by 21,706,757 to 38,248,757.

Particulars of share options granted by the Company since the date of adoption of share option schemes up to 31 March 2005 are as follows:

Option type	Date of grant	Exercisable period From	Exercisable period To	Exercise price
				HK$
A	31 August 2001	31 August 2001	15 May 2011	8.6
B	11 October 2001	11 October 2001	15 May 2011	10.4
C	11 February 2002	11 February 2002	15 May 2011	9.2
D	15 February 2002	15 February 2002	15 May 2011	9.2
E	10 April 2002	10 April 2002	7 April 2012	10.2
F	27 November 2002	27 November 2002	7 April 2012	1.0
G	2 February 2004	2 February 2004	7 April 2012	3.4
H	3 March 2005	3 March 2005	7 April 2012	2.325

The following tables summarise movements in the Company's share options during the year ended 31 March 2005:

Old Scheme

		Number of share options		
	Option type	Outstanding at 1 April 2004	Lapsed	Outstanding at 31 March 2005
Directors	A	25,000	–	25,000
Advisors and consultants	A	1,075,000	(1,075,000)	–
Total		1,100,000	(1,075,000)	25,000

At 31 March 2005, the number of shares in respect of which options had been granted and remained outstanding under the Old Scheme was 25,000 representing 0.01% of the shares of the Company in issue at that date.

New Scheme

	Option Type	Number of options: Outstanding at 1 April 2004	Granted	Reclassification upon appointment of director	Outstanding at 31 March 2005
Directors	G	4,002,000	–	3,000,000	7,002,000
	H	–	8,370,000	–	8,370,000
Total of directors		4,002,000	8,370,000	3,000,000	15,372,000
Employees	G	469,000	–	–	469,000
	H	–	840,000	–	840,000
Total of employees		469,000	840,000	–	1,309,000
Officer	G	1,500,000	–	(1,500,000)	–
Advisors and consultants	G	10,546,000	–	(1,500,000)	9,046,000
	H	–	8,622,000	–	8,622,000
Total of advisors and consultants		10,546,000	8,622,000	(1,500,000)	17,668,000
Total		16,517,000	17,832,000	–	34,349,000

At 31 March 2005, the number of shares in respect of which options had been granted and remained outstanding under the New Scheme was 34,349,000 representing 15.8% of the shares of the Company in issue at that date.

The following tables summarise the movements in the Company's share options during the year ended 31 March 2004:

Old Scheme

	Option type	Number of share options: Outstanding at 1 April 2003	Reclassification upon resignation of director	Outstanding at 31 March 2004
Directors	A	500,000	(475,000)	25,000
Employees	A	600,000	(600,000)	–
Advisors and consultants	A	–	1,075,000	1,075,000
Total		1,100,000	–	1,100,000

At 31 March 2004, the number of shares in respect of which options had been granted and remained outstanding under the Old Scheme was 1,100,000, representing 0.6% of the shares of the Company in issue at that date.

New Scheme

	Option Type	Number of share options: Outstanding at 1 April 2003	Granted	Exercised	Outstanding at 31 March 2004
Directors	F	900,000	–	(900,000)	–
	G	–	4,002,000	–	4,002,000
Total of directors		900,000	4,002,000	(900,000)	4,002,000
Employees	F	850,000	–	(850,000)	–
	G	–	469,000	–	469,000
Total of employees		850,000	469,000	(850,000)	469,000
Officer	G	–	1,500,000	–	1,500,000
Advisors and consultants	F	5,750,000	–	(5,750,000)	–
	G	–	10,546,000	–	10,546,000
Total of others		5,750,000	10,546,000	(5,750,000)	10,546,000
Total		7,500,000	16,517,000	(7,500,000)	16,517,000

The weighted average closing prices of the Company's shares immediate before the dates of which the share options exercised during the year ended 31 March 2004 was HK$0.97.

At 31 March 2004, the number of shares in respect of which options had been granted and remained outstanding under the New Scheme was 16,517,000, representing 8.3% of the shares of the Company in issue at that date.

No consideration was received during the year from any person for taking up the options granted and no charge was recognised in the income statement in respect of the value of options granted.

36. RELATED PARTY TRANSACTIONS

No significant related party transaction was entered into by the Group during the year ended 31 March 2005.

During the year ended 31 March 2004, the Group had entered into the following significant related party transactions:

(a) The Group paid interest on an amount due to a related company amounting to HK$294,000. The amount due to the related company is unsecured, interest bearing at 12% per annum and has no fixed terms of repayment.

A director of the Company has beneficial interests in this related company.

(b) Two motor vehicles of the Group with net book value of HK$619,000 were disposed of to a former director of the Company with a gain of HK$173,000.

(c) The Group transferred certain investments in securities to a former director of the Company at a consideration of HK$1,100,000 as part of the settlement of the amount due to the former director.

37. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following significant events took place:

(a) A total of 17,300,000 ordinary shares of HK$0.1 each in the Company have been issued and allotted to the convertible bond holders as mentioned in note 25 above.

(b) The Company has issued convertible bonds with an aggregate amount of US$6.6 million (equivalent to HK$51.48 million) to third parties. The convertible bonds mature on 18 May 2009, bear interest at 3% per annum and entitle the holder to convert the bonds into new shares of the Company at a conversion price, subject to adjustment, of HK$2.525 per share before the maturity date.

(c) The Group entered into an agreement with a third party and paid a consideration of HK$3.6 million for the acquisition of 56% equity interest in CHC (Shanghai) Medical and HealthCare Services Limited ("SMHS"). SMHS is a company incorporated in the PRC to operate a healthcare clinic located in Shanghai, PRC. Through the relevant contractual arrangement, the Group's 56% equity interest in SMHS will be held by the third party as individual nominee on behalf of the Group.

(d) The Group entered into an agreement with a third party, Everstep Consultants Limited ("Everstep"), to establish a contractual joint venture ("JV") whose purpose is to engage in providing maternal and fetal care services in PRC. According to the agreement, the Group holds 65% interest in the JV. HK$4.9 million was advanced to the JV by the Group for the JV's establishment and operation.

3. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

Set out below is the unaudited consolidated financial statements of the Group together with the accompanying notes as extracted from pages 1 to 18 of the interim report of the Company for the six months ended 30 September 2005. References to page number in this section are to the page numbers of such interim report of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

		For the six months ended 30 September	
		2005	**2004**
		(Unaudited)	(Unaudited)
	Notes	*HK$'000*	*HK$'000*
Continuing operations			
Turnover	*3*	3,546	2,101
Cost of sales and services		(2,686)	(965)
Gross profit		860	1,136
Other operating income		372	79
Distribution costs		(2,118)	(190)
Administrative expenses		(18,541)	(13,557)
Impairment losses of goodwill		(4,500)	–
Amortisation of intangible assets		(95)	(843)
Other operating expenses		(3)	–
Loss from operations	*4*	(24,025)	(13,375)
Finance costs	*5*	(1,565)	(372)
Loss before taxation		(25,590)	(13,747)
Taxation	*6*	–	–
Loss from continuing operations for the period		(25,590)	(13,747)
Discontinued operation			
Loss from discontinued operation for the period	*3*	–	(12,360)
Loss for the period		(25,590)	(26,107)
Attributable to:			
Equity holders of the parent		(23,641)	(25,636)
Minority interests		(1,949)	(471)
		(25,590)	(26,107)
Basic loss per share	*8*	*HK cents*	*HK cents*
– From continuing operations and discontinued operation		(10.5)	(12.0)
– From continuing operations		(10.5)	(6.2)

CONDENSED CONSOLIDATED BALANCE SHEET – UNAUDITED

AT 30 SEPTEMBER 2005

	Notes	At 30 September 2005 (Unaudited) HK$'000	At 31 March 2005 (Audited) (Restated) HK$'000
Non-current assets			
Property, plant and equipment	9	12,322	6,890
Intangible assets	10	36,065	39,447
Interest in an associate		1	1
Available-for-sale investments		22,588	22,588
Loan receivables	11	624	–
		71,600	68,926
Current assets			
Inventories		3,075	3,356
Trade receivables	12	3,303	3,748
Prepayments, deposits and other receivables		8,354	3,603
Loan receivables	11	29,747	21,026
Bank balances and cash		60,416	47,318
		104,895	79,051
Current liabilities			
Trade payables	13	2,085	960
Other payables and accrued liabilities		9,266	8,769
Amounts due to directors		4,146	5,714
Convertible bonds	14	–	17,001
		15,497	32,444
Net current assets		89,398	46,607
Total assets less current liabilities		160,998	115,533
Non-current liabilities			
Convertible bonds	14	47,996	–
		113,002	115,533
Capital and reserves			
Share capital	15	23,437	21,707
Share premium and reserves		80,811	85,155
Equity attributable to equity holders of the parent		104,248	106,862
Minority interests		8,754	8,671
Total equity		113,002	115,533

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

	Share capital	Share premium	Contributed surplus	Convertible bonds reserve	Translation reserve	Share options reserve	Accumulated losses	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2004										
– As originally stated	19,977	159,786	57,124	–	–	–	(114,725)	122,162	453	122,615
– Effect of adoption of HKAS 32 retrospectively	–	–	–	2,595	–	–	–	2,595	–	2,595
– As restated	19,977	159,786	57,124	2,595	–	–	(114,725)	124,757	453	125,210
Issue of shares upon conversion of convertible bonds	730	2,430	–	–	–	–	–	3,160	–	3,160
Issue of shares by private placement	1,000	35,000	–	–	–	–	–	36,000	–	36,000
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	9,469	9,469
Exchange difference arising on translation of financial statements of overseas operations	–	–	–	–	3	–	–	3	–	3
Share issue expenses	–	(2,861)	–	–	–	–	–	(2,861)	–	(2,861)
Loss for the period	–	–	–	–	–	–	(25,636)	(25,636)	(471)	(26,107)
At 30 September 2004	21,707	194,355	57,124	2,595	3	–	(140,361)	135,423	9,451	144,874
– Effect of adoption of HKAS 32 retrospectively	–	–	–	(400)	–	–	–	(400)	–	(400)
– As restated	21,707	194,355	57,124	2,195	3	–	(140,361)	135,023	9,451	144,474
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	596	596
Exchange difference arising on translation of financial statements of overseas operations	–	–	–	–	13	–	–	13	–	13
Loss for the period	–	–	–	–	–	–	(26,278)	(26,278)	(1,376)	(27,654)
At 31 March 2005	21,707	194,355	57,124	2,195	16	–	(166,639)	108,758	8,671	117,429
– Effect of adoption of HKAS 39	–	–	–	–	–	–	(1,896)	(1,896)	–	(1,896)
At 1 April 2005, as restated	21,707	194,355	57,124	2,195	16	–	(168,535)	106,862	8,671	(115,533)
Recognition of equity-settled share based payment	–	–	–	–	–	148	–	148	–	148
Recognition of equity component of convertible bonds	–	–	–	3,592	–	–	–	3,592	–	3,592
Issue of shares upon conversion of convertible bonds	1,730	17,765	–	(2,195)	–	–	–	17,300	–	17,300
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	2,032	2,032
Exchange difference arising on translation of financial statements of overseas operations	–	–	–	–	(13)	–	–	(13)	–	(13)
Loss for the period	–	–	–	–	–	–	(23,641)	(23,641)	(1,949)	(25,590)
At 30 September 2005	**23,437**	**212,120**	**57,124**	**3,592**	**3**	**148**	**(192,176)**	**104,248**	**8,754**	**113,002**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

	For the six months ended 30 September	
	2005	**2004**
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Net cash (used in) from operating activities	(20,380)	9,679
Net cash (used in) investing activities	(17,765)	(47,966)
Net cash from financing activities	51,256	36,789
Net increase (decrease) in cash and cash equivalents	13,111	(1,498)
Effect of foreign exchange rate changes	(13)	3
Cash and cash equivalents at 1 April	47,318	71,394
Cash and cash equivalents at 30 September represented by bank balances and cash	60,416	69,899

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

1. BASIS OF PRESENTATION

The condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost basis, except for certain financial instruments which are measured at fair values, as appropriate.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have a material effect on how the results for the current or prior accounting periods are prepared and presented.

(a) Business Combinations

In the current period, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions after 1 January 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1 April 2005 onwards and goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions on or after 1 April 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated.

(b) Share-based Payments

In the current period, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions").

Upon the adoption of HKFRS 2, the fair value of the services received from employees (including directors) and consultants in exchange for the grant of the options is determined at the date of options granted and is expensed over the vesting period, with a corresponding adjustment to the Group's share option reserve. In the current period, an amount of share option expense of HK$148,000 has been recognised and the same amount is recognised in the Group's share option reserve.

Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 April 2005. Since all the share options granted before 1 April 2005 had vested before that date, no prior period adjustment is required.

(c) Financial Instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

(i) Convertible bonds

HKAS 32 requires an issuer of a compound financial instrument (that contains both financial liability and equity components) to separate the compound financial instrument into its liability and equity components on its initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method.

Upon the adoption of HKAS 32, the convertible bonds are recognised initially at fair value, net of transaction costs incurred. The fair value of the liability component of the Company's convertible bonds is determined using a market interest rate for an equivalent non-convertible bonds. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option which is recognised and included in shareholders' equity, net of income tax effects. The equity component of the Company's convertible bonds is recognised in the other reserve when the bonds are derecognised, either converted, redeemed or lapsed.

In previous years, convertibles bonds were classified as liabilities on the balance sheet at their fair value. Because HKAS 32 requires retrospective application, comparative figures have been restated. Details of financial impact on adoption of HKAS 32 are set out in Note 14 to the condensed financial statements.

(ii) Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 March 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 April 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with requirements of HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-to-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1 April 2005, the Group classified its "investment in securities" as "available-for-sale investments" in accordance with HKAS 39 which are carried at fair value or at cost. The change in accounting policy has had no impact on the results for the current period.

(iii) Financial assets and financial liabilities other than debt and equity securities

From 1 April 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method. Upon adoption of HKAS 39, the convertible bonds of the Company are carried at amortised cost basis. The financial impact on adoption of HKAS 39 are set out in Note 14 to the condensed financial statements.

3. SEGMENT INFORMATION

For management purposes, the Group is currently organized into three operating divisions – (i) producing and trading of biotechnology products, (ii) provision for medical consultancy and agency services, and (iii) investment holding. Its business of sourcing and distribution of electronic parts and components was discontinued since 1 November 2004. These divisions are the basis on which the Group reports its primary segment information.

An analysis of the Group's revenue and segment results by business and geographical segments is as follows:

Business segments

	Continuing operations				Discontinued operation	
	Producing and trading of biotechnology products	**Provision for medical consultancy and agency services**	**Investment holding**	**Sub-total**	**Sourcing and distribution of electronic parts and components**	**Consolidated Total**
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Income statement						
For the six months ended 30 September 2005						
Segment revenue	**2,840**	**706**	**–**	**3,546**	**–**	**3,546**
Segment results	**(845)**	**(6,748)**	**(4,500)**	**(12,093)**	**–**	**(12,093)**
Other operating income				**372**	**–**	**372**
Unallocated corporate expenses				**(12,304)**	**–**	**(12,304)**
Loss from operations				**(24,025)**	**–**	**(24,025)**
Finance costs				**(1,565)**	**–**	**(1,565)**
Loss before taxation				**(25,590)**	**–**	**(25,590)**

	Continuing operations				Discontinued operation	
	Producing and trading of biotechnology products	Provision for medical consultancy and agency services	Investment holding	Sub-total	Sourcing and distribution of electronic parts and components	Consolidated Total
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Income statement						
For the six months ended 30 September 2004						
Segment revenue	2,017	84	–	2,101	26,718	28,819
Segment results	246	(10,693)	(796)	(11,243)	(12,360)	(23,603)
Other operating income				79	–	79
Unallocated corporate expenses				(2,211)	–	(2,211)
Loss from operations				(13,375)	(12,360)	(25,735)
Finance costs				(372)	–	(372)
Loss before taxation				(13,747)	(12,360)	(26,107)

Geographical segments

The Group's operations are principally located in Hong Kong and other regions of the People's Republic of China.

4. LOSS FROM OPERATIONS

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

	For the six months ended 30 September	
	2005	**2004**
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	1,049	602
Loss on disposal of property, plant and equipment	3	–
Interest Income	(348)	(29)

5. FINANCE COSTS

	For the six months ended 30 September	
	2005	**2004**
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on:		
Bank loans and overdrafts	–	21
Convertible bonds	934	350
Obligations under finance leases	–	1
Amortisation of convertible bonds	631	–
	1,565	372

6. TAXATION

No provision for Hong Kong Profits Tax has been made since the Group did not generate any assessable profits during the period (2004: Nil).

A deferred tax asset has not been recognised in the financial statements in respect of estimated tax losses due to the unpredictability of future profit streams.

7. DIVIDENDS

No dividends were paid during the period. The directors do not recommend the payment of any interim dividend (2004: Nil).

8. BASIC LOSS PER SHARE

From continuing operations and discontinued operation

The calculation of the basic loss per share attributable to the ordinary equity holders of the parent is based on the following data:

	For the six months ended 30 September	
	2005	**2004**
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Net loss for the period attributable to equity holders of the parent	(23,641)	(25,636)
	'000	*'000*
Weighted average number of ordinary shares for the purposes of basic loss per share	226,143	213,988

From continuing operations

The calculation of the basic loss per share from continuing operations attributable to the ordinary equity holders of the parent is based on the following data:

	For the six months ended 30 September	
	2005	**2004**
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Net loss for the period attributable to equity holders of the parent	(23,641)	(25,636)
Add: Loss for the period from discontinued operation	–	12,360
	(23,641)	(13,276)

The denominators used are the same as those detailed above for basic loss per share.

From discontinued operation

Basic loss per share for discontinued operation is Nil per share (2004: HK cents 5.8 per share). The denominators used are the same as those detailed above for basic loss per share.

No diluted loss per share have been presented for the six months ended 30 September 2005 and 2004 as there are no dilutive potential ordinary shares in issue for both periods and the exercise of the Company's outstanding convertible bonds and options are not assumed since their exercise would decrease the loss per share.

9. PROPERTY, PLANT AND EQUIPMENT

	Total
	HK$'000
Net book value at 1 April 2005	6,890
Additions	4,936
Disposals/write off	(3)
Acquired on acquisition of subsidiary	1,548
Depreciation provided for the period	(1,049)
Net book value at 30 September 2005	**12,322**

10. INTANGIBLE ASSETS

	Patent	Goodwill	Total
	HK$'000	*HK$'000*	*HK$'000*
Net book value at 1 April 2005	1,274	38,173	39,447
Arising on acquisition of subsidiary	–	1,213	1,213
Amortisation provided for the period	(95)	–	(95)
Impairment losses provided for the period	–	(4,500)	(4,500)
Net book value at 30 September 2005	**1,179**	**34,886**	**36,065**

11. LOAN RECEIVABLES

	At 30 September 2005	At 31 March 2005
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Secured term loans	21,026	21,026
Unsecured term loans	9,345	400
	30,371	21,426
Less: Amount due within one year shown under current assets	(29,747)	(21,426)
Amount due after one year	**624**	**–**

(a) The secured term loans as at 30 September 2005 represents the loan of US$2.7 million (equivalent to HK$21,026,000) secured by the borrower's investments in Hamilton Apex Technology Venture, L.P. (the "Partnership"), a Delaware Limited Partnership formed in California. The loan bears interest at 2% over Hong Kong prime rates and is originally repayable in one lump sum on 29 September 2005. On 29 September 2005, the Group has agreed to further extend the maturity date by one year to 29 September 2006.

(b) The unsecured term loans as at 30 September 2005 comprise loans of HK$8,721,000 to independent third parties at interest rates ranged from 5.75% to 8% per annum and repayable within twelve months and a loan of HK$624,000 to an independent third party at an interest rate of 12% per annum and repayable on 1 February 2007.

12. TRADE RECEIVABLES

The Group allows a credit period of 10 to 60 days to its customers. The aged analysis of the Group is as follows:

	At 30 September 2005		At 31 March 2005	
	Balance (Unaudited) *HK$'000*	**Percentage** (Unaudited)	**Balance** (Audited) *HK$'000*	**Percentage** (Audited)
Within 30 days	330	10	1,595	43
31 – 60 days	242	7	392	10
61 – 90 days	165	5	638	17
91 – 120 days	272	8	167	4
Over 120 days	2,294	70	956	26
Total	3,303	100	3,748	100

13. TRADE PAYABLES

The aged analysis of trade payables of the Group is as follows:

	At 30 September 2005		At 31 March 2005	
	Balance (Unaudited) *HK$'000*	**Percentage** (Unaudited)	**Balance** (Audited) *HK$'000*	**Percentage** (Audited)
Within 30 days	223	11	555	58
31 – 60 days	–	–	13	1
61 – 90 days	234	11	7	1
Over 90 days	1,628	78	385	40
Total	2,085	100	960	100

14. CONVERTIBLE BONDS

	Convertible Bonds due on 27 June 2005 (the "CB1") *HK$'000*	**Convertible Bonds due on 18 May 2009 (the "CB2")** *HK$'000*	**Total** *HK$'000*
At 1 April 2005	17,001	–	17,001
Issued during the period	–	47,664	47,664
Amortisation during the period	299	332	631
Converted during the period	(17,300)	–	(17,300)
At 30 September 2005	**–**	**47,996**	**47,996**

The CB1 carry interest at 3% per annum payable monthly in arrears with the first interest payment due on 31 July 2003 and the last interest payment due on 27 June 2005. Each CB1 entitles the holder to convert the bonds into new shares of the Company at a conversion price, subject to adjustment, of HK$1.0 per share during the period from 27 June 2003 to 27 June 2005. In addition, if the CB1 remain outstanding on the maturity date, the Company will redeem the principal of the CB1 at 100% of their face value.

Upon adoption of HKAS 32 retrospectively, the fair value of liability component of CB1, which was determined using a market interest rate of 10.5% for an equivalent non-convertible bond at its issuance, was HK$17,865,000. The difference between the proceeds from the issue and the fair value of the liability component of CB1, represented the equity component of HK$2,595,000, was recognized as convertible bonds reserve at the beginning of prior period. The liability component of CB1 was subsequently carried at amortized cost while the equity component of CB1 was transferred to share premium when the bond was converted. As a result, there was an adjustment to reduce the amount of convertible bonds reserve of HK$400,000 as at 30 September 2004. Upon adoption of HKAS 39, the amount of CB1 was carried at amortised cost basis. As a result, there was an adjustment to increase the opening balance of accumulated losses of HK$1,896,000 as at 1 April 2005. The effect on reserve movement upon adoption of HKAS 32 and HKAS 39 are reflected in condensed consolidated statement of change in equity.

During the period, the CB1 has been fully converted into 17,300,000 shares of HK$0.1 per share in the Company with the creation of HK$17,765,000 share premium, in which HK$2,195,000 was transferred from convertible bonds reserve.

The CB2 carry 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. Each CB2 entitles the holder to convert the bonds into new 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 the CB2 remain outstanding on the maturity date, the Company will redeem the principal of the CB2 at 100% of their face plus accrued interest.

Upon adoption of HKAS 32, the fair value of liability component of CB2, which was determined using a market interest rate of 5.135% for an equivalent non-convertible bond at its issuance, was HK$47,664,000. The difference between the proceeds from the issue and the fair value of the liability component of CB2, represented the equity component of HK$3,592,000, was recognized as convertible bonds reserve during the period. During the six months ended 30 September 2005, none of CB2 was converted or redeemed by the Company.

During the period, the amortisation of CB1 and CB2 totalled HK$631,000 was charged to the profit and loss.

15. SHARE CAPITAL

	Number of shares	**Nominal value**
		HK$'000
Authorised:		
Ordinary shares of HK$0.1 each	5,000,000,000	500,000
Non-voting preference shares of HK$10.0 each	100,000,000	1,000,000
At 31 March 2005 and 30 September 2005		1,500,000
Issued and fully paid:		
Ordinary shares of HK$0.1 each		
At 1 April 2005	217,067,577	21,707
Issue of shares upon conversion of convertible bonds	17,300,000	1,730
At 30 September 2005	234,367,577	23,437

16. ACQUISITION OF SUBSIDIARY

On 1 April 2005, the Group acquired 56% of the issued share capital of CHC (Shanghai) Medical & Healthcare Services Limited for a cash consideration of HK$3.8 million. This transaction has been accounted for using the purchase method of accounting.

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Total
	HK$'000
Net assets acquired	2,587
Goodwill arising on acquisition	1,213
Total consideration, satisfied by cash	3,800
Net cash outflow arising on acquisition:	
Cash consideration paid	(3,800)
Cash and cash equivalents acquired	–
	(3,800)

The subsidiary acquired during the period has not yet generated the revenue but contributed approximately HK$1,958,000 to the Group's loss after tax.

17. RELATED PARTY TRANSACTIONS

No significant related party transaction was entered into by the Group during the period ended 30 September 2005.

4. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2005, the date to which the latest published audited consolidated accounts of the Company were made up.

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, RSM Nelson Wheeler, Certified Public Accountants, Hong Kong.

RSM! Nelson Wheeler
羅 申 美 會 計 師 行
Certified Public Accountants

7/F., Allied Kajima Building,
138 Gloucester Road,
Wanchai,
Hong Kong

16 June 2006

The Board of Directors
China HealthCare Holdings Limited
Room 1001-2, 10/F
Man Yee Building
68 Des Voeux Road Central
Hong Kong

Dear Sirs,

We set out below our report on the financial information relating to Shanghai Harvest Network Technology Company Limited (上海德豐信息網絡技術有限公司) ("Shanghai Harvest") and its subsidiary (hereinafter collectively referred to as the "Shanghai Harvest Group") for each of the three years ended 31 December 2003, 2004 and 2005 (the "Relevant Periods") for inclusion in the circular dated 16 June 2006 (the "Circular") issued by China HealthCare Holdings Limited (the "Company") in connection with the proposed acquisition of 70% equity interest in Shanghai Harvest (the "Proposed Acquisition").

Shanghai Harvest is a domestic company established in the People's Republic of China (the "PRC") with limited liability on 23 November 2000 and is principally engaged in sales of mobile phone usage fees by e-commerce in the PRC and investment holding.

As at the date of this report, Shanghai Harvest has the following subsidiary and associates:

Name	Place and date of incorporation/ establishment	Registered and fully paid capital	Proportion of equity interest held by Shanghai Harvest		Principal activities
			Directly	Indirectly	
Subsidiary					
Shanghai Kejin Network Technology Company Limited (上海科錦信息網絡技術有限公司) ("Shanghai Kejin")	PRC 30 June 2003	RMB5,000,000	90%	–	Sales of mobile phone usage fees by e-commerce in the PRC
Associates					
Sichuan Harvest Network Technology Company Limited (四川德豐信息網絡技術有限公司) ("Sichuan Harvest Network")	PRC 23 May 2003	RMB5,000,000	40%	–	Sales of mobile phone usage fees by e-commerce in the PRC
Sichuan Kejin Network Technology Company Limited (四川科錦信息網絡技術有限公司) ("Sichuan Kejin Network")	PRC 28 May 2003	RMB2,000,000	–	36%	Sales of mobile phone usage fees by e-commerce in the PRC

Note: Shanghai Kejin, Sichuan Harvest Network and Sichuan Kejin Network are domestic limited liability companies established in the PRC.

The statutory financial statements of Shanghai Harvest and Shanghai Kejin for the Relevant Periods were prepared in accordance with relevant accounting principles and regulations applicable to enterprises established in the PRC and were audited by Gong Xin Zhong Nan Certified Public Accountants (公信中南會計師事務所), a firm of certified public accountants registered in the PRC.

For the purpose of this report, the directors of Shanghai Harvest have prepared consolidated financial statements of the Shanghai Harvest Group and financial statements of Shanghai Harvest for the Relevant Periods (the "Underlying Financial Statements") in accordance with the accounting principles generally accepted in Hong Kong. We have carried out independent audit procedures on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

We have also examined the Underlying Financial Statements and the statutory financial statements of Shanghai Harvest and Shanghai Kejin for the Relevant Periods in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Shanghai Harvest Group for the Relevant Periods and the consolidated balance sheets of the Shanghai Harvest Group and the balance sheets of Shanghai Harvest as at 31 December 2003, 2004 and 2005 together with the notes thereon (the "Financial Information") set out in this report have been prepared from the Underlying Financial Statements, after making such adjustments as we considered appropriate for the purpose of preparing our report for inclusion in the Circular.

The preparation of the Underlying Financial Statements is the responsibility of the directors of Shanghai Harvest. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information, based on our examination, and to report our opinion to you.

In our opinion, the Financial Information gives, for the purposes of this report, a true and fair view of the state of affairs of the Shanghai Harvest Group and Shanghai Harvest as at 31 December 2003, 2004 and 2005 and of the results and cash flows of the Shanghai Harvest Group for the Relevant Periods.

CONSOLIDATED INCOME STATEMENTS

		For the year ended 31 December		
		2003	**2004**	**2005**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Turnover, net of sale discounts	*5*	784,483	1,716,296	1,993,407
Cost of sales		(774,352)	(1,702,111)	(1,980,205)
Gross profit		10,131	14,185	13,202
Other revenue	*5*	1,840	2,774	6,768
Selling expenses		(2,442)	(2,498)	(2,319)
Administrative expenses		(8,280)	(14,273)	(8,499)
Other operating expenses		(6)	–	(211)
Profit from operations	*7*	1,243	188	8,941
Share of loss of associates		(5)	(186)	(49)
Finance costs	*8*	(550)	(749)	(334)
Profit/(loss) before taxation		688	(747)	8,558
Taxation	*10*	(221)	(1,099)	(1,777)
Profit/(loss) for the year		467	(1,846)	6,781
Attributable to:				
Equity holders of the parent		467	(1,841)	6,805
Minority interests		–	(5)	(24)
		467	(1,846)	6,781
Dividends	*11*	–	554	5,393

CONSOLIDATED BALANCE SHEETS

		As at 31 December		
		2003	2004	2005
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Property, plant and equipment	*13*	10,118	10,110	7,544
Intangible assets	*14*	1,600	1,400	1,200
Interests in associates	*16*	1,995	1,809	1,760
		13,713	13,319	10,504
Current assets				
Inventories	*17*	3,532	9,798	15,107
Trade and other receivables	*18*	17,962	11,569	12,230
Bank and cash balances		5,557	8,795	2,634
		27,051	30,162	29,971
Less: Current liabilities				
Trade and other payables	*19*	8,655	13,772	4,498
Net current assets		18,396	16,390	25,473
NET ASSETS		32,109	29,709	35,977
Capital and reserves				
Capital	*20*	40,000	40,000	40,000
Reserves		(8,391)	(10,786)	(4,494)
		31,609	29,214	35,506
Minority interests		500	495	471
TOTAL EQUITY		32,109	29,709	35,977

BALANCE SHEETS

		As at 31 December		
		2003	**2004**	**2005**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Property, plant and equipment	*13*	10,118	10,110	7,544
Intangible assets	*14*	1,600	1,400	1,200
Interest in a subsidiary	*15*	4,500	4,500	4,500
Interests in associates	*16*	1,995	1,809	1,760
		18,213	17,819	15,004
Current assets				
Inventories	*17*	3,532	9,798	15,107
Trade and other receivables	*18*	17,466	10,996	11,705
Bank and cash balances		4,226	7,096	1,596
		25,224	27,890	28,408
Less: Current liabilities				
Trade and other payables	*19*	8,600	13,721	4,436
Due to a subsidiary	*15(b)*	3,227	2,730	3,212
		11,827	16,451	7,648
Net current assets		13,397	11,439	20,760
NET ASSETS		31,610	29,258	35,764
Capital and reserves				
Capital	*20*	40,000	40,000	40,000
Reserves	*21*	(8,390)	(10,742)	(4,236)
TOTAL EQUITY		31,610	29,258	35,764

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		Attributable to equity holders of the parent					
		Capital	**Statutory surplus reserve**	**Accumulated losses**	**Total**	**Minority interests**	**Total equity**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2003		40,000	–	(8,858)	31,142	–	31,142
Capital injection from minority equity holders of a subsidiary		–	–	–	–	500	500
Profit for the year		–	–	467	467	–	467
At 31 December 2003		40,000	–	(8,391)	31,609	500	32,109
Loss for the year		–	–	(1,841)	(1,841)	(5)	(1,846)
Transfer to reserves		–	475	(475)	–	–	–
Dividend paid	*11*	–	–	(554)	(554)	–	(554)
At 31 December 2004		40,000	475	(11,261)	29,214	495	29,709
Profit for the year		–	–	6,805	6,805	(24)	6,781
Transfer to reserves		–	673	(673)	–	–	–
Dividend paid	*11*	–	–	(513)	(513)	–	(513)
At 31 December 2005		40,000	1,148	(5,642)	35,506	471	35,977

CONSOLIDATED CASH FLOW STATEMENTS

	For the year ended 31 December		
	2003	2004	2005
	RMB'000	*RMB'000*	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before taxation	688	(747)	8,558
Adjustments for:			
Share of loss of associates	5	186	49
Amortisation of intangible assets	200	200	200
Depreciation	2,108	2,510	2,829
Loss on disposals of property, plant and equipment	–	–	211
Impairment of trade receivables	–	6,470	808
Property, plant and equipment written off	39	–	–
Inventories written off	–	–	283
Interest income	(144)	(203)	(126)
Interest expenses	550	749	334
Operating profit before changes in working capital	3,446	9,165	13,146
Decrease/(increase) in inventories	3,233	(5,472)	(5,397)
Increase in trade and other receivables	(3,259)	(77)	(1,469)
Increase/(decrease) in trade and other payables	161	10,468	(11,406)
Cash generated from/(used in) operations	3,581	14,084	(5,126)
Income tax paid	(200)	(799)	(1,805)
Interest expenses	(550)	(749)	(334)
Cash generated from/(used in) operations	2,831	12,536	(7,265)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of an associate	(2,000)	–	–
Purchase of property, plant and equipment	(3,772)	(3,296)	(766)
Proceeds from sale of property, plant and equipment	–	–	97
Interest received	144	203	126
Net cash used in investing activities	(5,628)	(3,093)	(543)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid	–	(554)	(513)
New bank loans raised	5,000	18,000	5,000
Repayments of bank loans	(15,000)	(18,000)	(5,000)
Other loans raised	6,500	849	2,260
Repayments of other loans	–	(6,500)	(100)
Proceeds from capital injection by a minority equity holder of subsidiary	500	–	–
Net cash (used in)/generated from financing activities	(3,000)	(6,205)	1,647
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(5,797)	3,238	(6,161)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	11,354	5,557	8,795
CASH AND CASH EQUIVALENTS AT END OF YEAR	5,557	8,795	2,634
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank and cash balances	5,557	8,795	2,634

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

Shanghai Harvest is a domestic limited liability company established in the PRC on 23 November 2000. The address of its registered office and principal place of business is Room 16-9, No. 599 Xin Ye Road Qingpu Zone Shanghai. The principal activities of Shanghai Harvest Group are engaged in sales of mobile phone usage fees by e-commerce in the PRC and investment holding.

The Financial Information is presented in the thousands of units of Renminbi ("RMB'000") which is the same as the functional currency of Shanghai Harvest.

2. BASIS OF PREPARATION OF FINANCIAL INFORMATION

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

Since 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards ("HKASs"), HKFRSs and Interpretations (herein collectively referred to as "New HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. For the purposes of preparing and presenting the Financial Information of the Relevant Periods, Shanghai Harvest Group has early adopted all these New HKFRSs.

At the date of this report, HKICPA has issued certain new and revised standards and interpretations that are not yet effective. The directors of the Company anticipate that the adoption of these new and revised standards and interpretations will have no material impact on the Financial Information.

3. PRINCIPAL ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost convention. The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to the Relevant Periods.

(a) Consolidation

The consolidated financial statements include the financial statements of Shanghai Harvest and its subsidiary made up to each balance sheet date. A subsidiary is an entity over which Shanghai Harvest Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether Shanghai Harvest Group controls another entity.

A subsidiary is fully consolidated from the date on which control is transferred to Shanghai Harvest Group. It is de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiary by Shanghai Harvest Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities of the acquiree in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over Shanghai Harvest Group's share of the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of acquisition is less than Shanghai Harvest Group's share of the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities, the difference is recognised directly in the consolidated income statement.

(a) Consolidation *(Cont'd)*

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiary has been changed where necessary to ensure consistency with the policies adopted by Shanghai Harvest Group.

In Shanghai Harvest's balance sheet the interest in a subsidiary is stated at cost less provision for impairment losses. The results of subsidiary are accounted for by Shanghai Harvest on the basis of dividends received and receivable.

(b) Interests in associates

An associate is a company over which Shanghai Harvest Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associate is accounted for by the equity method of accounting and is initially recognised at cost. Shanghai Harvest Group's investment in an associate includes goodwill (net of any accumulated impairment loss) identified on acquisition.

Shanghai Harvest Group's share of its associate's post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When Shanghai Harvest Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, Shanghai Harvest Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between Shanghai Harvest Group and its associate are eliminated to the extent of Shanghai Harvest Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provided evidence of an impairment of the asset transferred. Accounting policies of associated company have been changed where necessary to ensure consistency with the policies adopted by Shanghai Harvest Group.

(c) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Shanghai Harvest Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Residual value	**Annual depreciation rate**
Leasehold improvements	–	5 years
Machinery	3%	6 years
Office equipment	3%	5 years
Computer equipment	0 – 3%	5 – 10 years
Motor vehicles	3%	5 – 8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

(c) Property, plant and equipment *(Cont'd)*

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the income statement on the date of retirement or disposal.

(d) Intangible assets

Intangible assets represent acquired computer software and licenses which are stated at costs less accumulated amortisation and any impairment losses. Amortisation is charged to the income statement on straight line basis over their estimated useful lives of ten years.

(e) Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, Shanghai Harvest Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset. Shanghai Harvest Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of the fair value less costs to sell and value in use. 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 risk specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant assets is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(g) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that Shanghai Harvest Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, deposits demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Shanghai Harvest Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(i) Trade and other payables

Trade and other payables are initially measured at fair value, and thereafter stated at amortised cost, using the effective interest rate method.

(j) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions and to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless Shanghai Harvest Group has an unconditional right to defer settlement of the liability for at least twelve months after each balance sheet date.

(k) Revenue recognition

Sales of mobile phone usage fees are recognised on delivery of relevant data to the customers.

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and at the rate applicable.

(l) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when Shanghai Harvest has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and of the amount has been reliably estimated. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

(l) Provisions and contingent liabilities *(Cont'd)*

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(m) Income tax

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

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

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(n) Employee benefits

Shanghai Harvest Group contributes on a monthly basis to defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired employees payable under these plans. Contributions to these plans are expenses as incurred.

(o) Foreign currency translation

(i) Functional and presentation currency

The Financial Information is presented in Renminbi, which is Shanghai Harvest's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions during the Relevant Periods are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(p) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the income statement on a straight line basis over the lease term.

(q) Government subsidy

Government subsidy represents tax refund incentive from local government for development in local area and is recognised as income over the period necessary to match them with related costs.

(r) Related parties

Parties are considered to be related to Shanghai Harvest Group if Shanghai Harvest Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Shanghai Harvest Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant equity holders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Shanghai Harvest Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of Shanghai Harvest Group or of any entity that is a related party of Shanghai Harvest Group.

(s) Events after the balance sheet date

Post-year-end events that provide additional information about Shanghai Harvest Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of assets

The management of Shanghai Harvest Group reviews annually whether assets have suffered any impairment. The recoverable amounts of cash-generating units are based on the value-in-use calculation. These calculations require uses of estimate.

Impairment for inventories

The management of Shanghai Harvest Group reviews an aging analysis of each balance sheet date and identified the slow-moving inventory items that are no longer suitable for use in production and selling. The management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions. In additions, Shanghai Harvest Group carries out an inventory review on a product-by-product basis at each balance sheet date and writes off the obsolete items.

5. REVENUE AND TURNOVER

Turnover and other revenue recognised during the Relevant Periods are as follows:

	For the year ended 31 December		
	2003	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*
Turnover			
Sale of mobile phone usage fees	784,483	1,733,386	2,018,448
Less: sale discounts	–	(17,090)	(25,041)
	784,483	1,716,296	1,993,407
Other revenue			
Income on sale of computer software	1,250	–	3,991
Interest income	144	203	126
Government subsidy	446	2,444	2,543
Miscellaneous income	–	127	108
	1,840	2,774	6,768
Total revenue	786,323	1,719,070	2,000,175

6. SEGMENT INFORMATION

During the Relevant Periods Shanghai Harvest Group principally operates in one business segment of selling mobile phone usage fees by e-commerce in the PRC. Substantially all of Shanghai Harvest Group's turnover, operating results and customers are derived from the PRC during the Relevant Periods. All the identifiable assets and liabilities of Shanghai Harvest Group are located in the PRC. Accordingly, no segment information is presented.

7. PROFIT FROM OPERATIONS

Profit from operations is stated after charging the following:

	For the year ended 31 December		
	2003	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*
Auditors' remuneration	20	9	8
Depreciation	2,108	2,510	2,829
Amortisation of intangible assets*	200	200	200
Cost of inventories sold recognised as expenses	773,700	1,674,644	1,977,513
Loss on disposals of property, plant and equipment	–	–	211
Impairment of trade receivables	–	6,470	808
Staff costs, including directors' emoluments *(note 9)*			
– salaries and wages	2,588	2,069	2,014
– contributions to retirement benefit plans	235	273	320
– other benefits	430	291	287
	3,253	2,633	2,621
Property, plant and equipment written off	39	–	–
Inventories written off *	–	–	283
Operating lease of land and building	588	554	840

* *Included in "administrative expenses" on the face of the consolidated income statements.*

8. FINANCE COSTS

	For the year ended 31 December		
	2003	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*
Bank loan interest	524	472	141
Interest on loans wholly repayable within five years			
– loan from an equity holder *(note 24a)*	–	37	84
– other loans	26	240	109
	550	749	334

9. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of five (2004: five, 2003: five) directors' were as follows:

	For the year ended 31 December 2005		
Name of director	Salaries, allowances and benefits in kind	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*
Mr. Hou Shu Ming	–	–	–
Mr. Cao Gui Xing	–	–	–
Mr. Wan Jun	–	–	–
Mr. Huo Zhang Hui	84	22	106
Mr. Zhou Rong De	60	–	60
	144	22	166

	For the year ended 31 December 2004		
Name of director	Salaries, allowances and benefits in kind	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*
Mr. Hou Shu Ming	–	–	–
Mr. Cao Gui Xing	–	–	–
Mr. Wan Jun	–	–	–
Mr. Huo Zhang Hui	92	22	114
Mr. Zhou Rong De	100	–	100
	192	22	214

	For the year ended 31 December 2003		
Name of director	Salaries, allowances and benefits in kind	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*
Mr. Hou Shu Ming	–	–	–
Mr. Cao Gui Xing	–	–	–
Mr. Wan Jun	–	–	–
Mr. Huo Zhang Hui	180	22	202
Mr. Zhou Rong De	120	–	120
	300	22	322

10. INCOME TAX

(a) The amount of taxation in the consolidated income statements represents:

	For the year ended 31 December		
	2003	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*
Current			
– PRC Enterprise Income Tax	221	1,099	1,777

The provision for the PRC Enterprise Income Tax is calculated at 33% of the estimated assessable profits for the year determined in accordance with the relevant income tax rules and regulations in the PRC.

During the Relevant Periods, no deferred tax has been provided as there was no material temporary difference. At 31 December 2003, 2004 and 2005, there was no significant unrecognised deferred tax asset/liability.

(b) The tax charge for the Relevant Periods can be reconciled to the profit/(loss) before tax per the consolidated income statement as follows:

	For the year ended 31 December		
	2003	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*
Profit/(loss) before taxation	688	(747)	8,558
Tax charge at the domestic tax rate of 33%	227	(247)	2,824
Tax effect of non-deductible expenses	–	2,137	267
Others	(6)	(791)	(1,314)
Tax charge for the year	221	1,099	1,777

11. DIVIDENDS

Dividends payable to equity holders of Shanghai Harvest during the Relevant Periods:

	For the year ended 31 December		
	2003	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*
Interim dividend declared and paid	–	554	513
Final dividend proposed after the balance sheet date	–	–	4,880
	–	554	5,393

The proposed final dividend for the year ended 31 December 2005 amounted to RMB4,880,000 has not yet been recognised as liabilities as at 31 December 2005.

12. EARNINGS/LOSS PER SHARE

No calculation of earnings/loss per share for the Relevant Periods is presented as such information is considered not meaningful for the purposes of this report.

13. PROPERTY, PLANT AND EQUIPMENT

Shanghai Harvest Group and Shanghai Harvest

	Leasehold improvements *RMB'000*	Machinery *RMB'000*	Office equipment *RMB'000*	Computer equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
Cost						
At 1 January 2003	–	5,816	17	3,632	976	10,441
Additions	–	3,527	3	242	–	3,772
Transfer to inventories	–	(187)	–	–	–	(187)
Disposals/write off	–	–	(3)	(64)	–	(67)
At 31 December 2003	–	9,156	17	3,810	976	13,959
Additions	–	2,899	7	385	5	3,296
Transfer to inventories	–	(1,361)	–	–	–	(1,361)
At 31 December 2004	–	10,694	24	4,195	981	15,894
Additions	313	146	39	266	2	766
Transfer to inventories	–	(195)	–	–	–	(195)
Disposals/write off	–	(2)	(3)	(403)	(290)	(698)
At 31 December 2005	313	10,643	60	4,058	693	15,767
Accumulated depreciation						
At 1 January 2003	–	911	4	666	187	1,768
Charge for the year	–	1,236	3	751	118	2,108
Transfer to inventories	–	(7)	–	–	–	(7)
Disposals/write off	–	–	(1)	(27)	–	(28)
At 31 December 2003	–	2,140	6	1,390	305	3,841
Charge for the year	–	1,602	3	786	119	2,510
Transfer to inventories	–	(567)	–	–	–	(567)
At 31 December 2004	–	3,175	9	2,176	424	5,784
Charge for the year	16	2,024	8	666	115	2,829
Disposals/write off	–	(1)	(1)	(224)	(164)	(390)
At 31 December 2005	16	5,198	16	2,618	375	8,223
Net book value						
At 31 December 2003	–	7,016	11	2,420	671	10,118
At 31 December 2004	–	7,519	15	2,019	557	10,110
At 31 December 2005	297	5,445	44	1,440	318	7,544

14. INTANGIBLE ASSETS

Shanghai Harvest Group and Shanghai Harvest	Computer software and licences *RMB'000*
Cost	
At 1 January 2003, 31 December 2004 and 2005	2,000
Accumulated amortisation	
At 1 January 2003	200
Charge for the year	200
At 31 December 2003	400
Charge for the year	200
At 31 December 2004	600
Charge for the year	200
At 31 December 2005	800
Carrying amount	
At 31 December 2003	1,600
At 31 December 2004	1,400
At 31 December 2005	1,200

The intangible assets included above have finite useful lives of ten years over which the assets are amortised.

15. INTEREST IN A SUBSIDIARY

	As at 31 December		
	2003	**2004**	**2005**
Shanghai Harvest	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted, at cost	4,500	4,500	4,500

a) Details of the subsidiary at 31 December 2005 are set out in page 83.

b) The amounts due to the subsidiary as stated at the Shanghai Harvest's balance sheets are unsecured, non-interest bearing and have no fixed repayment terms.

16. INTERESTS IN ASSOCIATES

	As at 31 December		
	2003	**2004**	**2005**
Shanghai Harvest Group	*RMB'000*	*RMB'000*	*RMB'000*
Cost of unlisted investments in associates	2,000	2,000	2,000
Share of post-acquisition losses	(5)	(191)	(240)
	1,995	1,809	1,760

Details of Shanghai Harvest Group's associates at 31 December 2005 are set out in page 83.

Summarised financial information in respect of Shanghai Harvest Group's associates is set out below:

	As at 31 December		
	2003	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*
Shanghai Harvest Group			
Total assets	5,303	4,765	5,750
Total liabilities	(316)	(241)	(1,350)
Net assets	4,987	4,524	4,400
Shanghai Harvest Group's share of associates' net assets	1,995	1,809	1,760

	From 23 May 2003 to 31 December 2003	**From 1 January 2004 to 31 December 2004**	**From 1 January 2005 to 31 December 2005**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	2,708	54,007	285,413
Loss for the period/years	(12)	(462)	(121)
Shanghai Harvest Group's share of associates' loss for the period/years	(5)	(186)	(49)

	As at 31 December		
	2003	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*
Shanghai Harvest			
Equity interest, at cost	2,000	2,000	2,000
Impairment loss	(5)	(191)	(240)
	1,995	1,809	1,760

17. INVENTORIES

	As at 31 December		
	2003	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*
Shanghai Harvest Group and Shanghai Harvest			
Mobile phone usage fees	2,384	8,611	14,115
Machineries and consumable tools	1,148	1,187	992
	3,532	9,798	15,107

18. TRADE AND OTHER RECEIVABLES

		As at 31 December		
		2003	**2004**	**2005**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Shanghai Harvest Group				
Trade receivables		16,891	8,560	9,387
Deposits and prepayments		211	354	518
Other receivables		860	1,992	1,625
Due from an equity holder	*24(b)*	–	663	700
		17,962	11,569	12,230

		As at 31 December		
		2003	**2004**	**2005**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Shanghai Harvest				
Trade receivables		16,395	8,066	8,882
Deposits and prepayments		211	274	516
Other receivables		860	1,993	1,607
Due from an equity holder	*24(b)*	–	663	700
		17,466	10,996	11,705

The normal credit period granted to the trade customers by Shanghai Harvest and Shanghai Harvest Group is 3 to 7 days.

18. TRADE AND OTHER RECEIVABLES *(Cont'd)*

Ageing analysis of trade receivables at respective balance sheet dates of Shanghai Harvest Group and Shanghai Harvest are as follows:

	As at 31 December		
	2003	**2004**	**2005**
Shanghai Harvest Group	*RMB'000*	*RMB'000*	*RMB'000*
Within 30 days	15,891	6,630	8,234
31 to 60 days	217	4	2
61 to 90 days	–	–	1
91 to 120 days	586	–	–
Over 120 days	197	8,396	8,428
	16,891	15,030	16,665
Impairment losses	–	(6,470)	(7,278)
	16,891	8,560	9,387

	As at 31 December		
	2003	**2004**	**2005**
Shanghai Harvest	*RMB'000*	*RMB'000*	*RMB'000*
Within 30 days	15,395	6,136	7,729
31 to 60 days	218	4	2
61 to 90 days	–	–	1
91 to 120 days	586	–	–
Over 120 days	196	8,396	8,428
	16,395	14,536	16,160
Impairment losses	–	(6,470)	(7,278)
	16,395	8,066	8,882

The management considers that the carrying amount of trade and other receivables approximates their fair values.

19. TRADE AND OTHER PAYABLES

		As at 31 December		
		2003	**2004**	**2005**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Shanghai Harvest Group				
Trade payables		–	7,808	–
Advances from customers		669	2,560	36
Accrued charges and others		1,442	2,211	1,137
Other loans				
– interest bearing*		–	749	1,009
– non interest bearing		5,000	–	1,000
PRC income tax payables		44	344	316
Due to equity holders	*24(b)*	1,500	–	1,000
Due to a director	*24(b)*	–	100	–
		8,655	13,772	4,498

19. TRADE AND OTHER PAYABLES *(Cont'd)*

		As at 31 December		
		2003	**2004**	**2005**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Shanghai Harvest				
Trade payables		–	7,808	–
Advances from customers		669	2,560	36
Accrued charges and others		1,387	2,610	2,084
Other loans				
– interest bearing*		–	299	–
– non interest bearing		5,000	–	1,000
PRC income tax payables		44	344	316
Due to equity holders	*24(b)*	1,500	–	1,000
Due to a director	*24(b)*	–	100	–
		8,600	13,721	4,436

Ageing analysis of trade payables at respective balance sheet dates of Shanghai Harvest Group and Shanghai Harvest are as follows:

	As at 31 December		
	2003	**2004**	**2005**
Shanghai Harvest Group and Shanghai Harvest	*RMB'000*	*RMB'000*	*RMB'000*
Within 30 days	–	7,808	–

* *The interest rates for interest bearing loans were summarised as follows:*

	As at 31 December		
	2003	**2004**	**2005**
Shanghai Harvest Group			
Other loans	Nil	1.25% – 2%	1% – 1.25%
Shanghai Harvest			
Other loans	Nil	2%	Nil

The other loans are unsecured and repayable within one year.

The management considers that the carrying amount of trade and other payables approximates their fair values.

20. CAPITAL

	Registered and paid-up capital
	RMB'000
At 1 January 2003, 31 December 2003, 2004 and 2005	40,000

21. RESERVES

		Shanghai Harvest		
		Statutory surplus reserve	**Accumulated losses**	**Total**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2003		–	(8,858)	(8,858)
Profit for the year		–	468	468
At 31 December 2003		–	(8,390)	(8,390)
Loss for the year		–	(1,798)	(1,798)
Dividends paid		–	(554)	(554)
Transfer to reserves		475	(475)	–
At 31 December 2004		475	(11,217)	(10,742)
Profit for the year		–	7,019	7,019
Dividends paid	*11*	–	(513)	(513)
Transfer to reserves		673	(673)	–
At 31 December 2005		1,148	(5,384)	(4,236)

In accordance with the Company Law of the PRC and the Articles of Associations of Shanghai Harvest and its subsidiary, they are required to transfer 10% of their profit after taxation, as determined in accordance with PRC accounting standards and regulations applicable to these companies, to the statutory surplus reserve until such reserve reaches 50% of the registered capital of these companies.

22. LEASE COMMITMENTS

At the balance sheet dates, the total future minimum lease payments under non-cancellable operating leases for the office premises are payable as follows:

	As at 31 December		
	2003	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*
Shanghai Harvest Group			
Within one year	150	308	894
In the second to fifth years inclusive	37	39	2,651
	187	347	3,545

	As at 31 December		
	2003	**2004**	**2005**
Shanghai Harvest	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	94	95	781
In the second to fifth years inclusive	–	–	2,575
	94	95	3,356

23. RETIREMENT BENEFITS SCHEME

Shanghai Harvest Group is required to contribute to PRC government pension schemes for its employees based on applicable rates of monthly salary in accordance with government regulations in the PRC. The only obligation of Shanghai Harvest Group with respect to the pension schemes is to make the required contributions under the respective schemes.

24. RELATED PARTY TRANSACTIONS

During the Relevant Periods, Shanghai Harvest is owned by Panjinfenyuan Technology Investment Limited (盤錦鋒源科技投資有限公司) ("Panjinfenyuan") (about 28% of equity interest), Shanghai Hengde Technology Limited (上海恆德科技有限公司) (5% equity interest) and Mr. Hou Shu Ming (67% of equity interest).

(a) Transaction with related parties

(i) Income on sale of computer software received from an associate

	For the year ended 31 December		
	2003	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*
Sichuan Harvest Network	1,250	–	–

(ii) Loan interest expenses paid to an equity holder

	For the year ended 31 December		
	2003	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*
Panjinfenyuan	–	37	84

(iii) Loan interest expenses paid to a director

	For the year ended 31 December		
	2003	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*
Mr. Huo Zhang Hui	–	–	2

(b) Year end balances with related parties

	As at 31 December		
	2003	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*
Due from an equity holder			
Panjinfenyuan	–	663	700
Due to a director			
Mr. Huo Zhang Hui	–	100	–
Due to equity holders			
Shanghai Hengde Technology Limited	1,500	–	–
Mr. Hou Shu Ming	–	–	1,000

24. RELATED PARTY TRANSACTIONS *(Cont'd)*

(b) Year end balances with related parties *(Cont'd)*

Due from an equity holder

The amounts due are unsecured, interest free and have no fixed repayment terms. No guarantees have been given in respect of the amounts due.

Due to a director

The amount due is unsecured, interest bearing at 2% per month and has no fixed repayment terms. No guarantees have been received in respect of the amount due.

Due to equity holders

The amounts due are unsecured and have no fixed repayment terms. No guarantees have been given in respect of the amounts due. The balances as at 31 December 2003 and 31 December 2005 are interest free and interest bearing at 7% per annum respectively.

(c) Compensation of key personnel management

The remuneration of key personnel management during the year was as follows:

	For the year ended 31 December		
	2003	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*
Salaries, allowances and benefits in kind	300	192	144
Retirement scheme contributions	22	22	22
	322	214	166

25. FINANCIAL RISK MANAGEMENT

Shanghai Harvest Group's activities expose it to a variety of financial risks: foreign currency risk, interest rate risk, credit risk and liquidity risk. Shanghai Harvest Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on Shanghai Harvest Group's financial performance.

Risk management is carried out by the management of Shanghai Harvest Group. They identify and evaluate financial risks in close co-operation with Shanghai Harvest Group's operating units. The management provides principles for overall risk management, as well as policies covering specific areas, such as interest-rate risk and credit risk.

Foreign currency risk

Shanghai Harvest Group operates in the PRC with most of the transactions are conducted in RMB and did not have any significant exposure to foreign exchange risk during the Relevant Periods.

Interest rate risk

Shanghai Harvest Group's operating cash flows are affected by the change in market interest rates in relation to its fixed bank deposits and borrowings. The interest income derived from the bank deposits varies with the applicable interest rates during the period thus expose Shanghai Harvest Group to cash flow interest risk. Borrowings issued at fixed rate expose Shanghai Harvest to fair value interest risk rate.

25. FINANCIAL RISK MANAGEMENT *(Cont'd)*

The Shanghai Harvest Group did not hedge for the interest rates fluctuations throughout the Relevant Periods.

Credit risk

Shanghai Harvest Group has no significant credit risk as the terms of settlement have been stated at the time when agreements have been made with different customers. It has policies in place to ensure that credit sales and credit limit are granted to customers with an appropriate credit history or background. Credit terms are agreed with customers individually with reference to the creditability of them as assessed by the management of Shanghai Harvest Group.

Liquidity risk

Shanghai Harvest Group is exposed to minimal liquidity risk as the management of Shanghai Harvest Group closely monitors its cash flow position.

26. CONTINGENT LIABILITIES

At 31 December 2003, 2004 and 2005, there were no material contingent liabilities for Shanghai Harvest Group.

27. SUBSEQUENT EVENTS

No significant subsequent events took place subsequent to 31 December 2005.

28. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by any companies in Shanghai Harvest Group in respect of any period subsequent to 31 December 2005.

Yours faithfully,

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

The following is the text of a report received from the auditors and reporting accountants of the Company, RSM Nelson Wheeler, Certified Public Accountants, Hong Kong, for the inclusion of this circular.

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

A. Introduction to the Unaudited Pro Forma Financial Information of the Enlarged Group

The accompanying unaudited pro forma financial information of the Enlarged Group has been prepared to illustrate the effect of the proposed acquisition of the 70% equity interest of Shanghai Harvest Network Technology Limited (the "Acquisition") might have affected the financial information of the Group.

The accompanying unaudited pro forma consolidated income statement and cash flow statement of the Enlarged Group for the year ended 31 March 2005 are prepared based on the audited consolidated income statement and cash flow statement of the Group for the year ended 31 March 2005 as extracted from the annual report of the Company and the audited consolidated income statement and cash flow statement of Shanghai Harvest Group for the year ended 31 December 2005 as extracted from the accountants' report set out in Appendix II to this circular as if the Acquisitions had been completed on 1 April 2004.

The accompanying unaudited pro forma consolidated balance sheet of the Enlarged Group as at 30 September 2005 is prepared based on the unaudited consolidated balance sheet of the Group as at 30 September 2005 as extracted from the interim report of the Company and the audited consolidated balance sheet of Shanghai Harvest Group as at 31 December 2005 as extracted from the accountants' report as set out in Appendix II to this circular as if the Acquisition had been completed on 30 September 2005.

The unaudited pro forma financial information of the Enlarged Group is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Accordingly, as a result of the nature of the unaudited pro forma financial information of the Enlarged Group, it may not give a true picture of the actual financial position, results of operation or cash flows of the Enlarged Group that would have been attained had the Acquisition actually occurred on the dates indicated herein. Furthermore, the unaudited pro forma financial information of the Enlarged Group does not purport to predict the Enlarged Group's future financial position, results of operation or cash flows.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the financial information of the Group as set out in Appendix I, the financial information of Shanghai Harvest Group as set out in Appendix II and other financial information included elsewhere in this circular.

For the purpose of presenting the unaudited pro forma financial information, the audited income statement and cash flow statement of Shanghai Harvest Group for the period from 1 January 2005 to 31 December 2005 and its audited balance sheet as at 31 December 2005 are translated at the exchange rate of HK$1 = RMB1.04.

B. Unaudited Pro Forma Consolidated Income Statement of the Enlarged Group

	The Group for the year ended 31 March 2005 *(note 4)* *HK$'000*	Shanghai Harvest Group for the year ended 31 December 2005 *RMB'000*	Shanghai Harvest Group for the year ended 31 December 2005 *HK$'000*	Sub-total *HK$'000*	Pro forma adjustment *(note 2)* *HK$'000*	Pro forma adjustment *(note 3)* *HK$'000*	The Enlarged Group *HK$'000*
Turnover, net of sale discounts	34,763	1,993,407	1,916,661	1,951,424			1,951,424
Cost of sales and services	(40,739)	(1,980,205)	(1,903,967)	(1,944,706)			(1,944,706)
Gross profit/(loss)	(5,976)	13,202	12,694	6,718			6,718
Other revenue	92	6,768	6,508	6,600			6,600
Selling expenses	–	(2,319)	(2,230)	(2,230)			(2,230)
Administrative expenses	(34,794)	(7,490)	(7,202)	(41,996)			(41,996)
Impairment for receivables	(792)	(809)	(778)	(1,570)			(1,570)
Impairment losses on available-for-sale investments	(695)	–	–	(695)			(695)
Impairment losses on goodwill	(7,192)	–	–	(7,192)			(7,192)
Amortisation of intangible assets	(3,582)	(200)	(192)	(3,774)			(3,774)
Other operating expenses	(118)	(211)	(203)	(321)			(321)
Profit/(loss) from operations	(53,057)	8,941	8,597	(44,460)			(44,460)
Share of losses on associates	–	(49)	(47)	(47)			(47)
Finance costs	(704)	(334)	(321)	(1,025)		(888)	(1,913)
Profit/(loss) before taxation	(53,761)	8,558	8,229	(45,532)		(888)	(46,420)
Taxation	–	(1,777)	(1,709)	(1,709)			(1,709)
Profit/(loss) for the year	(53,761)	6,781	6,520	(47,241)		(888)	(48,129)
Attributable to:							
Equity holders of the parent	(51,914)	6,805	6,543	(45,371)	(1,963)	(888)	(48,222)
Minority interests	(1,847)	(24)	(23)	(1,870)	1,963		93
	(53,761)	6,781	6,520	(47,241)	–	(888)	(48,129)

C. Unaudited Pro Forma Consolidated Balance Sheet of the Enlarged Group

	The Group as at 30 September 2005	Shanghai Harvest Group as at 31 December 2005	Shanghai Harvest Group as at 31 December 2005	Sub-total	Pro forma adjustment *(note 1)*	The Enlarged Group
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets						
Property, plant and equipment	12,322	7,544	7,254	19,576		19,576
Intangible assets	36,065	1,200	1,154	37,219		37,219
Interests in associates	1	1,760	1,692	1,693		1,693
Available-for-sale investments	22,588	–	–	22,588		22,588
Loan receivables	624	–	–	624		624
Goodwill	–	–	–	–	15,787	15,787
	71,600	10,504	10,100	81,700	15,787	97,487
Current assets						
Inventories	3,075	15,107	14,525	17,600		17,600
Trade receivables	3,303	9,387	9,026	12,329		12,329
Prepayment, deposits and other receivables	8,354	2,143	2,060	10,414		10,414
Due from an equity holder of Shanghai Harvest Group	–	700	673	673		673
Loan receivables	29,747	–	–	29,747		29,747
Bank balances and cash	60,416	2,634	2,533	62,949	(18,000)	44,949
	104,895	29,971	28,817	133,712	(18,000)	115,712
Current liabilities						
Trade payables	2,085	–	–	2,085		2,085
Other payables and accruals	9,266	3,498	3,363	12,629		12,629
Due to equity holders of Shanghai Harvest Group	–	1,000	962	962		962
Due to directors of the Group	4,146	–	–	4,146		4,146
	15,497	4,498	4,325	19,822		19,822
Net current assets	89,398	25,473	24,492	113,890	(18,000)	95,890
Total assets less current liabilities	160,998	35,977	34,592	195,590	(2,213)	193,377
Non-current liabilities						
Convertible bonds/notes	47,996	–	–	47,996	16,160	64,156
	113,002	35,977	34,592	147,594	(18,373)	129,221
Capital and reserves						
Share capital/capital	23,437	40,000	38,460	61,897	(38,460)	23,437
Reserves	80,811	(4,494)	(4,321)	76,490	6,561	83,051
Equity attributable to shareholders/equity holders of the parent	104,248	35,506	34,139	138,387	(31,899)	106,488
Minority interests	8,754	471	453	9,207	13,526	22,733
	113,002	35,977	34,592	147,594	(18,373)	129,221

D. Pro Forma Consolidated Cash Flow Statement of the Enlarged Group

	The Group for the year ended 31 March 2005 *(note 4)*	Shanghai Harvest Network Group for the year ended 31 December 2005	Shanghai Harvest Network Group for the year ended 31 December 2005	Sub-total	Pro forma adjustment *(note 1)*	The Enlarged Group
	HK$'000	*RMB$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
CASH FLOW FROM OPERATING ACTIVITIES						
Profit/(loss) from operations	(53,057)	8,941	8,597	(44,460)		(44,460)
Adjustments for:						
Impairment of trade receivables	792	808	777	1,569		1,569
Inventories written off	–	283	272	272		272
Amortisation of intangible assets	3,582	200	192	3,774		3,774
Interest income	(92)	(126)	(121)	(213)		(213)
Depreciation	1,098	2,829	2,720	3,818		3,818
Impairment losses recognised in respect of available-for-sale investments	695	–	–	695		695
Impairment losses on goodwill	7,192	–	–	7,192		7,192
Loss on disposals of property, plant and equipment	118	211	203	321		321
Operating cash flows before working capital changes	(39,672)	13,146	12,640	(27,032)		(27,032)
Decrease/(increase) in inventories	1,399	(5,397)	(5,189)	(3,790)		(3,790)
Decrease in trade receivables	14,352	–	–	14,352		14,352
Decrease/(increase) in prepayments, deposits and other receivables	34,444	(1,469)	(1,412)	33,032		33,032
Decrease in trade and other payables	(18,304)	(11,406)	(10,968)	(29,272)		(29,272)
Increase in amounts due to directors	3,432	–		3,432		3,432
Cash used in operating activities	(4,349)	(5,126)	(4,929)	(9,278)		(9,278)
Income tax paid	–	(1,805)	(1,736)	(1,736)		(1,736)
Interest paid	(74)	(334)	(321)	(395)		(395)
Net cash used in operating activities	(4,423)	(7,265)	(6,986)	(11,409)		(11,409)

	The Group for the year ended 31 March 2005 *(note 4)* *HK$'000*	Shanghai Harvest Network Group for the year ended 31 December 2005 *RMB$'000*	Shanghai Harvest Network Group for the year ended 31 December 2005 *HK$'000*	Sub-total *HK$'000*	Pro forma adjustment *(note 1)* *HK$'000*	The Enlarged Group *HK$'000*
INVESTING ACTIVITIES						
Interest received	92	126	121	213		213
Purchase of property, plant and equipment	(5,651)	(766)	(737)	(6,388)		(6,388)
Proceeds from sale of property, plant and equipment	307	97	93	400		400
Advance of loan receivables	(200)	–	–	(200)		(200)
Repayment of loan receivables	600	–	–	600		600
Acquisitions of subsidiaries	(47,889)	–	–	(47,889)	(9,544)	(57,433)
Net cash used in investing activities	(52,741)	(543)	(523)	(53,264)	(9,544)	(62,808)
FINANCING ACTIVITIES						
Dividends paid	–	(513)	(493)	(493)		(493)
New bank loans and other borrowings raised	1,887	7,260	6,981	8,868		8,868
Repayment of bank loans and other borrowings	(1,887)	(5,100)	(4,904)	(6,791)		(6,791)
Proceeds from issue of shares	33,139	–	–	33,139		33,139
Repayment of obligation under finance leases	(67)	–	–	(67)		(67)
Net cash generated from financing activities	33,072	1,647	1,584	34,656		34,656
NET DECREASE IN CASH AND CASH EQUIVALENTS	(24,092)	(6,161)	(5,925)	(30,017)	(9,544)	(39,561)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	71,394	8,795	8,456	79,850	(8,456)	71,394
Effect of foreign exchange rate changes	16	–	–	16		16
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank and cash balances	47,318	2,634	2,531	49,849	(18,000)	31,849

E. Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

1. The adjustments represent the elimination of the capital and reserves of Shanghai Harvest Group upon the Acquisition for a total consideration of HK$36.4 million which is to be financed by internal resources of the Group of approximately HK$18 million and issuance of convertible notes of approximately HK$18.4 million by the Group. With reference to the net asset value of Shanghai Harvest Group attributable to the equity holders as at 31 December 2005 of HK$34,139,000, representing capital of HK$38,460,000 and negative reserves of HK$4,321,000, which included the proposed final dividends of HK$4,692,000 to be distributed to the minority equity holders of Shanghai Harvest Group after 31 December 2005, goodwill of HK$15,787,000 and minority interest of HK$13,526,000 arise on the Acquisition.

   As at 1 January 2005, Shanghai Harvest Group has cash and cash equivalents of HK$8,456,000, which was assumed to be acquired by the Group upon Acquisition and therefore for presentation purpose, such amount is deducted from the cash consideration.

   In accordance with Hong Kong Accounting Standards ("HKAS") 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement", the liability component and the equity component of the convertible notes should be separately accounted for. The liability component is included in non-current liabilities while the equity component is included in equity. If there are any transaction costs involved, they would usually be allocated to the liability and equity component of the convertible notes based on the proportion of their respective values. For the purpose of compiling this unaudited pro forma consolidated balance sheet of the Enlarged Group, the liability component of the convertible notes as at 30 September 2005 is HK$16,160,000 estimated by the Company using the effective interest method and the equity component of the convertible notes as at 30 September 2005 is HK$2,240,000 (included in the adjustment to reserves).

2. The adjustment of HK$1,963,000 represents the 30% profit of Shanghai Harvest Group for the year ended 31 December 2005 shared by minority equity holders as the Group only acquires 70% equity interest in Shanghai Harvest Group.

3. The adjustment represents the estimated interest expenses accrued on the liability component of the convertible notes issued as part of consideration for the Acquisition as set out in note 1 above, assuming an effective interest rate of 5.5% per annum, representing the estimated fair market interest rate of bank loan for the Enlarged Group.

4. The Group had not early adopted a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("New HKFRSs"), issued by the Hong Kong Institute of Certified Public Accountants and effective for accounting periods beginning on or after 1 January 2005, in the financial statements for the year ended 31 March 2005 from which the consolidated income statement and cash flow statement of the Group for the year ended 31 March 2005 are extracted. The finance costs for the year ended 31 March 2005 would be increased by an additional interest expenses of approximately HK$1,124,000 on the liability component of the convertible notes issued on 27 June 2003 had the New HKFRSs been early adopted. The early adoption of the New HKFRSs would not result in any adjustment on the cash flow statement of the Group for the year ended 31 March 2005.

5. The auditors of the Company, RSM Nelson Wheeler, had qualified the financial statements of the Group for the year ended 31 March 2005 as detailed in pages 26 and 27. In their opinion, full provision for impairment loss in respect of the Group's investments in securities of HK$21,026,000 as at 31 March 2005 and full provision for the loan receivable of HK$21,026,000 as at 31 March 2005, which had not yet been made in the financial statements of the Group for the year ended 31 March 2005, should be recognized in the consolidated income statement for the year ended 31 March 2005 to increase the loss of the Group for the year by aggregating amount of HK$42,052,000. The loss of the Enlarged Group presented in the pro forma consolidated income statement would be increased by the aggregating amount had the full provision for impairment losses in respect of the Group's investment in securities and the loan receivable been made in the financial statements of the Group for the year ended 31 March 2005.

F. Report on Unaudited Pro Forma Financial Information

The following is the text of a report from RSM Nelson Wheeler, the reporting accountants to the Company, in respect of the unaudited pro forma financial information.

RSM! Nelson Wheeler
羅 申 美 會 計 師 行
Certified Public Accountants
7/F., Allied Kajima Building,
138 Gloucester Road,
Wanchai,
Hong Kong

The Board of Directors
China HealthCare Holdings Limited
Room 1001-2, 10/F
Man Yee Building
68 Des Voeux Road Central
Hong Kong

16 June 2006

Dear Sirs,

We report on the unaudited pro forma financial information of China HealthCare Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed acquisition of 70% equity interest of Shanghai Harvest Network Technology Company Limited might have affected the financial information of the Group presented, for inclusion as Appendix III to the circular of the Company dated 16 June 2006 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on page 115 to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibilities solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owned to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 " Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

(a) the financial position of the Group as at 30 September 2005 or at any future date; or

(b) the financial results and cash flows of the Group for the year ended 31 March 2005 or any future periods.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

2. INDEBTEDNESS

As at the close of business on 30 April 2006, being the latest practicable date for the purpose of ascertaining certain information relating to this indebtedness statement, the Enlarged Group had outstanding borrowings of approximately HK$3,843,000, comprising unsecured amounts due to minority equity holders of approximately HK$995,000, unsecured amounts due to directors of approximately HK$973,000 and unsecured loans from independent third parties of approximately HK$1,875,000.

As at the close of business on 30 April 2006, the Enlarged Group had outstanding convertible bonds of principal amount of HK$51,480,000 which are convertible into approximately 20,388,000 shares of the Company at the conversion price of HK$2.525 per share. The carrying amount of the convertible bonds on the balance sheet at 30 April 2006 was HK$49,197,000.

Save as aforesaid and apart from intra-group liabilities and normal trade payables, as at the close of business of 30 April 2006, none of the companies of the Enlarged Group had any outstanding mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances or acceptances credits or any guarantees or other material contingent liabilities.

For the purpose of the above statement of indebtedness, foreign currency amounts have been translated into Hong Kong dollars at the approximate rates of exchange prevailing at the close of business on 30 April 2006.

3. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that, taking into account the internal resources available to the Enlarged Group and the net proceed to be raised from the Subscription, the Enlarged Group will have sufficient working capital for at least twelve months from the date of this circular.

FOR THE YEAR ENDED 31 MARCH 2003

Results

In the financial year of 2003, the Group recorded a turnover of approximately HK$245.4 million, representing a growth of approximately 29.4% when compared with that of the previous year. The Group's loss attributable to shareholders amounted to approximately HK$63.4 million and the basic loss per share for the year was HK$0.88.

Business Review

During the financial year under review, the Group was mainly engaged in the manufacturing sourcing and distribution of electronic parts and components, and investment holdings.

During the year, the Group successfully developed a new sub-contracting business of electronic parts and components and this helped to increase the Group's market share in the electronic industry market. As a result, the turnover increased by 29.4% to HK$245.4 million. Nevertheless, the severe price war in the market squeezed the gross profit margin from 10.9% in the previous year to 5.0% in this year and the gross profit decreased from HK$20.7 million in the previous year to HK$12.2 million in this year.

Although there were reductions of approximately 17.4% and 78.1% in total operating costs and finance costs respectively, the non-recurring allowances for receivables and impairment losses recognized in respect of investments in securities turned the Group from profit in the previous year to loss in the financial year ended 31 March 2003.

Capital Structure, Liquidity and Financial Resources

The Group's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. The Group relied principally on its internally generated capital and external borrowings to fund its business.

During the year ended 31 March 2003, the Company completed several fund raising exercises, including issuances of ordinary shares and convertible bonds. These fund raising exercises enabled the Group to reduce the total borrowings from HK$54.2 million in the pervious year to HK$14.4 million in the current year.

As at 31 March 2003, the Group had total borrowings of approximately HK$14.4 million, which comprised obligations under finance leases of approximately HK$7.0 million and bonds and convertible bonds of approximately HK$7.4 million. All borrowings of the Group were denominated in Hong Kong dollars. The bonds with the coupon at 12% per annum matured during the year ended 31 March 2004. The convertible bonds with the coupon at 6% per annum payable semi-annually in arrears matured during the year ended 31 March 2006. The gearing ratio of the Group, as expressed as the ratio of total borrowings to shareholders' equity, was approximately 0.24 as at 31 March 2003.

Most of the sale and expenditures of the Group were denominated in Hong Kong dollar. The Group had no significant foreign exchange exposures and did not use any financial instrument for hedging purposes. As at 31 March 2003, the total cash and cash equivalents of the Group amounted to approximately HK$4.2 million.

As at 31 March 2003, the Group had contingent liabilities of approximately HK$1.3 million in respect of bills discounted with recourse. In addition, corporate guarantee was given by the Company to banks in respect of the banking facilities utilized by its subsidiaries. As at 31 March 2003, the Group had no charges on its assets.

Material Investments, Acquisitions or Disposals

During the financial year of 2003, the Group had no significant investments held and there were no material acquisitions and disposals of subsidiaries and associated companies in the course of the financial year. As at 31 March 2003, neither the Group had any material capital expenditure commitment nor did it have any future plan for material investments or capital assets.

Segmental Analysis

Approximately 94% of the Group's revenue was generated from the manufacturing of electronic parts and components while the balance of the revenue was generated from the business segment of sourcing and distribution of electronic parts and components. The business segment of manufacturing of electronic parts and components recorded a segment loss of approximately HK$5.4 million while the segment loss of sourcing and distribution of electronic parts and components amounted to approximately HK$2.1 million for the year ended 31 March 2003.

Human Resources

As at 31 March 2003, the total number of staff of the Group was around 1,300 which was more or less the same as that of the previous year. Total staff cost including directors' emoluments for the year ended 31 March 2003 amounted to approximately HK$37.8 million.

The Group continued 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 was linked to the profit performance of the Group and individual performance of the staff. A share option scheme was also established for the benefits of employees of the Group.

FOR THE YEAR ENDED 31 MARCH 2004

Results

For the financial year ended 31 March 2004, the Group recorded a turnover of approximately HK$222.8 million, representing a decrease of approximately 9.2% when compared with the previous year. The Group's loss attributable to shareholders amounted to approximately HK$52 million as compared to approximately HK$63.4 million for the previous financial year. The basic loss per share for the year decreased by approximately 58.0% from HK$0.88 in 2003 to HK$0.37 in 2004.

Business Review

Given China's strong and rapid economic growth and its corresponding impact on healthcare related business opportunities, the Directors repositioned the Group's focus on the PRC healthcare sector. As such, the Group successfully forged strategic partnerships with the Ministry of Health of the PRC and procured additional funding to embark on developing a facilitating platform for international healthcare players to gain timely and cost-effective access to the PRC healthcare market.

In line with the repositioning of the Group's focus and the tough competitive landscape of the low-end electronic parts industry, the Group disposed of its entire equity interest in its electronic parts and components manufacturing business, which suffered an operating loss of approximately HK$9.2 million for the year ended 31 March 2004. The Group intended to phase out the remaining unprofitable electronic parts trading business in the future.

The Company has also changed its company name from Techcap Holdings Limited to China HealthCare Holdings Limited in order to reflect the expansion of the Company's business into the PRC medical, pharmaceutical and healthcare sectors.

Capital Structure, Liquidity and Financial Resources

The Group's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. The Group relied principally on its internally generated capital and external borrowings to fund its business.

On 27 June 2003, the Company issued unlisted convertible bonds ("2004 CB") totaling HK$50.0 million to seven subscribers. The maturity date of the 2004 CB was 26 June 2004 and the 2004 CB carried an interest of 3% per annum, payable monthly in arrears. During the financial year of 2004, certain holders of the 2004 CB converted HK$30.0 million of the principal of the convertible bonds into 30,000,000 Shares. In addition, certain holders of convertible bonds issued in January 2003 converted HK$1.515 million of the principal of the convertible bonds into 15,150,000 Shares.

During the year ended 31 March 2004, the Company also brought in several invaluable strategic shareholders, including swissfirst (Lie) Opportunities Anlagegesellschaft AG and Guo Kang Pharmaceutical and Medical Supplies Limited, through placement of existing Shares and subscription for new Shares. The fund raising exercises significantly improved the financial position of the Group.

After the balance sheet date, the Group further raised approximately HK$36.0 million from the issue of Shares pursuant to the subscription agreement dated 18 February 2004.

As at 31 March 2004, the Group had total borrowings of approximately HK$20.5 million, which comprised mainly obligations under finance leases of approximately HK$0.07 million and convertible bonds of approximately HK$20.5 million. All the borrowings of the Group were denominated in Hong Kong dollar. The gearing ratio of the Group, as expressed as the ratio of total borrowings to shareholders' equity, was approximately 0.17 as at 31 March 2004.

Most of the sale and expenditures of the Group were denominated in Hong Kong dollar. The Group had no significant foreign exchange exposures and did not use any financial instrument for hedging purposes. As at 31 March 2004, the total cash and cash equivalents of the Group amounted to approximately HK$71.4 million.

As at 31 March 2004, the Group had contingent liabilities of approximately HK$1.3 million in respect of bills discounted with recourse. As at 31 March 2004, the Group had no charges on its assets.

Material Investments, Acquisitions or Disposals

On 16 February 2004, the Company entered into a sale and purchase agreement to dispose of its entire equity interest in Honko International Holdings Limited ("Honko") and Honko's subsidiaries to Excel Technology Holdings Limited for a consideration of HK$1. Honko and its subsidiaries were engaged in the whole of the Group's manufacturing business and part of the Group's sourcing and distribution business of electronic parts and components.

On 12 March 2004, the Group entered into a memorandum of understanding ("MOU") with the International Health Exchange and Cooperation Centre of Ministry of Health, the PRC, whereby the Company intended to make a strategic investment in Beijing Universal Medical Assistance Company Limited ("BUMA"), the only Sino-foreign joint venture company authorized by the Ministry of Health of the PRC to operate an exclusive nationwide medical assistance service and certain other premium medical services in the PRC. While the MOU was not legally binding and the size and structure of the possible transaction had not been finalized as at 31 March 2004, the transaction was subsequently finalised and entered into in May 2004.

During the year ended 31 March 2004, the Group also acquired the entire interest in Card Symbols Limited and 51% interest in Fullway Technology Limited for a consideration of HK$13,850,000 and HK$1,698,000 respectively. The consideration in respect of each of the above transactions was determined after arm's length negotiations between the parties. In addition, the consideration for the acquisition of Card Symbols Limited was determined based on an independent valuation of its underlying assets by an accredited valuer. In light of the above basis for determining the consideration, the Directors considered that the terms of the transactions are fair and reasonable and in the interest of the shareholders and the Company as a whole.

The Company has also considered the size and the nature of each of the above acquisitions, which were entered into before 31 March 2004 to which the old Listing Rules apply. Given that (i) the percentage ratios applicable to the said acquisitions were below the thresholds of a notifiable transaction; (ii) none of the counterparties was a connected person of the Company at the material time; and (iii) the transactions are not price-sensitive in nature, the Company confirmed that these acquisitions were not subject to any disclosure requirements under the then Listing Rules.

Save for the above, the Group had no other material investments, acquisitions and disposals of subsidiaries and associated companies in the course of the financial year. As at 31 March 2004, neither the Group had any material capital expenditure commitment nor did it have any future plan for material investments or capital assets.

Segmental Analysis

Approximately 57.9% of the Group's revenue was generated from the manufacturing of electronic parts and components while the balance of 42.1% of the revenue was generated from the business segment of sourcing and distribution of electronic parts and components. The business segment of manufacturing of electronic parts and components recorded a segment loss of approximately HK$9.2 million while the segment loss of sourcing and distribution of electronic parts and components amounted to approximately HK$11.2 million for the year ended 31 March 2004.

Human Resources

As at 31 March 2004, the Group employed 18 staff members. Total staff cost including directors' emoluments for the year ended 31 March 2004 amounted to approximately HK$27.8 million as compared to HK$37.8 million for the previous year.

The Group continued 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 was linked to the profit performance of the Group and individual performance of the staff. A share option scheme was also established for the benefits of employees of the Group.

FOR THE YEAR ENDED 31 MARCH 2005

Results

For the financial year ended 31 March 2005, the Group recorded a turnover of approximately HK$34.8 million, representing a decrease of approximately 84.4% when compared with the previous year. The Group's loss attributable to shareholders amounted to approximately HK$51.9 million as compared to approximately HK$52.0 million for the previous financial year. The basic loss per share for the year decreased by approximately 35.1% from HK$0.37 in 2004 to HK$0.24 in 2005.

Qualified opinion on the financial statements

The auditors had issued a qualified opinion on the financial statements of the Company and the Group for the year ended 31 March 2005 due to disagreement about accounting treatment of the carrying amount of the unlisted investment in Hamilton Apex Technology Ventures, L.P. (the "Partnership") and a loan receivable which is secured by the investment in the Partnership of Multi-line Digital Co. Ltd (the "Borrower"), details of which are set out on page 27 of this circular. As mentioned in notes 18 and 19 to the financial statements of the Company and the Group for the year ended 31 March 2005, due to the Group's inability to meet capital calls, the general partners of the Partnership exercised its rights under the Partnership Agreement dated 31 December 1999 to seek replacement investors until the Group's investments are fully replaced and forfeited. During the year ended 31 March 2003, the general partners transferred HK$639,000 of the capital value of the Group's investment and HK$639,000 of the capital value of the Borrower's investment in the Partnership to other replacement investors without paying the Group and the Borrower any consideration, while HK$7,371,000 of the Group's investment and HK$7,371,000 of the Borrower's investment were transferred (the "Transferred Interests") to another replacement investor sourced and procured by the Group for a consideration to be paid upon the liquidation of the Partnership and to be determined by the lesser of (i) the attributable proceeds generated from the Transferred Interests; and (ii) HK$7,371,000 plus an annual interest accrued at a rate of 8% per annum from the date of transfer.

In substantiating the value and ownership of the Group's interest in the Partnership and the recoverability of the loan receivable, the Board and the audit committee had considered the performance of the Partnership. The Partnership's entire portfolio is ranked 25% quartile in its vintage year nationwide and its life science portfolio alone is ranked top 5% quartile nationwide. So far, the Partnership has had four life science exits (three buyouts, one initial public offer); four information technology exits (two buyouts and two mergers) and one information technology investment is in very good shape, with projected return ranging from 2 to 40 times. All investments of the Partnership will be liquidated by 2010 which is the 10th anniversary from its inception.

As the Directors considered that the Group's investment position in the Partnership is and will be preserved and the Group's investment position in the Partnership will generate positive return in the future, which will compensate for the dilution of the Group's interest in the Partnership, the Directors determined that the recoverable amount of the investment in the Partnership will not be less than the carrying amount of HK$21,026,000 and therefore no impairment loss in respect of the Group's investment in the Partnership and the loan receivable as recommended by the auditors has been recognized.

The Company is not aware of any further remedial actions taken by the general partners of the Partnership in relation to each of the Group's and the Borrower's investment in the Partnership.

The Borrower, an independent third party, is an investment holding company and its sole asset is its investment in the Partnership. The loan was granted to the Borrower for the purpose of investment in the Partnership. Subsequent to the year end, the Group agreed to further extend the maturity date of the loan by one year to 29 September 2006 since the Board believes that the Borrower's investment position in the Partnership is preserved and will be able to pay back the loan when the Partnership is liquidated. The Board considers that the granting of the loan and the extension of the maturity date are in the interest of the Company and its shareholders.

Business Review

During the year under review, the Group continued its focus on the PRC healthcare sector. The business repositioning executed during the 2004 fiscal year put the Group in a strong position to develop a set of interrelated and complementary premium healthcare-related businesses. The Group, working in an expansive public-private partnership with the MOH and leading public hospitals in China, and via other strategic partnerships with leading international healthcare institutions, was emerging as a facilitating platform with which to pursue viable healthcare-related opportunities in China.

The key business areas of the Group in healthcare include:

(a) Emergency Assistance Medical Services ("EAMS")

The Group, through its subsidiary BUMA, continued to be the only designated entity with the right to utilize a nationwide network of 914 hospitals (the "Network Hospitals") pre-selected by MOH to provide 24-hour emergency medical assistance services to its fee-paying members, principally foreign travelers and expatriates in the PRC and domestic Chinese business and leisure travelers. BUMA offers EAMS members guaranteed access to the Network Hospitals and guaranteed payment in accordance with the individual member's accident and health insurance reimbursement scheme. BUMA operates a 24-hour call center to handle emergency calls from members, maintains a customer database to determine appropriate response, and manages the interface between members and the Network Hospitals on an ongoing basis.

(b) Health Asset Management Services ("HAMS")

The Group has developed its HAMS business to directly provide high quality managed healthcare, and to build on the unique access provided via the Network Hospitals. The first HAMS Center was opened in Beijing in December 2004 and the second one was opened in Shanghai in September 2005. Targeting high income individuals and executives, HAMS provides 24-hour personal concierge call center services to handle all members' inquiries and to secure the best available medical treatment; health evaluation and illness diagnosis by in-house medical staff or leading medical institutions; electronic health record maintenance and follow-up; annual medical checkups with detailed post-examination diagnosis and proactive health assessment consultations; and other services related to the provision of premium health management services.

Building on the high level of care and service provided at the HAMS Clinics, HAMS leverages the Network Hospitals through "Green Channel" relationships with leading Chinese medical institutions. As of 15 July 2005, fifty-four medical institutions, primarily in Beijing and Shanghai, have executed agreements with BUMA to furnish members with care on a preferred, priority basis.

(c) Franchised Medical Specialties

The Group was working to leverage its relationships with the Network Hospitals to develop premium VIP specialty medical centers ("PSC") which are able to provide high-level care matching international standards. The primary market for these services is wealthy PRC nationals as well as foreign expatriates living in the PRC. The Group will partner with premier Chinese medical institutions as the Group opens such PSCs as centers of clinical and operating excellence in viable medical specialties in China over the coming years.

In December 2005, BUMA, via Hong Kong based Bank of Communications Insurance, signed an agreement with Taiwan based Central Insurance, which is to provide its customers with 24-hour access to BUMA's EAMS services while they are in China. In March 2006, BUMA entered into an agreement with China based Sunshine Insurance which is to provide its customers EAMS and HAMS services. BUMA is also in negotiations with a number of potential channel partners, including insurance companies, financial institutions and travel agencies for its EAMS and HAMS services.

The Group has engaged Shanghai First Maternity and Infant Hospital, one of the leading public hospitals in obstetrics and gynecology ("OB/GYN"), for an OB/GYN premium specialty center. The School of Medicine at the University of California, San Diego ("UCSD") will serve as the technical assistance and institutional branding partner for the OB/GYN PSC.

The Group opened the CHC Aesthetic Center, the Group's first cosmetic surgery clinic, in Beijing in May 2005. The Centre is formed with a leading cosmetic surgery provider in the South Korean market to provide knowledge transfer programs.

Capital Structure, Liquidity and Financial Resources

The Group's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. The Group relied principally on its internally generated capital and external borrowings to fund its business.

During the year under review, the Group completed a fund raising event that resulted in the issuance of 10,000,000 Shares with an aggregate value of HK$36.0 million. This fund raising exercise further improved the financial position of the Group, and partially offset significant cash outlays related to the acquisition of businesses.

As at 31 March 2005, the Group had total borrowings of approximately HK$17.3 million, all of which were convertible bonds. All the borrowings of the Group were denominated in Hong Kong dollar. The gearing ratio of the Group, as expressed as the ratio of total borrowings to shareholders' equity, was approximately 0.16 as at 31 March 2005.

Most of the sale and expenditures of the Group were denominated in Hong Kong dollar and Renminbi. The Group had no significant foreign exchange exposures and did not use any financial instrument for hedging purposes. As at 31 March 2005, the total cash and cash equivalents of the Group amounted to approximately HK$47.3 million.

As at 31 March 2005, the Group had no contingent liabilities or charges on its assets.

After the balance sheet date of 31 March 2005, the Group raised approximately US$6.6 million by the issuance of convertible bonds pursuant to a subscription agreement dated 26 April 2005 entered into between the Company and certain international institutional investors and qualified individual investors.

Material Investments, Acquisitions or Disposals

On 20 May 2004 and 11 June 2004, the Group completed the acquisitions of the entire equity interest in West Regent Property Limited and Junghua Enterprises Holdings Limited for the considerations of HK$26,500,000 and HK$30,000,000 respectively. The consideration in respect of each of the above transactions was determined after arm's length negotiations between the parties. In addition, the consideration for the acquisition of West Regent Property Limited was determined based on commercial terms and reference to the historical earnings, business potential and growth prospect of the medical reagent market in the PRC. In light of the above basis for determining the consideration, the Directors considered that the terms of the transactions are fair and reasonable and in the interest of the shareholders and the Company as a whole.

The Company has also considered the size and the nature of each of the above acquisitions, which were entered into before 31 March 2004 to which the old Listing Rules apply. Given that (i) the percentage ratios applicable to the said acquisitions were below the thresholds of a notifiable transaction; (ii) none of the counterparties was a connected person of the Company at the material time; and (iii) the transactions are not price-sensitive in nature, the Company confirmed that these acquisitions were not subject to any disclosure requirements under the then Listing Rules.

On 27 May 2004, the Group entered into a sale and purchase agreement, pursuant to which the Company agreed to acquire an effective equity interest of 62.35% in BUMA, the only Sino-foreign joint venture company authorized by the Ministry of Health of the PRC to operate an exclusive nationwide medical assistance service and certain other premium medical services in the PRC, at a total consideration of HK$30.0 million. BUMA offers a membership service that provides its fee-paying members guaranteed access to the nationwide network of hospitals that have been pre-selected for their medical excellence by the MOH to provide emergency assistance and other premium medical services.

In November 2004, the Group ceased its business of sourcing and distribution of electronic parts and components by discontinuing the relevant operation. Since then, there were no disposal and no notifiable and/or connected transaction involved. The total assets of the business was HK$6,036,670 as of 30 September 2004, of which HK$5,162,528 was trade receivables from independent third parties. Following the cessation of business, the Directors concluded that the receivables could not be recovered and therefore considered writing off such receivables. Such writing-off arouse out of the ordinary course of business and was revenue in nature.

Save for the above, the Group had no other material investments, acquisitions and disposals of subsidiaries and associated companies in the course of the financial year. As at 31 March 2005, neither the Group had any material capital expenditure commitment nor did it have any future plan for material investments or capital assets.

Segmental Analysis

During the year ended 31 March 2005, the Group was principally engaged in three businesses, production and trading of biotechnology products, provision for medical consultancy and agency services and sourcing and distribution of electronic parts and components. In November 2004, the Group ceased its business of sourcing and distribution of electronic parts and components.

The businesses of production and trading of biotechnology products and provision for medical consultancy and agency services accounted for approximately 20.4% and 1.1% of the total revenue of the Group in 2005 respectively while the balance of the revenue was contributed by the discontinued segment of sourcing and distribution of electronic parts and components.

Production and trading of biotechnology products and provision of medical consultancy and agency services recorded a segment loss of approximately HK$1.6 million and HK$4.8 million respectively while the segment loss of sourcing and distribution of electronic parts and components amounted to approximately HK$12.4 million for the year ended 31 March 2005.

Human Resources

As at 31 March 2005, the Group employed 89 staff members. Total staff cost including directors' emoluments for the year ended 31 March 2005 amounted to approximately HK$15.1 million as compared to HK$27.8 million for the previous year.

The Group continued 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 was linked to the profit performance of the Group and individual performance of the staff. A share option scheme was also established for the benefits of employees of the Group.

Post Balance Sheet Events

Subsequent to 31 March 2005, the Group entered into an agreement with Mr. Tang Jian, who is a business man stationed in the PRC, and paid a consideration of HK$3.6 million for the acquisition of 56% equity interest in CHC (Shanghai) Medical and HealthCare Services Limited ("SMHS"). SMHS is a company incorporated in the PRC to operate a healthcare clinic located in Shanghai, the PRC. Through the relevant contractual arrangement, the Group's 56% equity interest in SMHS will be held by Mr. Tang Jian as individual nominee on behalf of the Group.

The Group also entered into an agreement with Everstep Consultants Limited, an investment holding company, to establish a contractual joint venture whose purpose is to engage in providing maternal and fetal care services in the PRC. According to the agreement, the Group holds 65% interest in the joint venture. HK$4.9 million was advanced to the joint venture by the Group for the joint venture's establishment and operation.

To the best of the Directors' knowledge, information and belief, neither Mr. Tang Jian nor Everstep Consultants Limited was a connected person of the Company at the material time.

The Company has considered the size and the nature of each of the above transactions and given that the percentage ratios applicable to such transactions were below the thresholds of a notifiable transaction and the transactions are not price-sensitive in nature, the Company confirmed that these transactions were not subject to any disclosure requirements under the then Listing Rules.

Miscellaneous

Under the present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of the company held by non-residents of Bermuda, there is no relief from taxation to which the Company's shareholders are entitled and therefore, paragraph 21 of Appendix 16 to the Listing Rules is not applicable to the Company.

As the auditor's report together with the financial statements contained in the annual report of the Company for the year ended 31 March 2005 have been reviewed by the Company's auditors, the Directors believe that in disclosing the financial information, the Company has complied with paragraph 28 of Appendix 16 to the Listing Rules.

MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP

The Target Group are domestic limited liability companies established in the PRC. The Target Group is principally engaged in sales of mobile phone usage fees by e-commerce in the PRC and investment holding.

FOR THE YEAR ENDED 31 DECEMBER 2003

Results

During the financial year ended on 31 December 2003, the Target Group recorded a turnover and net profit of approximately RMB784 million and RMB0.5 million respectively.

Business Review

As its initial focus, the Target Group has been principally operated its B-to-C business in mobile phone pre-payment field in PRC through its POS systems, where the two exclusive wireless operators in China, China Mobile and China Unicom, are its strategic partners.

During the financial year, the Target Group mainly focused on improving its proprietary platform of comprehensive e-commerce services and meanwhile promoting its POS system to the retail stores.

Capital Structure, Liquidity & Financial Resources of the Target Group

The Target Group's funding and treasury policies are to ensure the availability of funds at reasonable costs to fund business growth and to generate reasonable returns from available funds. The Group relied principally on its internally generated capital and external borrowings to fund its business.

As at 31 December 2003, the Target Group had total borrowings of approximately RMB6.5 million, which comprised approximately RMB5.0 million of non-interest bearing loan and RMB1.5 million of amount due to an equity holder. All the borrowings of the Group were denominated in RMB. Almost all borrowings of the Target Group are for the working capital purposes. The Target Group does not have any other capital expenditure commitments and authorizations.

The gearing ratio of the Target Group, as expressed as the ratio of total borrowings to equity, was approximately 0.2 as at 31 December 2003.

All of the sale and expenditures of the Target Group were denominated in RMB. The Target Group had almost no foreign exchange exposures and had not used any financial instrument for hedging purposes. As at 31 December 2003, the total cash and cash equivalents of the Target Group amounted to approximately RMB5.6 million.

As at 31 December 2003, the Target Group had no contingent liabilities or charges on its assets.

Material Investments, Acquisitions or Disposals of the Target Group

On 23 May 2003, the Target Group entered into an agreement with 成都普利美投資管理有限公司 (Chengdu Pulimei Investment Management Limited) to set up Sichuan Harvest Network Technology Company Limited ("Sichuan Harvest") to conduct mobile phone pre-payment business in Sichuan province using Target Group's POS systems. The Target Group holds 40% equity interests in Sichuan Harvest.

On 30 June 2003, the Target Group invested RMB 4,500,000 to set up Shanghai Kejin Network Technology Company Limited ("Shanghai Kejin") for the purpose of working with certain channel partner in mobile phone pre-payment business in Shanghai. The Target Group holds 90% equity interests in Shanghai Kejin.

Save for the above, the Target Group had no material investments, acquisitions and disposals of subsidiaries and associated companies in the course of the financial year. As at 31 December 2003, the Target Group neither had any material capital expenditure commitment nor did it have any future plan for material investments or capital assets.

Human Resources

The Target Group employed 46 staff members as at 31 December 2003. Total staff cost including directors' emoluments for the year ended 31 December 2003 amounted to approximately RMB3.3 million.

The Target Group continued 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 the contributions to PRC government pension schemes for its employees based on applicable rates of monthly salary in accordance with government regulations in the PRC. Discretionary bonus payment which was linked to the performance of the group and individuals is subject to the decision of the board of the Target Group. No share option scheme was established.

FOR THE YEAR ENDED 31 DECEMBER 2004

Results

During the financial year ended on 31 December 2004, the Target Group recorded a turnover and net loss of approximately RMB1,716 million and RMB1.8 million respectively. The net loss during this financial year was due to a approximately RMB 6.5 million of provision made for impairment of trade receivables.

Business Review

During the financial year, the Target Group put more effort to promote its POS system to the retail stores and sales mobile phone pre-payment cards to other distribute channels.

Capital Structure, Liquidity & Financial Resources of the Target Group

As at 31 December 2004, the Target Group had total borrowings of approximately RMB0.8 million, which comprised approximately RMB0.7 million of interest bearing loans with fixed interests of 1.25%–2% per annum and RMB0.1 million of amount due to a director. All the borrowings of the Group were denominated in RMB. Almost all borrowings of the Target Group are for the working capital purposes. The Target Group does not have any other capital expenditure commitments and authorizations.

The gearing ratio of the Target Group, as expressed as the ratio of total borrowings to equity, was approximately 0.03 as at 31 December 2004.

All of the sale and expenditures of the Target Group were denominated in RMB. The Target Group had almost no foreign exchange exposures and had not used any financial instrument for hedging purposes. As at 31 December 2004, the total cash and cash equivalents of the Target Group amounted to approximately RMB8.8 million.

As at 31 December 2004, the Target Group had no contingent liabilities or charges on its assets.

Material Investments, Acquisitions or Disposals of the Target Group

During the financial year ended on 31 December 2004, the Target Group didn't make any material investments, acquisitions or disposals.

Human Resources

The Target Group employed 57 staff members as at 31 December 2004. Total staff cost including directors' emoluments for the year ended 31 December 2004 amounted to approximately RMB2.6 million.

The Group continued 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 the contributions to PRC government pension schemes for its employees based on applicable rates of monthly salary in accordance with government regulations in the PRC. Discretionary bonus payment which was linked to the performance of the group and individuals is subject to the decision of the board of the Target Group. No share option scheme was established.

FOR THE YEAR ENDED 31 DECEMBER 2005

Result

During the last financial year ended on 31 December 2005, the Target Group recorded a turnover and net profit of approximately RMB199.3 million and RMB6.8 million respectively.

Business Review

Almost 4,000 of its proprietary e-charge POS systems have been placed in the major convenience store chains and other retail spots throughout the city of Shanghai. The Target Group has achieved dominant market share of about 25% in the Shanghai mobile prepayment market and aims to increase its market share to 50%.

The turnover was increased approximately 16% when compared with that of the previous year. Such an improvement is mainly due to the substantial increase in demand and penetration of the e-payment service market. The profit margin was also improved as the Target Group achieved certain economies of scale.

Capital Structure, Liquidity & Financial Resources of the Target Group

The Target Group's funding and treasury policies are to ensure the availability of funds at reasonable costs to fund business growth and to generate reasonable returns from available funds. The Group relied principally on its internally generated capital and external borrowings to fund its business.

As at 31 December 2005, the Target Group had total borrowings of approximately RMB3.0 million, which comprised approximately RMB1.0 million of interest bearing loans with fixed interest rate of 1%–1.25% per annum, RMB1.0 million of non-interest bearing loan and RMB1.0 million of amount due to an equity holder. All the borrowings of the Group were denominated in RMB. Almost all borrowings of the Target Group are for the working capital purposes. The Target Group does not have any other significant capital expenditure commitments and authorizations.

The gearing ratio of the Target Group, as expressed as the ratio of total borrowings to shareholders' equity, was approximately 0.08 as at 31 December 2005.

All of the sale and expenditures of the Target Group were denominated in RMB. The Target Group had almost no foreign exchange exposures and had not used any financial instrument for hedging purposes. As at 31 December 2005, the total cash and cash equivalents of the Target Group amounted to approximately RMB2.6 million.

As at 31 December 2005, the Target Group had no contingent liabilities or charges on its assets.

Material Investments, Acquisitions or Disposals of the Target Group

During the last financial year ended on 31 December 2005, the Target Group didn't make any material investments, acquisitions or disposals.

Human Resources

The Target Group employed 53 staff members as at 31 December 2005. Total staff cost including directors' emoluments for the year ended 31 December 2005 amounted to approximately RMB2.6 million.

The Target Group continued 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 the contributions to PRC government pension schemes for its employees based on applicable rates of monthly salary in accordance with government regulations in the PRC. Discretionary bonus payment which was linked to the performance of the Group and individuals is subject to the decision of the board of the Target Group. No share option scheme was established.

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

POLL PROCEDURE

Pursuant to bye-law 66 of the Bye-laws, a resolution put to the vote of a general meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded by:

(i) the chairman of the meeting; or

(ii) at least three Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorized representative) or by proxy for the time being entitled to vote at the meeting; or

(iii) a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorized representative) or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or

(iv) a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorized representative) or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on the Shares conferring that right.

DISCLOSURE OF INTERESTS

A. Interests in the Company or its associated companies

(a) Interests of Directors and chief executive

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were 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, 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
Dr. Li Zhong Yuan	The Company	Corporate *(Note 1)*	19,808,000	–	19,808,000	8.45%
		Personal	4,635,000	3,625,000	8,260,000	3.52%
Dr. Ni Aimin	The Company	Personal	750,000	2,400,000	3,150,000	1.34%
Mr. Lee Jong Dae	The Company	Personal	3,026,500	3,600,000	6,626,500	2.83%
Mr. Deng Ku Hon	The Company	Personal	432,000	2,400,000	2,832,000	1.21%
Mr. Robin Willi	The Company	Personal	912,000	900,000	1,812,000	0.77%
Mr. Martin Treffer	The Company	Corporate *(Note 2)*	1,295,000	–	1,295,000	0.55%
		Personal	250,000	900,000	1,150,000	0.49%
Mr. Li Xiao Ru	The Company	Personal	–	1,212,000	1,212,000	0.52%
Dr. Ma Yin Ming	The Company	Personal	–	150,000	150,000	0.06%
Mr. Mu Xiang Ming	The Company	Personal	–	210.000	210.000	0.09%

Notes:

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

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

3. The underlying 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, as at the Latest Practicable Date, none of the 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.

(b) Substantial shareholders and other persons' interests in Shares and underlying shares of the Company

As at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, the persons (other than a Director or chief executive of the Company) who had interests and/or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each of such person's interests in such securities, together with particulars of any options in respect of such capital are as follows:

Name of Substantial Shareholders	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
Guo Kang Pharmaceutical & Medical Supplies Ltd.	Beneficial owner	17,000,000	–	17,000,000	7.25%
Orient Access International Inc.	Beneficial owner	17,300,000	–	17,300,000	7.38%

Save as disclosed above, the Directors and chief executive of the Company are not aware of any person (other than a Director or chief executive of the Company) who as at the Latest Practicable Date had interests and/or short position in the shares and underlying shares of the Company which would full to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or was expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

B. Others

As at the Latest Practicable Date, there were no contracts or arrangements subsisting in which a Director is materially interested and which is significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors or proposed Directors had any direct or indirect interest in any assets which have been, since 31 March 2005, the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, none of the Directors and their associates was interested in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the business of the Group.

DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had service contract with any member of the Group which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

QUALIFICATIONS AND CONSENTS OF EXPERTS

The following is the qualification of the experts who have given opinion or advice which is contained in this circular:

Name	Qualifications
RSM Nelson Wheeler	Certified Public Accountants

RSM Nelson Wheeler has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter or its name in the form and context in which it is included in this circular.

As at the Latest Practicable Date, RSM Nelson Wheeler did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group or any direct or indirect interests in any assets which have been, since 31 December 2005 (being the date to which the latest published audited consolidated accounts of the Group were made up), acquired or disposed of by or leased to, any member of the Group, or which are proposed to be acquired or disposed of by or leased to, any member of the Group.

MATERIAL LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was involved in any litigation or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding the date of this circular and which are or may be material:

(a) the sale and purchase agreement dated 27 May 2004 entered into between TechCap Investments Holdings Limited, a subsidiary of the Company, and Top Form Investment Development Limited, pursuant to which TechCap Investments Holdings Limited conditionally agreed to acquire from Top Form Investment Development Limited the entire equity interest in Junghua Enterprises Holdings Limited at a total consideration of HK$30.0 million;

(b) the subscription agreements dated 26 April 2005 entered into between the Company and eleven independent professional, institutional and individual investors who are not connected persons of the Company in connection with the issue of convertible bonds in aggregate principal of US$6.6 million;

(c) the Subscription Agreement;

(d) the Sale and Purchase Agreement.

MISCELLANEOUS

(a) The company secretary of the Company is Mr. Lo Chi Ko. Mr. Lo holds a bachelor degree and a master degree in business administration. He is a practicing member of Hong Kong Institute of Certified Public Accountants and a member of CPA Australia.

(b) The qualified accountant of the Company is Mr. Tsui Siu Hung Raymond. Mr. Tsui received his Bachelor of Business Administration in Accounting from the Chinese University of Hong Kong. He has over 7 years of experience in finance, consulting, accounting and auditing. He is an associate member of both the Association of Chartered Certified Accountants and the Hong Kong Institute of the Certified Public Accountants.

(c) The registered office and head office of the Company is situate at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and Room 1001-2, 10/F., Man Yee Building, 68 Des Voeux Road Central, Hong Kong respectively.

(d) Tengis Limited, the Hong Kong branch transfer office of the Company, is situate at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(e) The English text of this circular and the accompany form of proxy shall prevail over their respective Chinese texts for the purpose of interpretation.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's principal place of business at Room 1001-2, 10/F., Man Yee Building, 68 Des Voeux Road Central, Hong Kong from the date of this circular up to and including 10 July 2006:

(a) the memorandum of association and bye-laws of the Company;

(b) the annual reports of the Company for the two years ended 31 March 2005 and the interim report of the Company for the six months ended 30 September 2005;

(c) the accountants' report from RSM Nelson Wheeler on the Target Group for the three years ended 31 December 2005, the text of which is set out in Appendix II to this circular, and its related statement of adjustments;

(d) the accountants' report from RSM Nelson Wheeler in respect of the unaudited pro forma financial statement on the Enlarged Group, the text of which is set out in Appendix III to this circular;

(e) the material contracts referred to in the section headed "Material Contracts" in this Appendix;

(f) the letters of consents referred to under the paragraph headed "Qualifications and Consents of Experts" in this Appendix;

(g) this circular.

The initial Conversion Price shall from time to time be adjusted in accordance with the Bye-law 9A(10), which is reproduced as follows:

10. CONVERSION ADJUSTMENTS

(a) The Initial Conversion Price shall from time to time be adjusted in accordance with the following relevant provisions and so that if the event giving rise to any such adjustment shall be such as would be capable of falling within more than one of Bye-law 9A(10)(a)(i) to (vii) inclusive, it shall fall within the first of the applicable clauses to the exclusion of the remaining clauses:

(i) if and whenever the Ordinary Shares by reason of any consolidation or sub-division or reclassification become of a different nominal amount, the Initial Conversion Price in force immediately prior thereto shall be adjusted by multiplying it by the revised nominal amount and dividing the result by the former nominal amount. Each such adjustment shall be effective from the close of business in Hong Kong on the day immediately preceding the date on which the consolidation or sub-division or reclassification becomes effective;

(ii) if and whenever the Company shall:

(1) issue (other than in lieu of a cash dividend) any Ordinary Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account); or

(2) issue Ordinary Shares paid out of distributable profits or reserves and/or share premium accounts issued in lieu of the whole or any part of a cash dividend, being a dividend which the holders of the Ordinary Shares concerned would or could otherwise have received but only to the extent that the market value of such Ordinary Shares exceeds 110% of the amount of dividend which holders of the Ordinary Shares could elect to or would otherwise receive in cash and which would not have constituted a capital distribution (as defined in Bye-law 9A(10)(b)) (for which purpose the "**market value**" of an Ordinary Share shall mean the average of the closing prices published in the Hong Kong Stock Exchange's Daily Quotation Sheet (or the equivalent quotation sheet of the Alternative Stock Exchange, as the case may be) for one Ordinary Share for the 5 Trading Days ending on the last Trading Day immediately preceding the last day on which holders of Ordinary Shares may elect to receive or (as the case may be) not to receive the relevant dividend in cash); then the Initial Conversion Price in force immediately prior to such issue shall be adjusted by multiplying it by the aggregate nominal amount of the issued Ordinary Shares immediately before such issue and dividing the result by the sum of such aggregate nominal amount and the aggregate nominal amount of the Ordinary Shares issued in such capitalisation. Each such adjustment shall be effective (if appropriate, respectively) from the commencement of the day next following the record date for such issue;

(iii) if and whenever the Company shall make any capital distribution to holders (in their capacity as such) of Ordinary Shares (whether on a reduction of capital or otherwise) or shall grant to such holders rights to acquire for cash assets of the Company or any of its subsidiaries, the Initial Conversion Price in force immediately prior to such distribution or grant shall be adjusted by multiplying by the following fraction:

$$\frac{A - B}{A}$$

where:

A = the closing price published in the Hong Kong Stock Exchange's Daily Quotation Sheet (or the equivalent quotation sheet of the Alternative Stock Exchange, as the case may be) in respect of one Ordinary Share on the Trading Day immediately preceding the date on which the capital distribution or, as the case may be, the grant is publicly announced or (failing any such announcement) immediately preceding the date of the capital distribution or, as the case may be, of the grant; and

B = the fair market value on the day of such announcement or failing any such announcement, the date of the capital distribution or the grant, as the case may be, as determined in good faith by the Independent Financial Adviser, of the portion of the capital distribution or of such rights which is/are attributable to one Ordinary Share,

Provided that:

(1) if, in the opinion of the relevant Independent Financial Adviser, the use of the fair market value as aforesaid produces a result which is significantly inequitable, it may instead determine (and in such event the above formula shall be construed as if B meant) the amount of the closing price published in the Hong Kong Stock Exchange's Daily Quotation Sheet (or the equivalent quotation sheet of the Alternative Stock Exchange, as the case may be) of one Ordinary Share which should properly be attributed to the value of the capital distribution or rights; and

(2) this Bye-law 9A(10)(a)(iii) shall not apply in relation to the issue of Ordinary Shares paid out of profits or reserves and issued in lieu of a cash dividend. Each such adjustment shall be effective (if appropriate, retrospectively) from the commencement of the day following the record date for the capital distribution or grant;

(iv) If and whenever the Company shall offer to all holders of Ordinary Shares new Ordinary Shares for subscription by way of rights, or shall grant to all holders of Ordinary Shares any options or warrants to subscribe for new Ordinary Shares, at a price per new Ordinary Share which is less than 90% of the market price at the date of the announcement of the terms of the offer or grant (whether or not such offer or grant is subject to the approval of the holders of Ordinary Shares or other persons), the Initial Conversion Price shall be adjusted by multiplying the Initial Conversion Price in force immediately before the date of the announcement of such offer or grant by the following fraction:

$$\frac{G+H}{G+I}$$

where:

G = the number of Ordinary Shares in issue immediately before the date of such announcement;

H = the number of Ordinary Shares which the aggregate of the two following amounts would purchase at such market price:

(1) the total amount (if any) payable to the rights, options or warrants being offered or granted; and

(2) the total amount payable for all of the new Ordinary Shares being offered for subscription or comprised in the rights, options or warrants being granted; and

I = the aggregate number of Ordinary Shares being offered for subscription or comprised in the rights, options or warrants being granted. Such adjustment shall become effective (if appropriate retroactively) from the commencement of the day next following the record date for the relevant offer or grant.

(v) (1) If and whenever the Company or any of its subsidiaries shall issue wholly for cash any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Ordinary Shares, and the total Effective Consideration per new Ordinary Share initially receivable for such securities is less than the Initial Conversion Price at the date of the announcement of the terms of issue of such securities (whether or not such issue is subject to the approval of the holders of Ordinary Shares or other persons), the Initial Conversion Price shall be adjusted to a price equal to the total Effective Consideration per new Ordinary Share initially receivable for such securities.

Such adjustment shall become effective (if appropriate retroactively) from the close of business on the Business Day immediately preceding whichever to the earlier of the date on which the issue is announced and the date on which the issuer of the relevant securities determines the conversion or exchange rate or subscription price in respect of such securities.

(2) If and whenever the rights of conversion or exchange or subscription attaching to any such securities as are mentioned Byelaw 9A(10)(a)(v)(1) are modified so that the total Effective Consideration per new Ordinary Share initially receivable for such securities shall be less than the Initial Conversion Price at the date of announcement of the proposal to modify such rights of conversion or exchange or subscription, the Initial Conversion Price shall be adjusted to a price equal to the total Effective Consideration per new Ordinary Share receivable for such securities at the modified conversion or exchange rate or subscription price.

Such adjustment shall become effective as at the date upon which such modification shall take effect. A right of conversion or exchange or subscription shall not be treated as modified for the foregoing purposes where it is adjusted to take account of rights or capitalisation issues and other events normally giving rise to adjustments of conversion, exchange or subscription terms.

(3) For the purposes of this Bye-law 9A(10)(a)(v)(3):

(aa) the "**total Effective Consideration**" receivable for the securities issued shall be deemed to be the aggregate consideration receivable by the issuer for such securities for the issue thereof plus the additional minimum consideration (if any) to be received by the issuer and/or the Company (if not the issuer) upon (and assuming) the full conversion or exchange thereof or the exercise in full of the subscription rights attaching thereto; and

(bb) the "**total Effective Consideration per new Ordinary Share**" initially receivable for such securities shall be such aggregate consideration divided by the maximum number of new Ordinary Shares to be issued upon (and assuming) the full conversion or exchange thereof at the initial conversion or exchange rate or the exercise in full of the subscription rights attaching thereto at the initial subscription price, in each case, without any deduction of any commissions, discounts or expenses paid, allowed or incurred in connection with the issue thereof.

(vi) If and whenever the Company shall issue wholly for cash any Ordinary Shares at a price per Ordinary Share which is less than the Initial Conversion Price at the date of the announcement of the terms of such issue, the Initial Conversion Price shall be adjusted to a price equal to the price per Ordinary Share at which such Ordinary Shares are issued.

Such adjustment shall become effective on the date of the issue.

(vii) If and whenever the Company makes an offer or invitation to holders of Ordinary Shares to tender for sale to the Company any Ordinary Shares or if the Company shall purchase any Ordinary Shares or securities convertible into Ordinary Shares or any rights to acquire Ordinary Shares (excluding any such purchase made on the Hong Kong Stock Exchange or any Alternative Stock Exchange, as the case may be) and the board of directors considers that it may be appropriate to make an adjustment to the Initial Conversion Price, at that time the board of directors of the Company shall appoint the Independent Financial Adviser to consider whether, for any reason whatever as a result of such purchases, an adjustment should be made to the Initial Conversion Price fairly and appropriately to reflect the relative interests of the persons affected by such purchases by the Company and, if the Independent Financial Adviser shall consider in its opinion that it is appropriate to make an adjustment to the Initial Conversion Price, an adjustment to the Initial Conversion Price shall be made in such manner as the Independent Financial Adviser shall certify to be, in its opinion, appropriate. Such adjustment shall become effective (if appropriate retroactively) from the close of business in Hong Kong on the Business Day next preceding the date on which such purchases by the Company are made.

(b) For the purposes of Bye-law 9A(10)(a):

"**announcement**" shall include the release of an announcement to the press or the delivery or transmission by telephone, telex, facsimile transmission or otherwise of an announcement to the Hong Kong Stock Exchange (or the Alternative Stock Exchange, as the case may be), "date of announcement" shall mean the date on which the announcement is first so released, delivered or transmitted and

"**announce**" shall be construed accordingly;

"**capital distribution**" shall (without prejudice to the generality of that phrase) include distributions in cash or specie, and any dividend or distribution charged or provided for in the accounts for any financial period shall (whenever paid and however described) be deemed to be a capital distribution, provided that any such dividend shall not automatically be so deemed if:

(i) it is paid out of the net profits (less losses) attributable to the holders of Ordinary Shares for all financial periods after that ended March 31 as shown in the audited consolidated profit and loss account of the Company and its subsidiaries for each such financial period; or

(ii) to the extent that (i) above does not apply, the rate of that dividend, together with all other dividends on the class of capital in question charged or provided for in the accounts for the financial period in question, does not exceed the aggregate rate of dividend on such class of capital charged or provided for in the accounts for the last preceding financial period. In computing such rates, such adjustments may be made as are in the opinion of the Independent Financial Adviser appropriate to the circumstances and shall be made in the event that the lengths of such periods differ materially;

"**issue**" shall include allot;

"**market price**" means the average of the closing prices published in the Hong Kong Stock Exchange's Daily Quotation Sheet (or the equivalent quotation sheet of the Alternative Stock Exchange, as the case may be) for one Ordinary Share for the 5 Trading Days ending on the last Trading Day immediately preceding the day on or as of which such price is to be ascertained PROVIDED THAT if at any time during the said 5 Trading Days, the Share shall have been quoted ex-dividend and during some other part of that period, the Ordinary Shares shall have been quoted cum-dividend, then:

(i) if the Ordinary Shares to be issued do not rank for the dividend inquestion, the quotations on the dates on which the Ordinary Shares shall have been quoted cum-dividend shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Ordinary Share; and

(ii) if the Ordinary Shares to be issued rank for the dividend in question, the quotations on the dates on which the Ordinary Shares shall have been quoted ex-dividend shall for the purpose of this definition be deemed to be the amount thereof increased by an amount equal to the amount of that dividend per Ordinary Share;

and PROVIDED FURTHER THAT if the Ordinary Shares on each of the said five Trading Days have been quoted cum-dividend in respect of a dividend which has been declared or announced but the Ordinary Shares to be issued or purchased do not rank for that dividend, the quotations on each of such dates shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Ordinary Share;

"**Shares**" includes, for the purposes of Ordinary Shares comprised in any issue, distribution, offer or grant pursuant in Bye-laws 9A(10)(a)(ii), (iii), (iv), (v) and (vi) above, any such shares of the Company as, when fully paid, shall be Ordinary Shares;

"**rights**" includes rights in whatsoever form issued.

(c) if the Initial Conversion Price is adjusted with effect (retroactively or otherwise) from a date on or before the date on which the names of the Preference Shareholders whose Preference Shares are converted into Ordinary Shares pursuant hereto or such other persons as they may direct are entered into the register of holders of Ordinary Shares of the Company and such Preference Shareholders' entitlement were arrived at on the basis of unadjusted Initial Conversion Price, the Company shall procure that such number of Ordinary Shares which would have been required to be issued on conversion of such Preference Shares if the relevant adjustment had been given effect to as at the date of conversion shall be allotted and issued to such Preference Shareholders or such other persons as they may direct.

(d) The provisions of Bye-law 9A(10)(a) shall not apply to:

(i) an issue of fully-paid Ordinary Shares upon the exercise of any conversion rights attached to securities convertible into Ordinary Shares that exist at the Issue Date;

(ii) an issue of Ordinary Shares or other securities of the Company or any subsidiary wholly or partly convertible into, of carrying rights to acquire, Ordinary Shares to the directors or employees or the Company or any of its subsidiaries pursuant to an employee share option scheme adopted by the Company; and

(iii) an issue by the Company of Ordinary Shares or by the Company or its subsidiary of securities wholly or partly convertible into or carrying rights to acquire Ordinary Shares, in any such case in consideration or part consideration for the acquisition of any other securities, assets or business.

(e) Notwithstanding the provisions of Bye-law 9A(10)(a), in any circumstances where the Directors shall consider that an adjustment to the Initial Conversion Price provided for under the said provisions should not be made or should be calculated on a different basis or that an adjustment to the Initial Conversion Price should be made notwithstanding that no such adjustment is required under the said provisions or that an adjustment should take effect on a different date or at a different time from that provided for under the provisions, the Company may appoint the Independent Financial Adviser, to consider whether for any reason whatever the adjustment to be made (or the absence of adjustment) would or might not fairly and appropriately reflect the relative interests of the persons affected thereby and, if the Independent Financial Adviser shall consider this to be the case, the adjustment shall be modified or nullified or an adjustment made instead of no adjustment in such manner including without limitation, making an adjustment calculated on a different basis and/or the adjustment shall take effect from such other date and/or time as shall be certified by the Independent Financial Adviser to be in its opinion appropriate.

(f) Any adjustment to the Initial Conversion Price shall be made to the nearest cent so that any amount under half a cent shall be rounded down and an amount of half a cent or more shall be rounded up and in no event shall any adjustment (otherwise than upon the consolidation of Ordinary Shares into shares of a larger nominal amount or upon a repurchase of Ordinary Shares) involve an increase in the Initial Conversion Price.

(g) No adjustment shall be made to the Initial Conversion Price in any case in which the amount by which the same would be reduced in accordance with the foregoing provisions would be less than one cent.

(h) Where the result of any act or transaction of the Company, having regard to the provisions of Bye-law 9A(10), would be to reduce the Initial Conversion Price to below the nominal amount of an Ordinary Share, no adjustment to the Initial Conversion Price shall be made pursuant to any of the relevant provisions of Bye-law 9A(10) unless (i) the Bye-laws of the Company shall be in such form, or shall have been altered or added to in such manner, as may be necessary or appropriate to enable the following provisions of this Bye-law 9A(10)(h) and the provisions of Bye-law 9A(11) to be implemented, (ii) implementation of such provisions is not prohibited by and is in compliance with the provisions of the Act, and (iii) the Company, shall have established and shall thereafter (subject as provided in Bye-law 9A(11)) maintain in accordance with the provisions of Bye-law 9A(11) the Conversion Right Reserve referred to therein.

(i) Whenever the Initial Conversion Price is adjusted, the Company shall give notice to the Preference Shareholders that the Initial Conversion Price has been adjusted (setting forth the event giving rise to the adjustment, the Initial Conversion Price in effect prior to such adjustment, the adjusted Initial Conversion Price and the effective date thereof).

China HealthCare Holdings Limited
中國衛生控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 673)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting of the shareholders of China HealthCare Holdings Limited (the "**Company**") will be held at Rooms 1001-2, 10/F., Man Yee Building, 68 Des Voeux Road Central, Hong Kong, at 10:00 a.m. on 10 July 2006 for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions as ordinary and special resolutions of the Company:

ORDINARY RESOLUTIONS

1. **THAT**:

(a) the authorised share capital of the Company of HK$1,500,000,000 comprising 5,000,000,000 ordinary shares of HK$0.10 each (the "**Ordinary Shares**") and 100,000,000 non-voting preference shares of HK$10 each be altered and reduced as follows:

(aa) by cancelling the authorised but unissued 100,000,000 non-voting preference shares; and

(bb) by the creation of 15,000 redeemable cumulative convertible preference shares of US$0.01 each (the "**Preference Shares**"), with the respective rights and privileges and subject to the restrictions set out in the Bye-laws of the Company as amended by resolution no. 6 below.

to an aggregate of HK$500,000,000 comprising 5,000,000,000 Ordinary Shares and US$150 comprising 15,000 Preference Shares.

(b) the subscription agreement (the "**Subscription Agreement**") entered into between the Company and OZ Asia Master Fund, Ltd., OZ Master Fund, Ltd., OZ Global Special Investments Master Fund, L.P. and Fleet Maritime, Inc., dated 5 April, 2006 in relation to the subscription of Preference Shares of up to an aggregate amount of US$15,000,000, a copy of the Subscription Agreement having been produced to the meeting and initialled by the chairman of the meeting for the purposes of identification, and the transactions contemplated thereby be and are hereby approved, confirmed and ratified;

* *for identification purpose only*

(c) conditional upon The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting the approval for the issue of the Preference Shares (if required) and the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Shares issuable upon the exercise of the conversion rights attaching to the Preference Shares in accordance with Bye-law 9A as detailed in resolution no. 6 below, the allotment and issue of the Preference Shares pursuant to the terms of the Subscription Agreement, and any Shares which may fall to be issued upon the exercise of the conversion rights attaching to the Preference Shares and the transactions contemplated thereby be and are hereby approved; and

(d) any one or more directors of the Company be and are hereby authorised to allot and issue the Preference Shares in accordance with the terms of the Subscription Agreement and any Shares issuable upon the exercise of the conversion rights attaching to the Preference Shares and to do all such further acts and things and execute such further documents and take all steps which, in his (or their) opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of, and all transactions contemplated under the Subscription Agreement for and on behalf of the Company and to approve any changes and amendments thereto as he (or they) may consider necessary, desirable or expedient."

2. **THAT, PROVIDED** that on the date the redemption of any Preference Shares is to occur, there are no reasonable grounds for believing that the Company is, or after the redemption would be, unable to pay its liabilities as they become due (which matters and such other matters as may be applicable, shall be considered and determined by the Board at the relevant time),

(a) the redemption of such number of Preference Shares as required by the Subscribers in accordance with Bye-law 9A(8), be and is hereby approved;

(b) the payment of the par value on the Preference Shares out of the capital paid up thereon or out of the funds of the Company which would otherwise be available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purposes of the redemption, be and is hereby approved; and

(c) the payment of the premium for the redemption out of the Company's share premium account and/or funds of the Company which would otherwise be available for dividend or distribution, be and is hereby approved.

3. **THAT**, a reserve account (the "**Conversion Reserve Account**") be set up and credited with such sums as may be sufficient to pay up on the Conversion Shares to be issued upon the conversion of any of the Preference Shares.

4. **THAT**, upon exercise of the conversion rights under the Preference Shares in accordance with Bye-law 9A(6), the issue of such number of Ordinary Shares, the application of the par value of such Ordinary Shares out of the Conversion Reserve Account and crediting towards the paid up capital for such Ordinary Shares, and the issue of such fully-paid Ordinary Shares to the Subscribers, be and is hereby approved.

5. "**THAT**:

(a) the sale and purchase agreement ("**Sale and Purchase Agreement**", entered into between Mr. Hou Shu Ming and 盤錦鋒源科技投資有限公司(Panjinfenyuan Technology Investment Limited) as vendors (collectively, the "**Vendors**") and Success Gateway Investments Limited, a wholly-owned subsidiary of the Company as purchaser (the "**Purchaser**"), dated 6 April 2006 whereby, the Purchaser conditionally agreed to purchase from the Vendors an aggregate of 70% of the existing issued share capital of Shanghai Harvest Network Technology Co. Ltd. ("**Target**") at a total consideration of HK$36.4 million, of which HK$18 million shall be satisfied in cash and HK$18.4 million shall be satisfied by the issuance of the convertible notes of a principal amount of HK$18.4 million ("**Convertible Notes**"), at an initial conversion price of HK$1.16 per share (subject to adjustments), a copy of which has been produced to the meeting and initialled by the chairman of the meeting for the purpose of identification, and the transactions contemplated thereby be and are hereby approved, confirmed and ratified;

(b) the issue of the Convertible Notes in accordance with the terms and conditions the Sale and Purchase Agreement and the transactions contemplated thereunder be and are hereby approved; and

(c) the directors of the Company be and are hereby authorized to allot and issue the ordinary shares of HK$0.10 each in the share capital of the Company upon the exercise of the conversion rights attaching to the Convertible Notes and to do all such acts and things and execute such further documents and take all steps which, in his (or their) opinion may be necessary, desirable and expedient to implement and/or give effect to the terms of, and all transactions contemplated under the Sale and Purchase Agreement for and on behalf of the Company and to approve any changes and amendments thereto as he (or they) may consider necessary, desirable or expedient."

SPECIAL RESOLUTION

6. **THAT**, subject to the passing of resolution no. 1 above, the Bye-laws be and are hereby amended in the following manner:

By deleting the existing Bye-law 3(1) in its entirety and replacing therefore with the following new Bye-law 3(1):

"As at the date of adoption of this Bye-law, the share capital of the Company is divided into ordinary shares of HK$0.10 each and redeemable cumulative convertible preference shares of US$$0.01 each (the "**Preference Shares**"). The Preference Shares shall confer on the holders thereof the respective rights and privileges and be subject to the respective restrictions as set out in Bye-law 9A".

By replacing the existing Bye-law 9A in its entirety with the following new Bye-law 9A:

Redeemable Convertible Cumulative Preference Shares

1. Definitions

For the purpose of this Bye-law 9A, the following terms shall have the following meanings:

"Affiliates"	means in relation to a particular company, any company or other person or entity which directly, or indirectly through one or more intermediaries, Controls or is Controlled by, or is under the common Control with, the company specified;
"Alternative Stock Exchange"	any stock exchange other than the Hong Kong Stock Exchange on which the Ordinary Shares, if not then listed on the Hong Kong Stock Exchange, are listed;
"Business Day"	a day (excluding Saturday) on which licensed banks are generally open for business in Bermuda, Hong Kong and the United States of America;
"Control"	means:

(a) the power (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise) to appoint and/or remove all or such of the members of the board of directors or other governing body of a person as are able to cast a majority of the votes capable of being cast by the members of that board or body on all, or substantially all, matters, or otherwise to control or have the power to control the policies and affairs of that person; and/or

(b) the holding and/or possession of the beneficial interest in and/or the ability to exercise the voting rights applicable to shares or other securities in any person (whether directly or by means of holding such interests in one or more other persons) which confer in aggregate on the holders thereof more than 50% of the total voting rights exercisable at general meetings of that person on all, or substantially all, matters;

"Conversion Date"	the Business Day immediately following the date of surrender of the certificate in respect of the Preference Shares and delivery of an effective Conversion Notice pursuant to Bye-law 9A(6);
"Conversion Event"	the conversion of Preference Shares by a Preference Shareholder pursuant to Bye-law 9A(6)(a);
"Conversion Notice"	a notice served by any Preference Shareholder from time to time stating that such Preference Shareholder wishes to exercise the Conversion Right in respect of one or more Preference Shares;
"Conversion Period"	in relation to any Preference Share, the period commencing on the Issue Date and ending on the Maturity Date;
"Conversion Price"	as of any Conversion Date, the lower of (a) the Initial Conversion Price, as adjusted from time to time in accordance with Bye-law 9A(10) and (b) the Volume-Weighted Average Price of the Ordinary Shares for the twenty Trading Days ending on the day immediately preceding the date of a relevant Conversion Notice multiplied by a factor of 0.90x, in each case converted into US dollars at the rate of US$1.00 to HK$7.76;
"Conversion Rate"	the rate for conversion of the Preferred Shares into Ordinary Shares as determined in accordance with Bye-law 9A(6)(c);
"Conversion Right"	the right, subject to the provisions of Bye-law 9A(6), of Preference Shareholders to convert any Preference Share into Ordinary Shares;
"Converting Shareholder"	a Preference Shareholder all or some of whose Preference Shares are being or have been converted into Ordinary Shares;
"Days Outstanding"	the number of days from, and including the Issue Date to, but excluding the date fixed for redemption of a Preference Shares, calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed;

"Dividend"	in relation to each Preference Share, a fixed cumulative preferential cash dividend in US dollars payable semi-annually thereon to its holder at the rate of 5% per annum on the Reference Amount, which shall be reduced to 2% per annum on the Reference Amount if and for so long as none of the events referred to in Bye-law 9A(8)(b)(i) through (x) shall have occurred;
"Early Redemption Amount"	in relation to each Preference Share, its Reference Amount plus a premium expressed in US dollars and rounded up to the nearest US cent determined in accordance with the following formula: (US\$1,000+D) x 1.2^{n} where D = accrued but unpaid Dividend to the date fixed for redemption of the relevant Preference Shares n = the number of Days Outstanding divided by 360
"Group"	the Company and its subsidiaries; and the expression "**member of the Group**" shall be construed accordingly;
"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Independent Financial Adviser"	an independent investment bank of international repute reasonably selected by the Company and acting as an expert;
"Initial Conversion Price"	HK$1.16, as adjusted from time to time in accordance with Bye-law 9A(10);
"Issue Date"	the date of allotment and issue of the Preference Shares;
"Maturity Date"	the date falling on the fifth anniversary of the Issue Date (or such later date, not being later than the seventh anniversary of the Issue Date) as may be agreed in writing between the Company and the Preference Shareholders), or if such date is not a Business Day, the Business Day immediately following such date;

"Ordinary Shares"	ordinary shares of HK$0.10 each in the capital of the Company or, if there has been a sub-division, consolidation, re-classification or re-construction of the ordinary share capital of the Company, such ordinary shares forming part of the ordinary equity share capital of the Company of such other nominal amount as shall result from any such sub-division, consolidation, re-classification or re-construction;
"Other Pari Passu Shares"	shares ranking pari passu as regards dividends with the Preference Shares;
"Parties"	the named parties to the Subscription Agreement and their respective successors and permitted assigns and "**Party**" means either one of them as the context may indicate;
"PRC"	the Peoples's Republic of China but excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan;
"Preference Shares"	the unlisted redeemable convertible cumulative preference shares of US0.01 each in the capital of the Company, the rights of which are set out in Bye-law 9A;
"Preference Shareholder"	a person registered from time to time in the register of members of the Company as a holder of Preference Share(s);
"Record Date"	the date and time by which a subscriber or transferee of securities of the class in question would have to be registered in order to participate in the relevant distribution or rights;
"Redemption Date"	the date on which the Preference Shares are redeemed or are to be redeemed by the Company pursuant to the provision of Bye-law 9A(8);
"Reference Amount"	US$1,000;
"Register"	has the meaning given to it in Bye-law 9A(9)(a);
"SFC"	the Securities and Futures Commission of Hong Kong;
"Shares"	shares in the capital of the Company (being the Ordinary Shares and the Preference Shares);
"Subscribers"	OZ Asia Master Fund, Ltd., OZ Master Fund, Ltd., OZ Global Special Investments Master Fund, L.P. and Fleet Maritime, Inc. all c/o OZ Management, L.L.C. 9 W. 57 Street, 39th Floor, New York, NY 10019;

"Subscription Agreement"	the Subscription Agreement for Redeemable Convertible Cumulative Preference Shares dated 5 April, 2006 (as supplemented or amended from time to time) entered into between the Company and the Subscribers;
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers;
"Trading Day"	any day on which the Hong Kong Stock Exchange (or the Alternative Stock Exchange, as the case may be) is open for the business of dealing in securities;
"US$", "US dollars" or "US cents"	United States dollars or cents, the lawful currency of the United States of America; and
"Volume-Weighted Average Price"	means, in respect of an Ordinary Share, the volume-weighted average of the prices published in the Hong Kong Stock Exchange's Daily Quotations Sheet (or the equivalent quotation sheet of the Alternative Stock Exchange, as the case may be) for Ordinary Shares for the most recent twenty Trading Days prior to the date of a relevant Conversion Notice on which a closing price was reported by the Hong Kong Stock Exchange (or, as the case may be, the Alternative Stock Exchange) for the Ordinary Shares; provided that only those Trading Days where the daily volume exceeds 30,000 Ordinary Shares shall be included in the said twenty Trading Days, and provided further, that if at any time during the said twenty Trading Days the Ordinary Shares shall have been quoted ex-divided and during some other part of that period, the Ordinary Shares shall have been quoted cum-dividend then: (a) if the Ordinary Shares to be issued upon conversion of the relevant Preference Shares do not rank for the dividend in question, the quotations on the dates on which the Ordinary Shares shall have been quoted cum-dividend shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Ordinary Share; and (b) if the Ordinary Shares to be issued upon conversion of the relevant Preference Shares rank for the dividend in question, the quotations on the dates on which the Ordinary Shares shall have been quoted ex-dividend shall for the purpose of this definition

be deemed to be the amount thereof increased by an amount equal to the amount for that dividend per Ordinary Share, and provided that if the Ordinary Shares on each of the said twenty Trading Days have been quoted cum-dividend in respect of a dividend which has been declared or announced but the Ordinary Shares to be issued upon conversion of the relevant Preference Shares do not rank for that dividend, the quotations on each of such dates shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Ordinary Share.

2. Dividend

(a) Subject to the Act, each Preference Share shall confer on the holder thereof the right to receive out of the funds of the Company available for distribution and resolved to be distributed the Dividend pari passu with Other Pari Passu Shares but otherwise in priority to any other class of shares in the capital of the Company from time to time in issue (including the Ordinary Shares).

(b) The Dividend shall be cumulative and payable in US dollars semi-annually in arrears on 30 June and 31 December in each year, shall accrue from day to day and shall be calculated on the basis of a 360 day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed on the basis of a 30 day month. The first Dividend shall be payable on 31 December 2006 and any Dividend that has accrued prior to the Conversion Date but remains unpaid on the Conversion date shall be payable upon the Conversion Date, provided that without prejudice to the rights of the Preference Shareholders hereunder and subject to compliance with the Act, any unpaid Dividend shall accrue as a debt due by the Company to the Preference Shareholder and be repayable on demand which shall bear interest at the rate of 5% per annum from the date when such Dividend is due and payable to the date when such Dividend is paid in full together with interest thereon to the Preference Shareholder.

(c) No dividend shall be paid to the holders of the Ordinary Shares unless and until:

(i) any outstanding Dividend has been paid in full; and

(ii) all Preference Shares which have fallen due for redemption have been redeemed.

(d) To the extent that such Dividends are not paid on the Preference Shares and/or any Other Pari Passu Shares, they shall accumulate and any such arrears of Dividend shall be payable to the Preference Shareholders and/or to the holders of any Other Pari Passu Shares, pari passu as between themselves, in preference to any other distribution in respect of any other class of shares (including the Ordinary Shares). The Preference Shares shall not entitle the holders thereof to any further or other right of participation in the profits of the Company.

(e) Notwithstanding the generality of the foregoing and subject to Bye-law 9A(6) and (8), in any conversion or redemption of Preference Shares the Preference Shareholders shall be entitled to a pro rata portion of such Dividend that has accrued thereon up to the date immediately prior to the service of a Conversion Notice or the payment date of the redemption amount (as the case may be).

3. Distribution of Assets

On a distribution of assets on liquidation, winding-up or dissolution of the Company or otherwise (but not on conversion or redemption of Preference Shares or any repurchase by the Company of Preference Shares or Ordinary Shares), the assets and funds of the Company available for distribution among the members of the Company shall, subject to applicable laws, be applied in the following priority:

(a) first, in paying to the Preference Shareholders and the holders of any Other Pari Passu Shares, pari passu as between themselves, a sum equal to any arrears and accruals of the Dividend payable respectively on such Preference Shares and such Other Pari Passu Shares to be calculated down to and inclusive of the date of the distribution of assets and to be payable whether or not any of such dividends have been declared and whether or not the Company has sufficient funds available for dividend or distribution;

(b) secondly, in paying to the Preference Shareholders (pro rata to the aggregate of the Reference Amounts of the Preference Shares held by each such older), pari passu as between themselves and the holders of any Other Pari Passu Shares as regards repayment of amounts paid-up or credited as paid-up on such shares, an amount equal to the aggregate of the Reference Amounts of all of the Preference Shares and the premium payable on redemption thereof and the amounts paid-up or credited as paid-up on any Other Pari Passu Shares and any premium payable on redemption thereof; and

(c) thirdly, the balance of such assets shall belong to and be distributed among the holders of any class of shares in the capital of the Company, other than the Preference Shares and any other shares not entitled to participate in such assets, in accordance with the respective rights attaching thereto. The Preference Shares shall not confer on the holders thereof the right to participate in such surplus assets.

4. Ranking of the Preference Shares

The Company shall not (unless such sanction has been given by the Preference Shareholders as would be required for a variation of the special rights attaching to the Preference Shares or unless otherwise provided in the Bye-laws) create or issue any shares ranking, as regards order in the participation in the profits of the Company or in the assets of the Company on a winding-up or otherwise, senior and in priority to the Preference Shares, but the Company may issue, without obtaining the consent of the Preference Shareholders, shares ranking pari passu with the Preference Shares as regards order of such participation in profits or assets and carrying such rights as to rates of dividend, voting (subject as provided under Bye-law 9A(12) below), redemption, conversion, exchange or otherwise as the Directors may determine, or as the Company may by ordinary resolution determine. Save as provided in this Bye-law 9A, each Preference Share shall have the same rights as each of the Ordinary Shares.

5. Voting

(a) Except as provided in Bye-law 9A(12)(a)(vii), the Preference Shares shall not confer on the holders thereof the right to receive notice of, or to attend and vote at, a general meeting of the Company, unless a resolution is to be proposed at a general meeting for winding-up the Company or a resolution is to be proposed which if passed would (subject to any consents required for such purpose being obtained) vary or abrogate the rights or privileges of the Preference Shareholders, in which event the Preference Shares shall confer on the holders thereof the rights to receive notice of, and to attend and vote at, that general meeting, save that such holders may not vote upon any business dealt with at such general meeting except the election of a Chairman, any motion for adjournment and the resolution for winding-up or the resolution which if passed would (subject to any consents required for such purpose being obtained) so vary or abrogate the rights and privileges of the Preference Shareholders.

(b) Where Preference Shareholders are entitled to vote on any resolution then, at the relevant general meeting or class meeting, on a show of hands every Preference Shareholder who is present in person or (being a corporation) by a representative shall have one vote and on a poll every Preference Shareholder who is present in person or by proxy or attorney or (being a corporation) by a representative shall have one vote for each Ordinary Share into which each Preference Share held by him would be converted if the Conversion Date for such Preference Share were the date 48 hours preceding the date of such general meeting or class meeting.

6. Conversion

(a) Optional conversion

The Preference Shares shall be convertible at the option of the Preference Shareholder, at any time during the Conversion Period any without the payment of any additional consideration therefor, into such number of fully-paid Ordinary Shares as determined in accordance with the then effective Conversion Rate. Notwithstanding the generality of the foregoing in respect of any conversion of Preference Shares, the Preference Shareholders shall be entitled to a pro rata portion of such Dividend that has accrued thereon up to the date immediately prior to the service of a Conversion Notice on the Company to require the Company to convert such Preference Shares to Ordinary Shares.

(b) Number of Ordinary Shares issuable upon conversion

The number of Ordinary Shares to which a holder of Preference Shares shall be entitled upon conversion following a Conversion Event shall be the number obtained by multiplying the Conversion Rate then in effect by the number of Preference Shares being converted.

(c) Conversion Rate

The Conversion Rate of each Preference Share shall be determined by dividing the Reference Amount of each Preference Share by the Conversion Price in effect at the time of conversion provided that the Conversion Price shall not be less than the then subsisting nominal value of an Ordinary Share into which such Preference Share is convertible.

(d) Mechanism for conversion

(i) Any Preference Shareholder who wishes to convert one or more Preference Shares held by it pursuant to Bye-law 9A(6)(a) shall deliver to the Company at its principal place of business in Hong Kong a Conversion Notice. The Conversion Notice shall be deemed to have been sufficiently served within 5 Business Days of posting if sent by registered post.

(ii) The relevant Preference Shareholder shall deliver to the Company at its principal place of business in Hong Kong the certificate(s) evidencing the Preference Shares to be converted or, if such certificates have been lost or destroyed, such evidence of title as the Company may reasonably require, within 5 Business Days from the date of service of the Conversion

Notice given by such Preference Shareholder pursuant to Bye-law 9A(6)(d)(i) above.

(iii) Upon delivery of the certificate(s) evidencing the Preference Shares to be converted by the holder thereof to the Company, the Company shall promptly and, in any event no later than 2 Business Days after the date of receipt of such certificate(s):

(1) issue and deliver to such holder (a) certificate(s) for the number of Ordinary Shares into which the Preference Shares are converted in the name as shown on the certificate(s) evidencing the Preference Shares so surrendered to the Company; or

(2) cause to be credited into the relevant Preference Shareholder's brokers' account such number of Ordinary Shares into which the Preference Shares are converted,

in each case together with cash in lieu of any fraction of an Ordinary Share in accordance with Bye-law 9A(7).

(e) Sufficient authorized share capital

The Company shall ensure that at all times there is a sufficient number of unissued Ordinary Shares in its authorized share capital to be issued in satisfaction of the conversion rights of Preference Shares pursuant to Bye-law 9A(6)(a).

7. Fraction of Shares

(a) No fraction of an Ordinary Share arising on conversion will be allotted to the Converting Shareholder of the relevant Preference Share(s) otherwise entitled thereto but such fractions will, when practicable, be aggregated and sold and the net proceeds of sale will then be distributed pro rata among such holders unless in respect of any holding of relevant Preference Shares the amount to be so distributed would be less than US$10 (or its equivalent in another currency at a prevailing exchange rate selected by the Directors), in which case such amount will not be so distributed but will be retained for the benefit of the Company. Unless otherwise agreed between the Company and a Converting Shareholder, if more than one Preference Share shall fail to be converted pursuant to any one Conversion Notice, the number of Ordinary Shares to be issued upon conversion shall be calculated on the basis of the aggregate Reference Amount of the relevant Preference Shares. For the purpose of implementing the provisions of this sub-paragraph, the Company may appoint some person to execute transfers, renunications or other documents on behalf of persons entitled to any such fraction and generally may make all arrangements which appear to it to be necessary or appropriate for the settlement and disposal of fractional entitlements.

(b) In the event of a consolidation or re-classification of Ordinary Shares by operation of law or otherwise occurring after 5 April 2006 which reduces the number of Ordinary Shares outstanding, the Company will upon conversion pay in cash (in US dollars by means of a US dollar cheque drawn on a bank in New York City) a sum equal to such portion of the Reference Amount of the Preference Share or Preference Shares evidenced by the certificate deposited in connection with the exercise of Conversion Rights as corresponds to any fraction of a Ordinary Share not issued as a result of such consolidation or re-classification aforesaid if such sum exceeds US$10.

8. Redemption

(a) Redemption at Maturity

Subject to the Act and to any other legislation applicable to the Company, the Company shall redeem each Preference Share then outstanding on the Maturity Date at a redemption amount equal to the Early Redemption Amount therefor PROVIDED THAT if none of the events referred to in Bye-law 9A(8)(b)(i) through (x) shall have occurred on or before the Maturity Date, the Company shall redeem each Preference Share then outstanding on the Maturity Date at a redemption amount equal to the aggregate of the Reference Amount and the pro rata portion of Dividend that has accrued and is unpaid from day to day thereon up to the date immediately prior to the Maturity Date.

(b) Special Redemption

So long as the aggregate number of Preference Shares outstanding would, if converted, amount to 5% or more of the total issued Ordinary Shares (including the Ordinary Shares deemed to be issued upon conversion of such Preference Shares), a Preference Shareholder shall have the right at any time and from time to time, by notice in writing to the Company, to require the Company to redeem all or any of the then outstanding Preference Shares held by it, whereupon subject to the requirements of the Act, the Company shall pay to the Preference Shareholder within 5 Business Days from receipt of such notice or the earliest date permitted under the Act, whichever is later, a redemption amount equal to the Early Redemption Amount of such number of Preference Shares so redeemed; provided, however, that a Preference Shareholder may exercise such right prior to the Maturity Date only following the occurrence of any of the following event:

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

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

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

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

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

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

(vii) the listing or trading of the Ordinary Shares on the Hong Kong Stock Exchange (or the Alternative Stock Exchange, as the case may be) is revoked, withdrawn or suspended for a continuous period of 15 Trading Days;

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

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

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

(c) Mechanism for redemption

On each Redemption Date, each Preference Shareholder shall deliver to the Company the certificate(s) for the Preference Shares to be redeemed and the Company shall cancel the same. If any certificate so delivered to the Company includes any Preference Shares not falling to be redeemed on the relevant Redemption Date, the Company shall without charge issue a certificate for the balance of any unredeemed Preference Shares to the holder or holders thereof.

(d) Redemption subject to laws

If on the Redemption Date, the number of Preference Shares that may be legally redeemed by the Company is less than the number of Preference Shares to be redeemed, then a redemption of the number of Preference Shares which can be legally redeemed shall be made amongst the relevant holders thereof pro rata as nearly as possible to their then holdings of Preference Shares and in respect of the balance of the cumulative dividend payable thereafter shall be 5% per annum payable semi-annually and calculated on the redemption at

Maturity amount which is equal to the aggregate of the Reference Amount and the pro rata portion of Dividend that has accrued and is unpaid from day to day thereon up to the date immediately prior to the Maturity Date or the Early Redemption Amount, where applicable. Any unredeemed Preference Shares shall be redeemed as soon after such Redemption Date as is permitted by law and such redemption shall be made amongst the relevant holders thereof pro rata as nearly as possible to their then holdings of Preference Shares.

9. Registration

(a) The Company shall maintain and keep a full and complete register (**"Register"**) at such location in Bermuda as it shall from time to time determine of the Preference Shares and the Preference Shareholders from time to time and recording any transfer, purchase, conversion and/or cancellation of the Preference Shares and the destruction of any replacement certificate in respect of the Preference Shares issued in substitution for any mutilated, defaced, lost, stolen or destroyed certificate in respect of the Preference Shares and of sufficient identification details of all Preference Shareholders from time to time holding the Preference Shares.

(b) As soon as practicable, and in any event not later than 2 Business Days after the Conversion Date, the Company will, register or procure that its agent register the person or persons designated for the purpose in the Conversion Notice as holder(s) of the relevant number of Ordinary Shares in the Register and will mail (at the risk, and, if sent at the request of such person otherwise than by ordinary mail, at the expense, of the person to whom such certificate or certificates are sent) such certificate or certificates to the person and at the place specified in the Conversion Notice, together (in either case) with any property required to be delivered upon conversion and such assignments and other documents (if any) as may be required by law to effect the transfer thereof.

(c) Preference Shares which are converted will be cancelled by removal of the holder's name from the Register on the relevant Registration Date (as defined in Bye-law 9A(9)(e) below).

(d) If the Registration Date in relation to any Preference Share shall be on or after a date with effect from which an adjustment to the Initial Conversion Price takes retroactive effect pursuant to any of the provisions referred to in this Bye-law and the relevant Registration Date falls on a date when the relevant adjustment has not yet been reflected in the then current Conversion Price, the Company will procure that the provisions of Bye-law 9A(9)(b) above shall be applied mutatis mutandis to such number of Ordinary Shares as is equal to the excess of the number of Ordinary Shares which would have been required to be issued on conversion of such Preference Share if the relevant retroactive adjustment had been given effect as at the said Registration Date over the number of Ordinary Shares previously issued (or which the Company was previously bound to issue) pursuant to such conversion, and in such event and in respect of such number of Ordinary Shares references to the Conversion Date shall be deemed to refer to the date upon which such retroactive adjustment becomes effective (disregarding the fact that it becomes effective retroactively).

(e) The person or persons specified for that purpose in the Conversion Notice will become the holder of record of the number of Ordinary Shares issuable upon conversion with effect from the date he is or they are registered as such in the Register (the **"Registration Date"**). Save as set out in this Bye-law 9A(9), a holder of Ordinary Shares issued on conversion of Preference Shares shall not be entitled to any rights the Record Date for which precedes the relevant Registration Date.

If the Record Date for the payment of any dividend or other distribution in respect of the Ordinary Shares is on or after the Conversion Date in respect of any Preference Share, but before the Registration Date (disregarding any retroactive adjustment of the Conversion Price referred to in Bye-law 9A(9)(d) above prior to the time such retroactive adjustment shall have become effective), the Company will pay to the Converting Shareholder or his designee an amount (the **"Equivalent Amount"**) in Hong Kong dollars equal to any such dividend or other distribution to which he would have been entitled had he on that Record Date been such a shareholder of record and will make the payment at the same time as it makes payment of the dividend or other distribution, or as soon as practicable thereafter, but, in any event, not later than seven days thereafter. The Equivalent Amount shall be paid by means of a Hong Kong dollar cheque drawn on a branch of a bank in Hong Kong and sent to the address specified in the relevant Conversion Notice.

10. Conversion Adjustments

(a) The Initial Conversion Price shall from time to time be adjusted in accordance with the following relevant provisions and so that if the event giving rise to any such adjustment shall be such as would be capable of falling within more than one of Bye-law 9A(10)(a)(i) to (vii) inclusive, it shall fall within the first of the applicable clauses to the exclusion of the remaining clauses:

(i) if and whenever the Ordinary Shares by reason of any consolidation or sub-division or reclassification become of a different nominal amount, the Initial Conversion Price in force immediately prior thereto shall be adjusted by multiplying it by the revised nominal amount and dividing the result by the former nominal amount. Each such adjustment shall be effective from the close of business in Hong Kong on the day immediately preceding the date on which the consolidation or sub-division or reclassification becomes effective;

(ii) if and whenever the Company shall:

(1) issue (other than in lieu of a cash dividend) any Ordinary Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account); or

(2) issue Ordinary Shares paid out of distributable profits or reserves and/or share premium accounts issued in lieu of the whole or any part of a cash dividend, being a dividend which the holders of the Ordinary Shares concerned would or could otherwise have received but only to the extent that the market value of such Ordinary Shares exceeds 110% of the amount of dividend which holders of the Ordinary Shares could elect to or would otherwise receive in cash and which would not have constituted a capital distribution (as defined in Bye-law 9A(10)(b)) (for which purpose the **"market value"** of an Ordinary Share shall mean the average of the closing prices published in the Hong Kong Stock Exchange's Daily Quotation Sheet (or the equivalent quotation sheet of the Alternative Stock Exchange, as the case may be) for one Ordinary Share for the 5 Trading Days ending on the last Trading Day immediately preceding the last day on which holders of Ordinary Shares may elect to receive or (as the case may be) not to receive the relevant dividend in cash); then the Initial Conversion Price in force immediately prior to such issue shall be adjusted by multiplying it by the aggregate nominal amount of the issued Ordinary Shares immediately before such issued and dividing the result by the sum of such aggregate nominal amount and the aggregate nominal amount of the Ordinary Shares issued in such capitalisation. Each such adjustment shall be effective (if appropriate, respectively) from the commencement of the day next following the record date for such issue;

(iii) if and whenever the Company shall make any capital distribution to holders (in their capacity as such) of Ordinary Shares (whether on a reduction of capital or otherwise) or shall grant to such holders rights to acquire for cash assets of the Company or any of its subsidiaries, the Initial Conversion Price in force immediately prior to such distribution or grant shall be adjusted by multiplying by the following fraction:

$$\frac{A - B}{A}$$

where:

A = the closing price published in the Hong Kong Stock Exchange's Daily Quotation Sheet (or the equivalent quotation sheet of the Alternative Stock Exchange, as the case may be) in respect of one Ordinary Share on the Trading Day immediately preceding the date on which the capital distribution or, as the case may be, the grant is publicly announced or (failing any such announcement) immediately preceding the date of the capital distribution or, as the case may be, of the grant; and

B = the fair market value on the day of such announcement or failing any such announcement, the date of the capital distribution or the grant, as the case may be, as determined in good faith by the Independent Financial Adviser, of the portion of the capital distribution or of such rights which is/are attributable to one Ordinary Share,

Provided that:

(1) if, in the opinion of the relevant Independent Financial Adviser, the use of the fair market value as aforesaid produces a result which is significantly inequitable, it may instead determine (and in such event the above formula shall be construed as if B meant) the amount of the closing price published in the Hong Kong Stock Exchange's Daily Quotation Sheet (or the equivalent quotation sheet of the Alternative Stock Exchange, as the case may be) of one Ordinary Share which should properly be attributed to the value of the capital distribution or rights; and

(2) this Bye-law 9A(10)(a)(iii) shall not apply in relation to the issue of Ordinary Shares paid out of profits or reserves and issued in lieu of a cash dividend. Each such adjustment shall be effective (if appropriate, retrospectively) from the commencement of the day following the record date for the capital distribution or grant;

(iv) If and whenever the Company shall offer to all holders of Ordinary Shares new Ordinary Shares for subscription by way of rights, or shall grant to all holders of Ordinary Shares any options or warrants to subscribe for new Ordinary Shares, at a price per new Ordinary Share which is less than 90% of the market price at the date of the announcement of the terms of the offer or grant (whether or not such offer to grant is subject to the approval of the holders of Ordinary Shares or other persons), the Initial Conversion Price shall be adjusted by multiplying the Initial Conversion Price in force immediately before the date of the announcement of such offer or grant by the following fraction:

$$\frac{G+H}{G+I}$$

where:

G = the number of Ordinary Shares in issue immediately before the date of such announcement;

H = the number of Ordinary Shares which the aggregate of the two following amounts would purchase at such market price:

(1) the total number (if any) payable to the rights, options or warrants being offered or granted; and

(2) the total amount payable for all of the new Ordinary Shares being offered for subscription or comprised in the rights, options or warrants being granted; and

I = the aggregate number of Ordinary Shares being offered for subscription or comprised in the rights, options or warrants being granted.

Such adjustment shall become effective (if appropriate retroactively) from the commencement of the day next following the record date for the relevant offer or grant.

(v) (1) If and whenever the Company or any of its subsidiaries shall issue wholly for cash any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Ordinary Shares, and the total Effective Consideration per new Ordinary Share initially receivable for such securities is less than the Initial Conversion Price at the date of the announcement of the terms of issue of such securities (whether or not such issue is subject to the approval of the holders of Ordinary

Shares or other persons), the Initial Conversion Price shall be adjusted to a price equal to the total Effective Consideration per new Ordinary Share initially receivable for such securities.

Such adjustment shall become effective (if appropriate retroactively) from the close of business on the Business Day immediately preceding whichever to the earlier of the date on which the issue is announced and the date on which the issuer of the relevant securities determines the conversion or exchange rate or subscription price in respect of such securities.

(2) If and whenever the rights of conversion or exchange or subscription attaching to any such securities as are mentioned Bye-law 9A(10)(a)(v)(1) are modified so that the total Effective Consideration per new Ordinary Share initially receivable for such securities shall be less than the Initial Conversion Price at the date of announcement of the proposal to modify such rights of conversion or exchange or subscription, the Initial Conversion Price shall be adjusted to a price equal to the total Effective Consideration per new Ordinary Share receivable for such securities at the modified conversion or exchange rate or subscription price.

Such adjustment shall become effective as at the date upon which such modification shall take effect. A right of conversion or exchange or subscription shall not be treated as modified for the foregoing purposes where it is adjusted to take account of rights or capitalisation issues and other events normally giving rise to adjustments of conversion, exchange or subscription terms.

(3) For the purposes of this Bye-law 9A(10)(a)(v)(3):

(aa) the **"total Effective Consideration"** receivable for the securities issued shall be deemed to be the aggregate consideration receivable by the issuer for such securities for the issue thereof plus the additional minimum consideration (if any) to be received by the issuer and/or the Company (if not the issuer) upon (and assuming) the full conversion or exchange thereof or the exercise in full of the subscription rights attaching thereto; and (bb) the **"total Effective Consideration per new Ordinary Share"** initially receivable for such securities shall be such aggregate consideration dividend by the maximum number of new Ordinary Shares to be issued upon (and assuming) the full conversion or exchange thereof at the initial conversion or exchange rate or the exercise in full of the subscription rights attaching thereto at the initial subscription price, in each case, without any deduction of any commissions, discounts or expenses paid, allowed or incurred in connection with the issue thereof.

(vi) If and whenever the Company shall issue wholly for cash any Ordinary Shares at a price per Ordinary Share which is less than the Initial Conversion Price at the date of the announcement of the terms of such issue, the Initial Conversion Price shall be adjusted to a price equal to the price per Ordinary Share at which such Ordinary Shares are issued.

Such adjustment shall become effective on the date of the issue.

(vii) If any whenever the Company makes an offer or invitation to holders of Ordinary Shares to tender for sale to the Company any Ordinary Shares or if the Company shall purchase any Ordinary Shares or securities convertible into Ordinary Shares or any rights to acquire Ordinary Shares (excluding any such purchase made on the Hong Kong Stock Exchange or any Alternative Stock Exchange, as the case may be) and the board of directors considers that it may be appropriate to make an adjustment to the Initial Conversion Price, at that time the board of directors of the Company shall appoint the Independent Financial Adviser to consider whether, for any reason whatever as a result of such purchases, an adjustment should be made to the Initial Conversion Price fairly and appropriately to reflect the relative interests of the persons affected by such purchases by the Company and, if the Independent Financial Adviser shall consider in its opinion that it is appropriate to make an adjustment to the Initial Conversion Price, an adjustment to the Initial Conversion Price shall be made in such manner as the Independent Financial Adviser shall certify to be, in its opinion, appropriate. Such adjustment shall become effective (if appropriate retroactively) from the close of business in Hong Kong on the Business Day next preceding the date on which such purchases by the Company are made.

(b) For the purposes of Bye-law 9A(10)(a):

"announcement" shall include the release of an announcement to the press or the delivery or transmission by telephone, telex, facsimile transmission or otherwise of an announcement to the Hong Kong Stock Exchange (or the Alternative Stock Exchange, as the case may be), **"date of announcement"** shall mean the date on which the announcement is first so released, delivered or transmitted and **"announce"** shall be construed accordingly;

"capital distribution" shall (without prejudice to the generality of that phrase) include distributions in cash or specie, and any dividend or distribution charged or provided for in the accounts for any financial period shall (whenever paid and however described) be deemed to be a capital distribution, provided that any such dividend shall not automatically be so deemed if:

(i) it is paid out of the net profits (less losses) attributable to the holders of Ordinary Shares for all financial periods after that ended March 31 as shown in the audited consolidated profit and loss account of the Company and its subsidiaries for each such financial period; or

(ii) to the extent that (i) above does not apply, the rate of that dividend, together with all other dividends on the class of capital in question charged or provided for in the accounts for the financial period in question, does not exceed the aggregate rate of dividend on such class of capital charged or provided for in the accounts for the last preceding financial period. In computing such rates, such adjustments may be made as are in the opinion of the Independent Financial Adviser appropriate to the circumstances and shall be made in the event that the lengths of such period differ materially;

"issue" shall include allot;

"market price" means the average of the closing prices published in the Hong Kong Stock Exchange's Daily Quotation Sheet (or the equivalent quotation sheet of the Alternative Stock Exchange, as the case may be) for one Ordinary Share for the 5 Trading Days ending on the last Trading Day immediately preceding the day on or as of which such price is to be ascertained PROVIDED THAT if at any time during the said 5 Trading Days, the Share shall have been quoted ex-dividend and during some other part of that period, the Ordinary Shares shall have been quoted cum-dividend, then:

(i) if the Ordinary Shares to be issued do not rank for the dividend in question, the quotations on the dates on which the Ordinary Shares shall have been quoted cum-dividend shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Ordinary Share; and

(ii) if the Ordinary Shares to be issued rank for the dividend in question, the quotations on the dates on which the Ordinary Shares shall have been quoted ex-dividend shall for the purpose of this definition be deemed to be the amount thereof increased by an amount equal to the amount of that dividend per Ordinary Share;

and PROVIDED FURTHER THAT if the Ordinary Shares on each of the said five Trading Days have been quoted cum-dividend in respect of a dividend which has been declared or announced but the Ordinary Shares to be issued or purchased do not rank for that dividend, the quotations on each of such dates shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Ordinary Share;

"Shares" includes, for the purposes of Ordinary Shares comprised in any issue, distribution, offer or grant pursuant in Bye-laws 9A(10)(a)(ii), (iii), (iv), (v) and (vi) above, any such shares of the Company as, when fully paid, shall be Ordinary Shares;

"rights" includes rights in whatsoever form issued.

(c) if the Initial Conversion Price is adjusted with effect (retroactively or otherwise) from a date on or before the date on which the names of the Preference Shareholders whose Preference Shares are converted into Ordinary Shares pursuant hereto or such other persons as they may direct are entered into the register of holders of Ordinary Shares of the Company and such Preference Shareholders' entitlement were arrived at on the basis of unadjusted Initial Conversion Price, the Company shall procure that such number of Ordinary Shares which would have been required to be issued on conversion of such Preference Shares if the relevant adjustment had been given effect to as at the date of conversion shall be allotted and issued to such Preference Shareholders or such other persons as they may direct.

(d) The provisions of Bye-law 9A(10)(a) shall not apply to:

(i) an issue of fully-paid Ordinary Shares upon the exercise of any conversion rights attached to securities convertible into Ordinary Shares that exist at the Issue Date;

(ii) an issue of Ordinary Shares or other securities of the Company or any subsidiary wholly or partly convertible into, of carrying rights to acquire, Ordinary Shares to the directors or employees or the Company or any of its subsidiaries pursuant to an employee share option scheme adopted by the Company; and

(iii) an issue by the Company of Ordinary Shares or by the Company or its subsidiary of securities wholly or partly convertible into or carrying rights to acquire Ordinary Shares, in any such case in consideration or part consideration for the acquisition of any other securities, assets or business.

(e) Notwithstanding the provisions of Bye-law 9A(10)(a), in any circumstances where the Directors shall consider that an adjustment to the Initial Conversion Price provided for under the said provisions should not be made or should be calculated on a different basis or that an adjustment to the Initial Conversion Price should be made notwithstanding that no such adjustment is required under the said provisions or that an adjustment should take effect on a different date or at a different time from that provided for under the provisions, the Company may appoint the Independent Financial Adviser, to consider whether for any reason whatever the adjustment to be made (or the absence of adjustment) would or might not fairly and appropriately reflect the relative interests of the persons affected thereby and, if the Independent Financial Adviser shall consider this to be the case, the adjustment shall be modified or nullified or an adjustment made instead of no adjustment in such manner including without limitation, making an adjustment calculated on a different basis and/or the adjustment shall take effect from such other date and/or time as shall be certified by the Independent Financial Adviser to be in its opinion appropriate.

(f) Any adjustment to the Initial Conversion Price shall be made to the nearest cent so that any amount under half a cent shall be rounded down and an amount of half a cent or more shall be rounded up and in no event shall any adjustment (otherwise than upon the consolidation of Ordinary Shares into shares of a larger nominal amount or upon a repurchase of Ordinary Shares) involve an increase in the Initial Conversion Price.

(g) No adjustment shall be made to the Initial Conversion Price in any case in which the amount by which the same would be reduced in accordance with the foregoing provisions would be less than one cent.

(h) Where the result of any act or transaction of the Company, having regard to the provisions of Bye-law 9A(10), would be to reduce the Initial Conversion Price to below the nominal amount of an Ordinary Share, no adjustment to the Initial Conversion Price shall be made pursuant to any of the relevant provisions of Bye-law 9A(10) unless (i) the Bye-Laws of the Company shall be in such form, or shall have been altered or added to in such manner, as may be necessary or appropriate to enable the following provisions of this Bye-law 9A(10)(h) and the provisions of Bye-law 9A(11) to be implemented, (ii) implementation of such provisions is not prohibited by and is in compliance with the provisions of the Act, and (iii) the Company, shall have established and shall thereafter (subject as provided in Bye-law 9A(11)) maintain in accordance with the provisions of Bye-law 9A(11) the Conversion Right Reserve referred to therein.

(i) Whenever the Initial Conversion Price is adjusted, the Company shall give notice to the Preference Shareholders that the Initial Conversion Price has been adjusted (setting forth the event giving rise to the adjustment, the initial Conversion Price in effect prior to such adjustment, the adjusted Initial Conversion Price and the effective date thereof).

11. Reduction of the Conversion Price to below the nominal value of an Ordinary Share

(a) If, so long as any of the Conversion Rights shall remain exercisable, at any time after the Bye-Laws of the Company shall be in such form, or shall have been altered or added to , as provided in Bye-law 9A(10)(h) and the following provisions of this Bye-law 9A(11) are not prohibited by and are implemented in compliance with the provisions of the Act, the Company does any act or engages in any transaction to which the provisions of Bye-law 9A(10)(h) relate, then in compliance with the provisions of that Bye-law, the following provisions shall apply:

(i) As from the date of such act or transaction, the Company shall establish and thereafter (subject as provided in this Bye-law 9A(11)) maintain in accordance with the provisions of this Bye-law 9A(11)(a) a reserve (the **"Conversion Right Reserve"**) the amount of which shall at no time be less than the sum which for the time being would be required to be capitalized and applied in paying up in full the nominal amount of the additional Ordinary Shares required to be allotted and issued credited as fully paid up pursuant to Bye-law 9A(11)(a)(iii) on the exercise in full of all the Conversion Rights outstanding (and any other conversion or subscription rights outstanding in respect of Ordinary Shares under any other securities of the Company) and shall apply the Conversion Right Reserve in paying up in full such additional Ordinary Shares as and when the same are allotted.

(ii) The Conversion Right Reserve will not be used for any purpose other than that specified above unless all other reserves of the Company (other than share premium account) have been extinguished and will then only be used to make good losses of the Company if and so far as is required by law.

(iii) Upon the exercise of the Conversion Rights represented by any Preference Shares, the relevant Conversion Rights shall be exercisable in respect of a nominal amount of Ordinary Shares equal to the Reference Amount of such Preference Shares (or, as the case may be, the portion thereof in respect of which the Conversion Rights are then exercised) and, in addition, there shall be allotted in respect of such Conversion Rights to the exercising Preference Shareholder credited as fully paid such additional nominal amount of Ordinary Shares as is equal to the difference between:

(aa) the Reference Amount of such Ordinary Shares (or, as the case maybe, the portion thereof in respect of which the Conversion Rights are then exercised); and

(bb) the nominal amount of Ordinary Shares in respect of which such Conversion Rights would have been exercisable, having regard to the provisions of Bye-law 9A(10), had it been possible for such Conversion Rights to represent the right to convert into Ordinary Shares at less then par, and immediately upon such exercise so much of the sum standing to the credit of the Conversion Right Reserve as is required to pay up in full such additional nominal amount of Ordinary Shares shall be capitalized and applied in paying up in full such additional nominal amount of Ordinary Shares (other than a fraction of an Ordinary Share) and the relevant number of Ordinary Shares shall forthwith be allotted credited as fully paid to the exercising Preference Shareholder.

(iv) If upon the exercise of Conversion Rights represented by any Preference Share the amount standing to the credit of the Conversion Right Reserve is not sufficient to pay up in full such additional nominal amount of Ordinary Shares equal to such difference as aforesaid to which the exercising Preference Shareholder is entitled, the Directors shall apply any profits or reserves then, or thereafter becoming, available (including, to the extent permitted by law, the share premium account) for such purpose until such additional nominal amount of Ordinary Shares is paid up and the relevant number of Ordinary Shares are allotted as aforesaid and until then no dividend or other distribution shall be paid or made on the Ordinary Shares then in issue. Pending such payment out of the Conversion Right Reserve and the available profits and reserves of the Company and allotment the exercising Preference Shareholder shall be issued by the Company with a certificate evidencing his right to the allotment of such additional nominal amount of Ordinary Shares. The rights represented by any such certificate shall be in registered form and shall be transferable in whole or in part in units of one Ordinary

Share in the like manner as the Ordinary Shares for the time being are transferable, and the Company shall make such arrangements in relation to the maintenance of a register therefor and other matters in relation thereto as the directors of the Company may think fit, and adequate particulars thereof shall be made known to each relevant exercising Preference Shareholder upon the issue of such certificate.

(b) Ordinary Shares allotted pursuant to the provisions of this Bye-law 9A(11) shall rank pari passu in all respects with the other Ordinary Shares allotted on the relevant exercise of the Conversion Rights represented by the Preference Share concerned.

(c) Notwithstanding anything contained in Bye-law 9A(11)(a), no fraction of any Ordinary Share shall be allotted on exercise of the Conversion Rights and the provisions of Bye-law 9A(7) shall apply. For this purpose, if the provisions of Bye-law 9A(11)(a)(iii) apply on the occasion of the exercise of the Conversion Rights represented by any Preference Share, then for the purpose of determining whether any (and if so what) fraction of an Ordinary Share arises:

(i) if the amount standing to the credit of the Conversion Right Reserve is sufficient (when aggregated with the Reference Amount of such Preference Share or, as the case may be, the portion thereof payable upon exercise in part of the Conversion Rights represented by such Preference Share) to enable the issue of the full nominal amount of Ordinary Shares in respect of which the Conversion Rights represented by such Preference Share are then being exercised, any fractions that would arise on the basis of (separately) the Reference Amount (or, as the case may be, the portion thereof as aforesaid) relating to such Preference Share and the capitalization of an amount standing to the credit of the Conversion Right Reserve shall be aggregated; and

(ii) if the contrary to (i) above is the case, the provisions of Bye-law 9A(7) and the foregoing provisions of this Bye-law 9A(11)(c) shall not be applied until the full nominal amount of the Ordinary Shares which fall to be issued on exercise in full of the Conversion Rights represented by such Preference Share is issued (and at that point the Reference Amount relating to such Preference Share and the amount, or all the amounts, capitalized as provided in Bye-law 9A(11)(a) shall be aggregated and the fraction to which the provisions of Bye-law 9A(7) and the foregoing provisions of this Bye-law 9A(11)(c) shall apply shall be the amount of any fraction of a Share then resulting).

(d) A certificate or report by the auditors of the Company from time to time as to whether or not the Conversion Right Reserve is required to be established and maintained and if so the amount thereof so required to be established and maintained, as to the purposes for which the Conversion Right Reserve has been used, as to the extent to which it has been used to make good losses of the Company, as to the number of Ordinary Shares required to be allotted to exercising Preference Shareholders credited as fully paid and as to any other matter concerning the Conversion Right Reserve shall (in the absence of manifest error) be conclusive and binding upon the Company and all the Preference Shareholders and shareholders and all persons claiming through or under them respectively.

12. Undertakings

(a) So long as any Preference Share remains capable of being converted into Ordinary Shares:

(i) the Company will use all reasonable endeavors (1) to maintain a listing for all the issued Ordinary Shares on the Hong Kong Stock Exchange and (2) to obtain and maintain a listing for any Ordinary Shares issued upon conversion of the Preference Shares on the Hong Kong Stock Exchange (or the Alternative Stock Exchange, as the case may be);

(ii) if an offer is made to the holders of Ordinary Shares (or all such shareholders other than the offeror and/or any company controlled by the offeror and/or any persons acting in concert with the offeror) to acquire the whole or any part of the issued ordinary share capital of the Company and the Company becomes aware that the right to cast more than 50 per cent of the votes which may ordinarily be cast on a poll at a general meeting of the Company has or will become vested in the offeror and/or such companies or persons aforesaid, the Company shall give notice to all Preference Shareholders of such vesting or future vesting within 5 days of its becoming so aware;

(iii) the Company will send to each Preference Shareholder, by way of information, one copy of every circular, notice or other document sent to any other shareholders in the company in their capacity as shareholders, at the same time as it is sent to such other shareholders;

(iv) the Company shall procure that there shall be sufficient authorised but unissued share capital available for the purposes of satisfying the requirements of any Conversion Notice as may be given and the terms of any other securities for the time being in issue which are convertible into or have the right to subscribe shares in the Company;

(v) the Company shall not without the consent of the Preference Shareholders as a class, obtained in the manner provided in the Bye-Laws, or unless otherwise permitted pursuant to the Bye-Laws modify, vary, alter or abrogate the rights attaching to the Preference Shares as a class;

(vi) the Company shall give notice in writing to each of the Preference Shareholders promptly upon, and in any event within 5 Business Days following, the occurrence of any of the events referred to in Bye-law 9A(8)(b);

(vii) if the Company shall issue any further Preference Shares or any shares ranking pari passu with the Preference Shares as regards dividend or distribution of assets which shares carry a right to vote at any general meeting of the Company which is more favourable than that attaching to the Preference Shares (a right so to vote if a fixed dividend is six months or more in arrears shall not be treated as being more favourable) then, if the Preference Shareholders as a class shall so approve (in the manner provided in the Bye-Laws), there shall be conferred on the Preference Shareholders the right to receive notice of, and to attend and vote at, all general meetings of the Company thereafter as set out in Bye-Laws 9A(5);

(viii) the Company shall pay all fees, capital and stamp duties payable in Hong Kong, if any, in respect of the issue of Ordinary Shares upon conversion of any Preference Shares;

(ix) the Company shall forthwith upon issue of the Preference Shares and receipt of payment therefor, credit to its preference share premium account (the "**Preference Share Premium Account**") US$999.99 per Preference Share and thereafter, to the extent permitted by law, will each year transfer to an account titled "Preference Share Redemption Account" a sum equal to one-fifth of the aggregate of the Reference Amount and the pro rata portion of Dividend that has accrued from day to day thereon up to the date immediately prior to the Maturity Date, payable on redemption of the outstanding Preference Shares; sums credited to the Preference Share Premium Account and the Preference Share Redemption Account may only be transferred to any other account in the financial records of the Company if so required by law or if the sums remaining are sufficient to pay all sums due on redemption on the Maturity Date of the outstanding Preference Shares;

(x) the Company will not declare, make or pay any dividend on or in respect of its Ordinary Shares (A) as a result thereof its non-consolidated retained profits would fall below the sum shown as such in its audited financial statements for the year ended 31 March 2005 or (B) the percentage of the distributable profits or the Company declared, made or paid in respect of a financial year is higher than the percentage for the immediately preceding year unless after such declaration, making or paying the sums credited to the Preference Share Premium Account or the Preference Share Redemption Account are sufficient to pay all sums due on final redemption of the outstanding Preference Shares; and

(xi) the Company shall provide to each Preference Shareholder within 5 Business Days of each Test Date (as defined in Bye-law 9A(12)(b)) a certificate signed by two directors of the Company setting out the computations of the ratios set out in Bye-law 9A(12)(b) for the Relevant Period (as defined in Bye-law 9A(12)(b)) to which such Test Date relates.

(b) So long as the aggregate number of Preference Share outstanding would, if converted, amount to 5% or more of the total issued Ordinary Shares (including the Ordinary Shares deemed to be issued upon conversion of such Preference Shares), the Company shall, except with the prior written consent of the holders of a majority of the issued Preference Shares:

(i) following the first anniversary of the Issue Date, maintain a ratio of (A) Consolidated Borrowings to (B) Consolidated Shareholders' Equity of not more than 100%;

(ii) following the second anniversary of the Issue Date, maintain a ratio of (A) Consolidated Net Profit before Interest and Taxes to (B) Consolidated Interest Expense of not less than 300%;

(iii) not offer, allot, issue or sell, or agree to allot, issue or sell, grant or agree to grant any option, right to subscribe or purchase or warrant over, either directly or indirectly, conditionally or unconditionally, any Ordinary Shares or other securities of the Company or any securities convertible or exchangeable for such Ordinary Shares or other securities of the Company;

(iv) not make a material change in the business of the Company, which is the provision of healthcare services in China;

(v) not make a significant acquisition or disposition of the assets of the Company or any of its subsidiaries; and

(vi) not enter into any transaction with a "connected person" (as defined in the Listing Rules of the Stock Exchange of Hong Kong) without the unanimous approval of the independent non-executive directors of the Company.

Compliance with and calculation of the ratios referred to in (b)(i) and (b)(ii) above shall be required as at the last day of each Relevant Period only. Testing shall be carries out on each of the Test Dates the first of which shall fall on 1 January 2008 (in respect of the Relevant Period ending 30 September 2007) and by reference to the most recent annual audited or, as the case may be, semi-annual unaudited financial statements in each case prepared on the consolidated basis in respect of the Company and its Subsidiaries in respect of the most recently completed Relevant Period.

For the purposed of (b)(i) and (b)(ii) above, the following terms shall have the meaning respectively ascribed thereto below:

"Consolidated Borrowings"	means indebtedness of the Company, on a consolidated basis, (other than ordinary trade indebtedness) incurred in respect of (a) money borrowed or raised, (b) any bond, note, loan stock, debenture or similar instrument, (c) acceptance credit, trust receipts or commercial paper facilities, (d) deferred payments for assets or services acquired, (e) payments under finance leases (whether in respect of land, machinery, equipment or otherwise) entered into primarily as a method of raising finance or of financing the acquisition of the asset leased, (f) guarantees, bonds, standby letters of credit or other instruments issued in connection with the performance of contracts, (g) any crystallized amount in respect of any derivative transactions which is payable by any member of the Company and (h) Contingencies;
"Consolidated Interest Expense"	means, in relation to the Company, on a consolidated basis, for any Relevant Period, the aggregate amount of all interest, fees and commissions accrued (whether or not paid) during such Relevant Period on all Consolidated Borrowings;
"Contingencies"	means (a) capital commitments which have been contracted for, and (b) guarantees and other assurances against financial loss in respect of Consolidated Borrowings of any person (other than Subsidiaries within the Company);

"Consolidated Net Profit before Interest and Tax"	means, in relation to the Company, in respect of any Relevant Period, its consolidated net profit before Consolidated Interest Expense and taxation, determined by reference to the audited consolidated accounts of the Company for the relevant Period; where, in each of the above, all such amounts and values are computed in the same manner and on the same accounting principles as they are computed for the purposes of the latest audited consolidated balance sheet of the Company.
"Consolidated Shareholders' Equity"	means, on a consolidated basis, for any Relevant Period, the aggregate amount of share capital, share premium and reserves and retained earnings of the Company;
"Financial Year"	means the 12 month period ending on 31 March in each year or such other date as the Company may designate at its discretion and notify the Preference Shareholders;
"Relevant Period"	means (i) in respect of the first Test Date hereunder, the period of twelve months ending on 30 September 2007 and (ii) in all other cases, each period of twelve months ending on the last day of the Company's Financial Year and each period of twelve months ending on the last day of the first half of the Company's Financial Year; and
"Test Dates"	means 1 January 2008 and 1 July 2008 and thereafter each 1 January and 1 July (or, to the extent of the Company's Financial year is amended, the first day of the fourth month following the end of each Relevant Period) and "**Test Date**" means any of the foregoing each "**Test Date**" will be in respect of the most recently completed Relevant Period.

13. Board Representation

The Preference Shareholders shall from time to time be entitled to elect one non-executive director of the Company so long as the aggregate number of Preference Shares then outstanding would, if converted, amount to 5% or more of the total issued Ordinary Shares (including the Ordinary Shares deemed to be issued upon conversion of such Preference Shares).

14. Taxation

(a) All payments in respect of the Reference Amount, premium (if any) and fixed preferential dividend in respect of Preference Shares shall be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Hong Kong or any authority therein or thereof unless the withholding or deduction of such taxes, duties, assessments of governmental charges is required by law. In that event, subject to the Company having sufficient profits available for distribution, the Company shall pay such additional amounts as may be necessary in order that the net amounts received by the Preference Shareholders after such withholding or deduction shall equal the respective amounts of Reference Amount, nominal amount, premium (if any) and fixed preferential dividend which would have been receivable in respect of the Preference Shares in the absence of such withholding or deduction, except that no such additional amounts shall be payable with respect to any Preference Shareholder:

(i) who is liable to such taxes, duties, assessment or governmental charges in respect of such Preference Shares by reason of his having some connection with Hong Kong other than by virtue of his being a Preference Shareholder; or

(ii) receiving such payment in Hong Kong and who would be able to avoid such withholding or deduction by satisfying any statutory requirements or by making a declaration of non-residence or other similar claim for exemption to the Hong Kong tax authority but fails to do so.

To the extent that the Company shall have insufficient profits available for distribution in order to permit it to pay all or any of such additional amounts as aforesaid the amount of any shortfall shall be treated for all purposes as arrears of dividend.

15. Payments

(a) Payment of all amounts in respect of the Preference Shares under the terms and conditions thereof shall be made on the due dates into such bank account in as the holder of the relevant Preference Shareholder may notify the Company by at least 7 days' prior notice in writing from time to time. All payments made by the Company in respect of the Preference Shares pursuant to the terms and conditions of this Bye-law 9A shall be made in US dollars in immediately available funds.

(b) If the due date for payment of any amount in respect of the Preference Shares is not a Business Day, the Preference Shareholder will be entitled to payment on the next following Business Day in the same manner together with interest accrued in respect of any such delay.

(c) If at any time any payments (whether by way of distribution or on a return of capital or otherwise) which are required to be made pari passu as between the holders of the Preference Shares and Other Pari Passu Shares shall not be made in full, in determining the amounts payable to the Preference Shareholders such amounts shall be calculated in US dollars (calculated based on the exchange rate quoted by The Hongkong and Shanghai Banking Corporation Limited for the purchase of US dollars with HK dollars by telegraph transfer at 5:00 p.m. on the day immediately preceding the date of the date of the relevant payment) on:

(i) in the case of any distribution, the date on which such distribution is declared;

(ii) in the case or a return of a capital, the date on which such return or capital shall become due; and

(iii) in the case of any other payment, the date on which such payment shall become due.

(d) All payments or distributions with respect to Preference Shares held jointly by two or more persons shall be paid or made to whichever of such persons is named first in the Register and the making of any payment or distribution in accordance with this sub-paragraph shall discharge the liability of the Company in respect thereof.

16. Transfer

The Preference Shares may only be assigned or transferred (i) to an Affiliate of any of the Subscribers on terms that if such transferee ceases to be an Affiliate of the relevant Subscriber, it will have to transfer the Preference Shares to another Affiliate of the relevant Subscriber; (ii) to one or more funds which is affiliated to or has management agreements with any of the Subscribers or its Affiliates; or (iii) to such other transferee as may be consented to in advance by the Company (such consent not to be unreasonably withheld) and (if so required), subject in each case to the prior approval of the Hong Kong Stock Exchange and all applicable laws. Subject to the foregoing, the Preference Shares may be assigned or transferred in whole or in part and the Company shall facilitate any such assignment or transfer of the Preference Shares, including making any necessary applications to the Hong Kong Stock Exchange or any other regulatory authority for the said approval (if so required)

By order of the Board
China HealthCare Holdings Limited
Li Zhong Yuan
Chairman

Hong Kong, 16 June 2006

Head office and principal place of business in Hong Kong:
Room 1001-2, 10th Floor
Man Yee Building
68 Des Voeux Road Central
Hong Kong

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Notes:

1. Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares of the Company may appoint more than one proxy to represent him and vote on his behalf. A proxy need not be a member of the Company.

2. A form of proxy for use at the special general meeting is enclosed herewith. Completion and return of the form of proxy shall not preclude a member from attending and voting in person at the meeting and in such event, his form of proxy shall be deemed to be revoked.

3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorized to sign the same. In the case of an instrument of proxy purporting to be signed on behalf of a corporation by an officer thereof it shall be assumed, unless the contrary appears, that such officer was duly authorized to sign such instrument of proxy on behalf of the corporation without further evidence of the fact.

4. In order to be valid, the instrument appointing a proxy and the power if attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority must be lodged with the Company's branch share registrar in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, not less than forty eight (48) hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of the meeting or adjourned meeting, not less than twenty-four (24) hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid.

5. No instrument appointing a proxy shall be valid after the expiration of twelve (12) months from the date named in it as the date of its execution, except at an adjourned meeting or on a poll demanded at a meeting or an adjourned meeting in cases where the meeting was originally held within twelve (12) months from such dated.

6. Where there are joint holders of any shares, any one of such joint holders may vote at the meeting, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the order joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.