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, 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)

MAJOR AND CONNECTED TRANSACTION ACQUISITION OF THE REMAINING 30% EQUITY INTEREST IN SHANGHAI HARVEST NETWORK TECHNOLOGY CO. LIMITED

Financial Adviser to the Company

Hercules

Hercules Capital Limited

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

OPTIMA CAPITAL

Optima Capital Limited

A notice convening a special general meeting of China HealthCare Holdings Limited to be held at 9th Floor, Shun Ho Tower, 24-30 Ice House Street, Central, Hong Kong, on 20 May 2008 at 10:00 a.m. is set out on pages 164 to 165 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, Tricor 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 you from attending and voting in person at the meeting if you so wish.

30 April 2008

* *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 30% equity interest in the Target by the Purchaser from the Vendor in accordance with the terms and conditions of the Agreement
"Agreement"	the sale and purchase agreement dated 28 February 2008 entered into between the Purchaser and the Vendor in relation to the Acquisition
"Announcement"	the announcement of the Company dated 4 March 2008 in respect of the Acquisition
"associates"	has the meanings ascribed thereto under the Listing Rules
"Board"	the board of directors of the Company
"Company"	China HealthCare Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
"Completion"	completion of the Agreement
"connected person"	has the meaning ascribed thereto in the Listing Rules
"Convertible Notes"	the convertible notes of a principal amount of HK$20 million to be issued by the Company, as part of the consideration for the Acquisition, to the Vendor in accordance with the terms and conditions of the Agreement
"Conversion Date"	the business day immediately following the date of delivery of an effective conversion notice
"Conversion Share(s)"	the Shares to be issued by the Company upon the conversion of the Convertible Notes
"Director(s)"	the director(s) of the Company
"Enlarged Group"	the Group and the Target Group
"Existing Convertible Notes"	the convertible notes of a principal amount of HK$18.4 million issued by the Company to Mr. Hou Shu Ming as part of the consideration for the Previous Acquisition

"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee of the Company, comprising Mr. Mu Xiangming, Mr. Jiang Bo and Dr. Yan Shi Yun, established to advise the Independent Shareholders on whether the terms of the Acquisition are fair and reasonable and in the interest of the Company and its Shareholders as a whole
"Independent Financial Adviser" or "Optima Capital"	Optima Capital Limited, being a licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as set out in the SFO, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition
"Independent Shareholders"	Shareholders who are not interested or involved in the Acquisition
"Last Trading Day"	28 February 2008, being the last trading day on which the Shares were traded on the Stock Exchange before the publication of the Announcement
"Latest Practicable Date"	25 April 2008, 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
"PRC"	the People's Republic of China, and for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Preference Shares"	15,000 convertible preference shares issued by the Company to the Subscribers in accordance with the terms and conditions of the subscription agreement dated 5 April 2006 entered into between the Company and the Subscribers

"Previous Acquisition"	the acquisition of 70% equity interest in the Target by the Purchaser from Mr. Hou Shu Ming and the Vendor in accordance with the terms and conditions of the sale and purchase agreement dated 6 April 2006, details of which are contained in the Company's announcement and circular dated 28 April 2006 and 16 June 2006 respectively
"Purchaser"	Success Gateway Investments Limited (勝基投資有限公司), a wholly-owned subsidiary of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"RSM"	RSM Nelson Wheeler, Certified Public Accountants, Hong Kong, being the reporting accountants of the Target Group
"Sale Shares"	30% of the issued share capital of the Target
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
"SGM"	the special general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving the Agreement and the transactions contemplated thereunder
"Share(s)"	ordinary share(s) of HK$0.1 each in the issued share capital of the Company
"Shareholder(s)"	the holder(s) of the Share(s)
"Subscribers"	OZ Master Fund, Ltd., OZ Asia Master Fund, Ltd., OZ Global Special Investments Master Fund, L.P. and Fleet Maritime, Inc.
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target"	Shanghai Harvest Network Technology Co. Limited (上海德豐網絡技術有限公司), which was owned as to 70% by the Group as at the Latest Practicable Date
"Target Group"	the Target and its subsidiaries
"US$"	United States dollar, the lawful currency of the United States of America

"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 was beneficially-owned as to 50% by Mr. Tian Chengwang and 50% by Mr. Li Guoming as at the Latest Practicable Date
"%"	per cent.

In this circular, RMB is converted into HK$ on the basis of RMB1.000 = HK$1.091 and US$ is converted into HK$ on the basis of US$1.0 = HK$7.8 (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:
Dr. Li Zhong Yuan
Mr. Lee Jong Dae
Mr. Zhou Bao Yi

Non-executive Director:
Mr. Martin Treffer

Independent non-executive Directors:
Mr. Mu Xiangming
Mr. Jiang Bo
Dr. Yan Shi Yun

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

30 April 2008

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

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION ACQUISITION OF THE REMAINING 30% EQUITY INTEREST IN SHANGHAI HARVEST NETWORK TECHNOLOGY CO. LIMITED

INTRODUCTION

On 28 February 2008, the Purchaser, a wholly-owned subsidiary of the Company, entered into the Agreement with the Vendor to acquire the remaining 30% equity interest in the Target at a total consideration of HK$41.5 million.

The Acquisition constitutes a major and connected transaction of the Company under the Listing Rules and is subject to the approval of the Independent Shareholders, by way of poll, at the SGM. The purpose of this circular is to provide you with, inter alia, (i) further details relating to the Acquisition; (ii) the letter from Optima Capital containing its advice to the Independent Board Committee and the Independent Shareholders on the Acquisition; (iii) the recommendation of the Independent Board Committee to the Independent Shareholders regarding the Acquisition; and (iv) the notice of the SGM.

THE AGREEMENT

Date 28 February 2008

Parties

Vendor: Panjinfenyuan Technology Investment Limited (盤錦鋒源科技投資有限公司), an investment holding company incorporated under the laws of the PRC, which was beneficially-owned as to 50% by Mr. Tian Chengwang and 50% by Mr. Li Guoming as at the Latest Practicable Date.

Purchaser: Success Gateway Investments Limited (勝基投資有限公司), a wholly-owned subsidiary of the Company.

Assets to be acquired

Pursuant to the Agreement, the Purchaser has agreed to acquire and the Vendor has agreed to sell the Sale Shares, representing 30% of the issued share capital of the Target.

Consideration

The total consideration for the Acquisition is HK$41.5 million and shall be satisfied as follows:

(i) HK$21.5 million in cash, where HK$8.5 million shall be paid at the date of Completion and the remaining balance of HK$13.0 million shall be settled within three months after Completion; and

(ii) the balance of HK$20.0 million shall be satisfied by the Purchaser by procuring the Company to issue the Convertible Notes to the Vendor upon Completion.

The consideration for the Acquisition was determined after arm's length negotiations between the parties to the Agreement, having regard to (i) the growth potential and prospects of the Target Group; (ii) the Target Group's expanding consumer access network of over 5,700 retail outlets connected with its e-commerce platform for e-distribution and settlement of various B-to-C businesses in the PRC; and (iii) the unaudited consolidated net profit of the Target Group of approximately RMB6.88 million for the nine months ended 30 September 2007.

The consideration of the Acquisition represents a premium of approximately 254.70% over the 30% interest of the unaudited consolidated net assets of the Target Group as at 30 September 2007 of approximately RMB10.7 million (equivalent to HK$11.7 million). Based on the consideration of the Acquisition of approximately HK$41.5 million, the implied market value of the Target Group is approximately HK$138.3 million, which represents a premium of approximately 165.96% over the implied market value of the Target Group of approximately HK$52.0 million calculated based on the consideration of approximately HK$36.4 million for the Previous Acquisition.

Having considered that: (i) the unaudited consolidated net profit of the Target Group for the nine months ended 30 September 2007 has increased by approximately 34.1% as compared to the net profit for the previous corresponding period of approximately RMB5.13 million; (ii) the number of retail outlets connected to the e-platform of the Target Group has increased by more than 42% from 4,000 in February 2006 to 5,700 in February 2008; (iii) according to the Ministry of Information Industry of the PRC, the number of mobile phone users increased from 467.4 million as at 31 January 2007 to 555.8 million as at 31 January 2008, representing an increase of 18.9%; (iv) the demand of B-to-C e-payment services for the telecommunication sector is expected to continue to grow in line with the increase in mobile phone users in the foreseeable future; and (v) the demand of e-payment services for other sectors is also expected to increase in the coming years, the Directors (excluding the independent non-executive Directors whose opinion is set out in the letter from the Independent Board Committee on page 18 of this circular) are optimistic about the future potential of the Target Group and consider that the premium of the consideration over the consolidated net asset value of the Target Group and cost of the Previous Acquisition is commercially justifiable.

Principal terms of the Convertible Notes

The terms of the Convertible Notes have been negotiated between the Purchaser and the Vendor on an arm's length basis and the principal terms of which are summarized below:

Issuer:	the Company
Principal amount:	HK$20,000,000
Issue price:	100% of principal amount
Interest:	2% per annum on the aggregate principal amount outstanding from time to time, grossed up for any tax and fee/cost, payable semi-annually in arrears in equal installments starting from the 180th day of date of issuance.
Default interest:	Without prejudice to the rights of the holders of the Convertible Notes, to the extent that the interest is not paid by the Company on any Convertible Note on the interest payment day, the interest shall accrue thereon from that interest payment day at a default rate of 5% per annum until date of payment.

Maturity date:	Three years after the issue of the Convertible Notes (or, if that is not a business day, the first business day thereafter). The Company shall repay the principal amount outstanding under the Convertible Notes to the holder(s) of the Convertible Notes together with all interest accrued thereon up to and including the date of actual repayment on the maturity date.
Extension option:	The maturity date may be extended at the same terms by one year at the option of the Company by way of a notice of 20 business days in advance of the maturity date.
Conversion price:	As of any Conversion Date, the lower of (a) the initial conversion price of HK$1.16, as adjusted from time to time in accordance with the terms of instruments 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 a full ratchet adjustment in the event of issuance of Shares or securities convertible or exchangeable into the Shares, which represented all adjustment clauses as specified in the terms of instruments of the Convertible Notes; 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 0.90x, but in any case not lower than HK$0.30.

The conversion price, which was arrived at after arm's length negotiations between the Vendor and the Purchaser, is the same as that for the Existing Convertible Notes issued by the Company to the vendor as part of the consideration for the Previous Acquisition. The Directors considered that the formula for calculating the conversion price is fair and reasonable and in the interest of the Company and its Shareholders as a whole as it has taken into account the market value of the Shares at the time of conversion and has set a floor for the conversion price.

The initial conversion price of HK$1.16 represents

(i) a premium of approximately 205.3% over the closing price of HK$0.380 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a premium of approximately 110.9% over the closing price of HK$0.550 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a premium of approximately 127.5% over the average closing price of approximately HK$0.510 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day; and

(iv) a premium of approximately 132.5% over the average closing price of approximately HK$0.499 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day.

Conversion rights: The Convertible Notes carry the rights to convert either in whole or in part of the principal amount into Conversion Shares at the conversion price in amounts of the denomination per Convertible Note or its integral multiple during the conversion period at the discretion of the holder(s) of the Convertible Notes.

Conversion period: The period commencing on 6 months from the issue date of the Convertible Notes up to the maturity date.

Conversion Shares: The Conversion Shares will rank pari passu in all respects with the existing Shares in issue and be issued free and clear from all liens, charges, encumbrances, claims, options and third party rights and with all rights attaching thereto as at the date of conversion, including the right to receive all dividends and other distributions thereafter declared, paid or made on the Conversion Shares.

Assuming that the Convertible Notes are fully converted into Conversion Shares at the initial conversion price of HK$1.16, a total of 17,241,379 Conversion Shares, which represent approximately 7.36% of the existing share capital of the Company and approximately 6.85% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares, will be issued.

Assuming that the Convertible Notes are fully converted into Conversion Shares at the minimum conversion price of HK$0.30, a total of 66,666,667 Conversion Shares, which represent approximately 28.45% of the existing share capital of the Company and approximately 22.15% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares, will be issued.

	The total market value of the Conversion Shares, assuming that the Convertible Notes are fully converted at the initial conversion price of HK$1.16 and the minimum conversion price of HK$0.30, amounted to approximately HK$6.55 million and HK$25.33 million respectively based on the closing price of HK$0.38 per Share as quoted on the Stock Exchange on the Latest Practicable Date. The Conversion Shares will be issued under a specific mandate, which would be sought at the SGM. Application will be made by the Company for the listing of, and permission to deal in, the Conversion Shares on the Stock Exchange.
Listing:	No application will be made by the Company to the Stock Exchange for the listing of the Convertible Notes.
Redemption:	The Company may redeem the Convertible Notes in whole at 100% of issue price at any time after the 2nd anniversary of issuance and prior to the maturity date by way of a notice in advance of 30 business days. The holders of the Convertible Notes retain the right of conversion prior to the completion of such redemption.
Transferability:	The Convertible Notes may be assigned or transferred to any third party or parties other than a party connected with the Company or any of its subsidiaries, the directors, chief executive and substantial shareholders of the Company and its subsidiaries, and their respective associates unless necessary approvals and consents by Independent Shareholders have been obtained with respect to any assignment or transfer to a connected person.
Voting right:	Holder(s) of the Convertible Notes (or any part thereof) will not be entitled to attend or vote at any shareholders' meeting of the Company by reason only of it being a holder of the Convertible Notes (or any part thereof).
Status:	The Convertible Notes will be direct, unsubordinated, unconditional and unsecured obligations of the Company and will at all time rank pari passu in rights of payment with all other present and future direct, unsubordinated, unconditional and unsecured obligations of the Company.

Conditions Precedent

Completion is conditional upon, inter alia,:

(a) the passing by the Independent Shareholders of a resolution approving the Agreement and the transactions contemplated thereunder in accordance with the requirements of the Listing Rules, the memorandum and bye-laws of the Company and as may be required by any applicable law, rules or regulations;

(b) no statute, regulation or decision which would prohibit, restrict or materially delay the Acquisition having been proposed, enacted or taken by any governmental or official authority; and

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

Completion shall take place on the third business day after the date on which all of the conditions under the Agreement are satisfied, or such later date as the parties may agree in writing. As at the Latest Practicable Date, condition (b) has been satisfied.

In the event that any of the conditions shall not have been satisfied prior to 30 June 2008 (or any other date as the Purchaser and the Vendor may agree in writing), then the Purchaser shall have the right to elect not to proceed with the Acquisition and the Agreement shall lapse save in respect of claims arising out of any antecedent breach.

INFORMATION ON THE TARGET

The Target was incorporated in November 2000 under the PRC laws. It has a registered and issued share capital of RMB40 million. The Target is principally engaged in B-to-C e-payment services and distributions. In terms of e-commerce technology of payment solutions, the Target has developed and been continuously improving its proprietary platform of comprehensive e-commerce services with multi-functional POS systems and other e-commerce terminals; and in terms of consumer distribution network, the Target has been strategically building up its access channels to end consumers in Shanghai and has its e-commerce terminals placed at or its platform connected with almost 5,700 retail outlets throughout Shanghai, including almost all convenience stores in Shanghai under leading retail groups in the PRC.

The Purchaser acquired a total of 70% equity interest in the Target in August 2006 from Mr. Hou Shu Ming and the Vendor at a total consideration of HK$36.4 million, details of which are contained in the Company's announcement and circular dated 28 April 2006 and 16 June 2006 respectively.

Of particular significance and relevance to the Group, the Target not only serves as a well-versed settlement and service system but much more importantly also as an expanding marketing network and distribution channel to access consumers in Shanghai and other parts of the PRC applicable to e-cash of various B-to-C businesses.

As its initial focus, the Target has established and been expanding its consumer access channels by successfully conducting its B-to-C business in e-distribution of mobile phone pre-payment, where two exclusive wireless operators in the PRC, namely China Mobile and China Unicom, are its strategic partners and vendors, and it has achieved the status of number one distributor for China Mobile in Shanghai with a dominant market share of over 24% in the Shanghai mobile prepayment market. In addition to the Shanghai market, the Target has expanded its business into Guangdong, the largest provincial mobile prepayment market in the PRC. Furthermore, the Group has been, in general, elevating and extending the Target's consumer access channels and payment solutions platform into e-commerce of consumer financial services in the PRC, and in particular, integrating the Target as its consumer channel and its unique access to health resources to develop an operation of e-payment service for B-to-C consumer oriented healthcare ("Health Debit Cards"), which are electronically enabled stored value payment cards for procurement of consumption in an array of health and wellness related and consumer oriented services and products, with its geographical focus in Shanghai initially.

The purchase cost for the Vendor in respect of its 30% equity interest in the Target was approximately RMB15.6 million.

The audited consolidated financial results of the Target for the two years ended 31 December 2007 are summarised as follows:

	For the year ended 31 December	
	2007	**2006**
	RMB'000	*RMB'000*
	(audited)	*(audited)*
Profit before taxation and extraordinary items	10,649	8,831
Profit after taxation and extraordinary items	9,147	7,372

As at 31 December 2007, the audited consolidated net assets of the Target Group was approximately RMB37.9 million.

REASONS FOR THE ACQUISITION

The Group is principally engaged in investment holding, e-commerce and healthcare services. It currently holds 70% equity interest in the Target. Upon Completion, the Target will become a wholly-owned subsidiary of the Company. The Directors consider that the acquisition of the remaining 30% equity interest in the Target shall enable the Group to maximize its flexibility and discretion in (i) expanding the Target to extend its geographical reach beyond Shanghai and elevating and extending consumer access channels and payment solution platform into e-commerce business of synergetic consumer financial services, in particular, into the Health Debit Card as described earlier; and (ii) implementing and integrating its business strategies of enabling and procuring better access, better communication and better connectivity in healthcare and consumer services in the PRC on an overall basis.

The Directors (excluding the independent non-executive Directors whose opinion on the Acquisition are set out on page 18 of this circular) believe that the terms of the Agreement, including the consideration of the Acquisition, are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

FINANCIAL EFFECT OF THE ACQUISITION

Upon Completion, the Target, currently being a non wholly-owned subsidiary of the Company, will become a wholly-owned subsidiary of the Company and its results will be consolidated into the Group's accounts.

As at 30 September 2007, the Group recorded an unaudited consolidated net liabilities of approximately HK$49.5 million. As set out in the unaudited pro forma statement of assets and liabilities of the Enlarged Group in Appendix III to this circular, had the Completion been taken place on 30 September 2007, the unaudited pro forma total assets of the Enlarged Group shall increase by approximately HK$21.3 million, while the unaudited pro forma total liabilities of the Enlarged Group shall increase by approximately HK$33.0 million, resulting in an increase of approximately HK$11.7 million in net liabilities of the Enlarged Group. Since the increase in net liabilities shall be off-set by the decrease in minority interests, the net liabilities attributable to the Company shall remain unchanged. The gearing ratio of the Group, as expressed in the ratio of total liabilities to total assets was 1.25 as at 30 September 2007 and would have been increased slightly to 1.28 had the Acquisition been completed on 30 September 2007.

As set out in Appendix II to this circular, the Target Group recorded net profit for each of the three years ended 31 December 2007. Based on the promising track records and the future prospect of the Target Group, the Directors believe that the Acquisition shall contribute to the future earnings of the Group and the extent of impact shall depend on the future performance of the Target Group.

Since the consideration for the Acquisition shall be settled by HK$21.5 million in cash and HK$20 million by procuring the Company to issue the Convertible Notes, the Group shall have a total cash outflow of HK$21.5 million within three months after Completion. Upon the maturity of the Convertible Notes, which will be three years after the date of issue of the Convertible Notes, the Group shall have a total cash outflow of HK$20 million in the event that no conversion of the Convertible Notes is opted by the holder(s). If the holder(s) of the Convertible Notes opt to convert the Convertible Notes in full, there shall be no effects on the cashflow of the Group upon maturity.

In view of (i) the net liabilities attributable to the Company remain unchanged; and (ii) the adverse effect on the increase in the gearing ratio of the Enlarged Group is insignificant, the Directors (excluding the independent non-executive Directors) consider that the Acquisition has no significant adverse financial impacts on the Group and the terms of the Agreement are fair and reasonable and in the interest in the Company and its Shareholders as a whole.

TRADING PROSPECTS OF THE ENLARGED GROUP

The Enlarged Group is principally engaged in the provision of e-commerce and healthcare services in the PRC, with its focus on e-commerce through B-to-C consumer channels, procurement of healthcare services through health advocate and connectivity platform and integrating e-commerce with healthcare services. The strategic healthcare and consumer services platform operated by the Enlarged Group is a key component of the integrated value-chain of procurement and delivery of bundled health and wellness services in the PRC, which will increase the efficiency, effectiveness and convenience in accessing, obtaining and effecting settlement of such services.

In consideration of the substantial growth of the PRC's economy and the relatively low proportion of gross domestic product spending on healthcare in the PRC as compared to the other western countries, the Directors are optimistic about the future development of the healthcare business in the PRC. In addition, the Directors are also confident that the unique platform of the Enlarged Group can differentiate the Enlarged Group's capability in the growing healthcare and consumer services markets in the PRC.

CHANGE IN THE SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is a summary of the shareholding in the Company (i) as at the Latest Practicable Date; (ii) upon full conversion of the Convertible Notes at the initial conversion price of HK$1.16; and (iii) upon full conversion of the Convertible Notes at the initial conversion price of HK$1.16 and the existing convertible securities of the Company, each prepared on the basis that there would be no changes in the issued share capital of the Company after the Latest Practicable Date.

	As at the Latest Practicable Date		**Upon full conversion of the Convertible Notes**		**Upon full conversion of the Convertible Notes and the existing convertible securities of the Company** *(Note 1)*	
	Number of Shares	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*
China Healthcare Services Limited	17,541,000	7.48	17,541,000	6.97	17,541,000	4.37
Orient Access International Inc.	17,300,000	7.38	17,300,000	6.88	17,300,000	4.31
Guo Kang Pharmaceutical & Medical Supplies Limited *(Note 2)*	17,000,000	7.25	17,000,000	6.76	17,000,000	4.24
Pacific Annex Capital Limited *(Note 3)*	11,147,000	4.76	11,147,000	4.43	11,147,000	2.78
Timenew Limited *(Note 3)*	8,661,000	3.70	8,661,000	3.44	8,661,000	2.16
Dr. Li Zhong Yuan	4,635,000	1.98	4,635,000	1.84	8,260,000	2.06
Mr. Lee Jong Dae	3,026,500	1.29	3,026,500	1.20	6,626,500	1.65

	As at the Latest Practicable Date		**Upon full conversion of the Convertible Notes**		**Upon full conversion of the Convertible Notes and the existing convertible securities of the Company** *(Note 1)*	
	Number of Shares	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*
2Trade Group Limited *(Note 4)*	1,295,000	0.55	1,295,000	0.51	1,295,000	0.32
Mr. Martin Treffer	250,000	0.11	250,000	0.10	1,150,000	0.29
Mr. Mu Xiangming	–	–	–	–	210,000	0.05
Dr. Ni Aimin *(Note 5)*	750,000	0.32	750,000	0.30	3,150,000	0.78
Mr. Deng Ku Hon *(Note 5)*	432,000	0.18	432,000	0.17	432,000	0.11
Subscribers	–	–	–	–	100,344,827	25.00
Mr. Hou Shu Ming	–	–	–	–	15,862,068	3.95
Vendor	–	–	17,241,379	6.85	17,241,379	4.30
Other public Shareholders	152,330,077	65.00	152,330,077	60.55	175,089,077	43.63
Total	**234,367,577**	**100.00**	**251,608,956**	**100.00**	**401,309,851**	**100.00**

Notes:

(1) The existing convertible securities of the Company include the Preference Shares, the Existing Convertible Notes and an aggregate of 33,494,000 outstanding share options with exercise prices in the range of HK$2.325 to HK$8.6 each. Save as aforementioned, the Company did not have any other outstanding option, warrant or other securities convertible into Shares as at the Latest Practicable Date.

(2) As at the Latest Practicable Date, Guo Kang Pharmaceutical & Medical Supplies Limited was 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.

(3) As at the Latest Practicable Date, Pacific Annex Capital Limited and Timenew Limited were wholly-owned by Dr. Li Zhong Yuan and thus Dr. Li Zhong Yuan was deemed to be interested in the Shares held by Pacific Annex Capital Limited and Timenew Limited.

(4) As at the Latest Practicable Date, 2Trade Group Limited was beneficially-owned as to 35% by Mr. Martin Treffer and thus Mr. Martin Treffer was deemed to be interested in the Shares held by 2Trade Group Limited.

(5) Being Directors within the preceding 12 months from the date of the Announcement.

(6) To the best knowledge of the Directors and information available as at the Latest Practicable Date, none of China Healthcare Services Limited, Orient Access International Inc., and their respective beneficial owners was connected person of the Company and China Healthcare Services Limited, Orient Access International Inc., Guo Kang Pharmaceutical & Medical Supplies Limited, Pacific Annex Capital Limited and 2Trade Group Limited are independent of each other.

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

(8) The Vendor is a third party independent of the Subscribers, Mr. Hou Shu Ming and any other Shareholder.

As shown in the above table, the Acquisition will not result in a change in control of the Company.

SGM

The Acquisition constitutes a major transaction of the Company under the Listing Rules. The Vendor is a connected person of the Company under Chapter 14A of the Listing Rules by virtue of it being a substantial shareholder of the Target, which is a subsidiary of the Company. Accordingly, the Acquisition also constitutes a connected transaction of the Company and is subject to the approval of the Independent Shareholders, by way of poll, at the SGM. Since none of the Vendor, parties acting in concert with it and their respective associates held any Share as at the Latest Practicable Date and to the best of the knowledge, information and belief of the Directors, having made all reasonable enquiry, no Shareholder had any interest in the Acquisition as at the Latest Practicable Date, it is expected that no Shareholder is required to abstain from voting at the SGM.

Set out on pages 164 to 165 of this circular is a notice of the SGM, at which a resolution will be proposed and, if consider appropriate, passed to approve the Agreement and transactions contemplated therein.

RECOMMENDATION

The Directors consider that the terms and conditions of the Agreement are fair and reasonable and the entering into of the Agreement is in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favor of the resolution to be proposed at the SGM to approve the Agreement and transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 18 of this circular and the letter of advice received from Optima Capital on pages 19 to 37 of this circular. Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
China HealthCare Holdings Limited
Zhou Bao Yi
Executive Director

China HealthCare Holdings Limited
中國衛生控股有限公司*
(incorporated in Bermuda with limited liability)
(Stock Code: 673)

30 April 2008

To the Independent Shareholders

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION ACQUISITION OF THE REMAINING 30% EQUITY INTEREST IN SHANGHAI HARVEST NETWORK TECHNOLOGY CO. LIMITED

As members of the Independent Board Committee, we have been appointed to advise you in connection with the Agreement, details of which are set out in the Letter from the Board contained in this circular to the Shareholders dated 30 April 2008, of which this letter forms part. Terms defined in this circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the terms of the Agreement and the advice of the Independent Financial Adviser in relation thereto as set out on pages 19 to 37 of this circular, we are of the opinion that the entering into of the Agreement is in the interest of the Company and the Shareholders as a whole and the terms of the Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. We therefore recommend you to vote in favor of the resolution to be proposed at the SGM to approve the Agreement and transactions contemplated thereunder.

Yours faithfully,

Mr. Mu Xiangming **Mr. Jiang Bo** **Dr. Yan Shi Yun**

Independent Board Committee

The following is the letter of advice from Optima Capital to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, which has been prepared for the purpose of inclusion in this circular.

Unit 3618, 36th Floor,
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

30 April 2008

*To : the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

**MAJOR AND CONNECTED TRANSACTION
ACQUISITION OF THE REMAINING 30% EQUITY INTEREST IN
SHANGHAI HARVEST NETWORK TECHNOLOGY CO. LIMITED**

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders on the Acquisition, for which the Independent Shareholders' approval is being sought. Details of the Acquisition are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 30 April 2008 (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined.

The Acquisition constitutes a major transaction of the Company under the Listing Rules and is subject to the approval of the Shareholders at the SGM. In addition, the Vendor is a connected person of the Company under Chapter 14A of the Listing Rules by virtue of it being a substantial shareholder of the Target, which is a subsidiary of the Company. Accordingly, the Acquisition also constitutes a connected transaction of the Company and is subject to the approval of the Independent Shareholders at the SGM. As at the Latest Practicable Date, since none of the Vendor, parties acting in concert with it and their respective associates held any Shares and to the best of the knowledge, information and belief of the Directors, having made all reasonable enquiry, no Shareholder had any interest in the Acquisition, it is expected that no Shareholders are required to abstain from voting on the ordinary resolution to be proposed at the SGM in respect of the Acquisition.

The Independent Board Committee, comprising all the three independent non-executive Directors, namely Mr. Mu Xiangming, Mr. Jiang Bo and Dr. Yan Shi Yun has been established to make recommendation to the Independent Shareholders regarding the Acquisition. Optima Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the entering into of the Agreement is in the interests of the Company and the Shareholders as a whole, and whether the terms of the Acquisition are fair and reasonable in so far as the Independent Shareholders are concerned.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Company and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material respects at the time they were made and up to the date of the SGM. We have also sought and received confirmation from the executive Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information have been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Group or the Target Group, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the Agreement are fair and reasonable in so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

1. The Acquisition

1.1 Background to the Acquisition

The Group is principally engaged in (i) e-commerce via B-to-C consumer channels; (ii) procurement of healthcare services via health advocate & connectivity platform; and (iii) integrating e-commerce with healthcare services. As stated in the annual report of the Company for the financial year ended 31 March 2007 (the "Annual Report 2007"), before the completion of the Previous Acquisition, the Group was principally engaged in provision of facilitation and distribution of consumer oriented and healthcare services in the PRC by leveraging its access to distribution channels, communications infrastructure and healthcare resources.

As stated in the circular of the Company dated 16 June 2006, the Group has devoted most of its resources since 2004 to create a platform for the provision of integrated healthcare services for foreign visitors, expatriates, and PRC nationals in the PRC. 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. Therefore, the Group acquired 70% equity interest in the Target in August 2006 and upon completion of the Previous Acquisition, the Target became a subsidiary of the Company. The completion of the Previous Acquisition enables the Group to scale up its own direct B-to-C access/settlement/connectivity platform to distribute its consumer oriented and health/wellness services and products effectively and conveniently.

Set out below is a summary of the financial highlights of the Group for the two years ended 31 March 2007 as extracted from the Annual Report 2007:

	Year ended 31 March 2007 *HK$'000*	**Year ended 31 March 2006** *HK$'000*
Turnover:		
Production and trading of biotechnology products	2,852	3,683
Procurement of healthcare Services	3,033	3,151
E-commerce distribution of mobile pre-charge *(Note)*	1,627,076	–
Total Turnover	1,632,961	6,834
Cost of sales and service	(1,620,215)	(5,287)
Gross Profit	12,746	1,547
Loss from operations	(64,605)	(99,096)
Loss before tax	(73,372)	(101,863)
Loss for the year	(74,255)	(101,863)

Note: Turnover generated from e-commerce distribution of mobile pre-charge was solely contributed by the Target Group after completion of the Previous Acquisition. Therefore, approximately 8-month financial results of the Target Group were consolidated into the consolidated accounts of the Company for the financial year ended 31 March 2007.

As shown in the above table, the Group reported a turnover of approximately HK$1,633.0 million for the year ended 31 March 2007, representing an increase of about 239 times over the turnover of HK$6.8 million for the year ended 31 March 2006. The net loss of the Group for the financial year ended 31 March 2007 has been reduced to approximately HK$74.3 million, representing a decrease of 27.1% compared with that of 2006. As turnover generated from the Target Group accounted for approximately 99.6% of the Group's total turnover for the financial year ended 31 March 2007, the results of the Target Group are significant to the Group's overall financial performance and future development. The substantial improvement of the Group in 2007 is mainly attributable to the promising results of the Target Group.

1.2 Information of the Target Group

As stated in the letter from the Board to this circular, the Target was incorporated in November 2000 under the PRC laws. It has a registered and issued share capital of RMB40 million. The Target Group is principally engaged in B-to-C e-payment services and distributions. In terms of e-commerce technology of payment solutions, the Target Group has developed and has been continuously improving its proprietary platform of comprehensive e-commerce services with multi-functional POS systems and other e-commerce terminals; and in terms of consumer distribution network, the Target has been strategically building up its access channels to end consumers in Shanghai and has its e-commerce terminals placed at, or its platform connected with, almost 5,700 retail outlets throughout Shanghai, including almost all convenience stores in Shanghai under leading retail groups in the PRC.

As an initial focus, the Target Group has established and has been expanding its consumer access channels by successfully conducting its B-to-C business in e-distribution of mobile phone pre-payment, where two exclusive wireless operators in the PRC, namely China Mobile and China Unicom, are its strategic partners and vendors. The Target Group has also achieved the status of the top distributor for China Mobile in Shanghai with a dominant market share of over 24% in the Shanghai mobile prepayment market. In addition to the Shanghai market, the Target has recently expanded its geographical landscape to Guangdong Province, the largest provincial mobile prepayment market in the PRC. Set out below is the audited financial information of the Target Group for the three financial years ended 31 December 2007 as extracted from its accountants' report as set out in Appendix II to the Circular.

	Year ended 31 December 2007	**Year ended 31 December 2006**	**Year ended 31 December 2005**
	RMB'000	*RMB'000*	*RMB'000*
Turnover	2,554,621	2,256,904	1,993,407
Gross profit	19,316	16,854	13,202
Profit before taxation	10,649	8,831	8,558
Profit for the year	9,147	7,372	6,781
Gross profit margin	0.8%	0.7%	0.7%

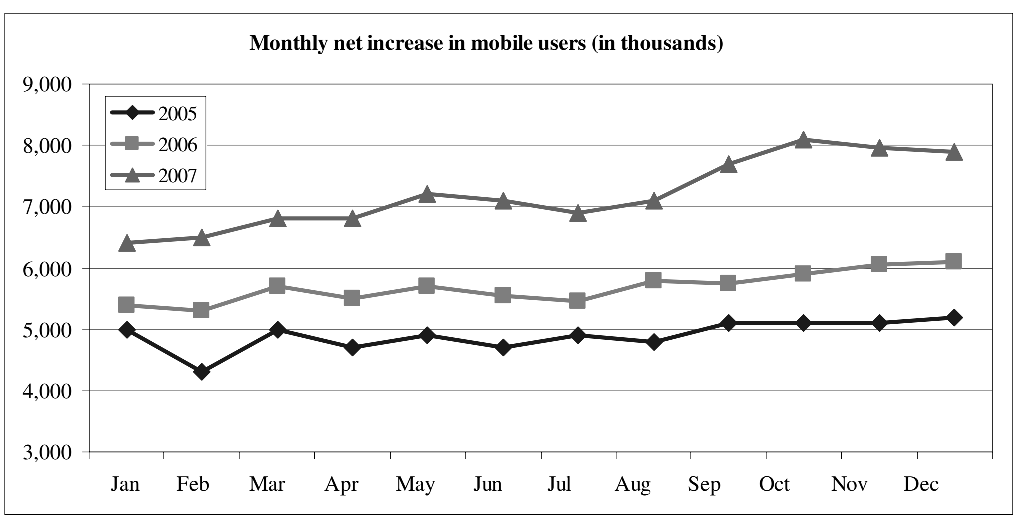
Turnover of the Target Group during the years stated above was mainly generated from the sale of mobile phone prepaid card through the provision of e-payment platform and other related services. For the year ended 31 December 2007, the Target Group recorded turnover of approximately RMB2,554.6 million, representing an increase of approximately 13.2% compared with that of 2006. As advised by the management of the Target Group, the continuous increase of the Target Group's turnover was mainly attributable to the increase in demand and rapid growth of the e-payment service market in Shanghai and the expansion of the Target Group's POS system network. As at 31 December 2007, about 5,700 proprietary e-charge POS systems were placed in the major convenience store chains and other retail spots in Shanghai, representing a significant growth of approximately 42.5% compared with the number as at 31 December 2005.

Gross profit margin maintained at approximately 0.7% to 0.8% at year end of the years presented in the above table. Profit for the year ended 31 December 2007 was approximately RMB9.1 million, representing an increase of 24.1% compared with that of 2006.

We noted that the Target Group has demonstrated a growing trend of earnings for the Group during the above years and has contributed significantly to the Group's turnover. As referred to the Annual Report 2007, turnover generated from the Target Group accounted for approximately 99.6% of the Group's total turnover in the financial year ended 31 March 2007. We are of the view that by tapping into the rapidly growing market of e-commerce payment system for telecommunication sector, the Target Group has been progressing satisfactorily with promising results since the Previous Acquisition. In view of the proven track record of the Target Group and its significant contribution to the Group's results, we consider that the Acquisition can help maximise the Shareholder's return and strengthen the Group's financial performance and hence is in the interests of the Company and the Shareholders as a whole.

1.3 Industry analysis and business prospects of the Target Group

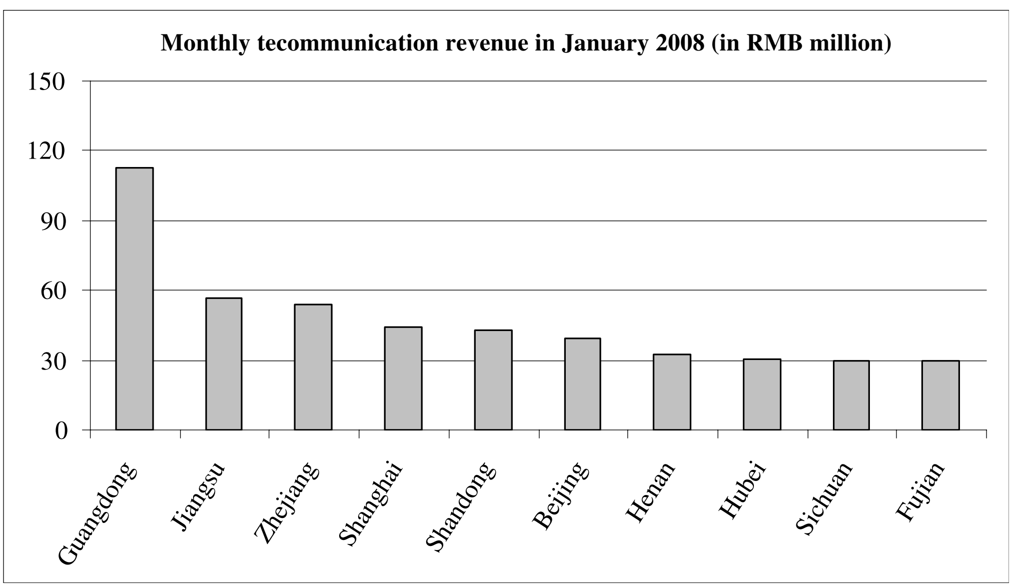
According to the National Bureau of Statistic of China, the PRC economy continues to be one of the fastest growing nations in the world, with a gross domestic product ("GDP") of approximately RMB21,087.1 billion for 2006, representing an increase of approximately 14.7% over that of 2005 and a compound annual growth rate of approximately 11.5% from 1996 to 2006. According to the preliminary statistics announced by the National Bureau of Statistic of China, GDP for 2007 was approximately RMB24,661.9 billion, representing a growth of approximately 11.4% over that of 2006.



Source: the Ministry of Information Industry of the PRC

The above chart shows that the monthly net increase in the number of mobile users from January 2005 to December 2007 was in an increasing trend. It is expected that the number of mobile users will continue to be driven by the rapid economic growth in the PRC. According to the Ministry of Information Industry of the PRC, the number of mobile phone users increased from 461.1 million as at 31 December 2006 to 547.3 million as at 31 December 2007, representing an annual growth of 18.7%. The Directors expect that the demand of e-payment services for the telecommunication sector will continue to grow in line with the increase in mobile phone users in coming years.

As stated in the interim report of the Company for the six months ended 30 September 2007 (the "Interim Report 2007") and letter from the Board to this circular, the Target Group has expanded its business into Guangdong Province, the largest provincial mobile prepayment market in the PRC. As advised by the management of the Target Group, the Target Group has already setup branch office in Guangzhou and has successfully entered into contracts with two exclusive wireless operators in the PRC, namely China Mobile and China Unicom in respect of the e-distribution of mobile phone pre-payment cards in Guangdong Province.



Source: the Ministry of Information Industry of the PRC

Based on the above chart, the revenue generated from mobile phone services in Guangdong Province was approximately 2.6 times to that of Shanghai. In view of (i) the sizable demand in mobile phone services in Guangdong Province; (ii) extensive experience of the management of the Target Group in telecommunication prepayment market; and (iii) persistent growth in the overall mobile telecommunication sector, we concur with the Directors' view that the development potentials and prospects of the Target Group are optimistic.

As stated in the Interim Report 2007, the Group has reorganised its resources in healthcare services and integrated all its related operations, namely, Shanghai Medical and Health Services Ltd., Beijing Universal Medical Assistance Co., Ltd and Beijing WeiChang Clinic Ltd., under the Group umbrella platform called Health Advocate & Connectivity ("HA&C"). The Group's HA&C service is a web and call center enabled and enhanced procurement service entailing preventive medicine, health education and consulting, wellness, procurement of emergency and general medical assistance and related services, and various other tailor-made packages of HA&C service focusing on direct sales to institutions such as multi-national employers for their health and medical assistance plans to their employees in the PRC. With the joint effort by the Group's HA&C platform and e-commerce platform from the Target Group, the Group has been integrating e-commerce with healthcare services by developing an e-payment service for consumer oriented healthcare ("Health Debit Card"). The e-payment service, an electronically enabled stored value payment card for procurement of an array of medical/health/wellness assistance services and products, will be initially bundled with other consumer oriented packages and offered in Shanghai, and then expanded to other parts of China.

The Directors consider that the Acquisition of the remaining 30% equity interest in the Target shall enable the Group to maximise its flexibility and discretion in (i) expanding the Target Group to extend its geographical reach beyond Shanghai and elevating and extending consumer access channels and payment solutions platform into e-commerce business of synergetic consumer financial services, in particular, into the Health Debit Card; and (ii) implementing and integrating its business strategies of enabling and procuring better access, better communication and better connectivity in healthcare and consumer services in the PRC on an overall basis. Taking into account (i) the increasing trend of the mobile telecommunication market; (ii) the growth potential as a result of the expansion strategy in Guangdong Province; and (iii) synergies from the integration of the Group's HA&C service network and the marketing and e-commerce platform from the Target Group, we consider the Acquisition and future expansion plan of the Target Group are in line with the Group's overall business strategy and the Acquisition represents a rational business strategy and a logical step to consolidate its control over the Target and is beneficial to the Company and the Shareholders as a whole.

2. Principal terms of the Acquisition

2.1 Consideration

The consideration for the Acquisition is HK$41.5 million (the "Consideration"), which was arrived at after arm's length negotiations between the Vendor and the Purchaser after taking into account (i) the growth potential and prospects of the Target Group; (ii) the Target Group's expanding consumer access network of over 5,700 retail outlets connected with its ecommerce platform for e-distribution and settlement of various B-to-C businesses in the PRC; and (iii) the unaudited consolidated net profit of the Target Group of approximately RMB6.88 million for the nine months ended 30 September 2007.

The Consideration represents a historical price to earning multiple of approximately 13.9 times calculated based on the Consideration for the 30% equity interest of the Target and 30% of the Target Group's audited consolidated net profit for the year ended 31 December 2007 of HK$41.5 million and RMB2,744,100 (equivalent to approximately HK$2,993,813) respectively. Taking into account the Previous Acquisition and the Acquisition as a whole, the aggregate consideration for the entire equity interest of the Target represents a historical price to earning multiple of approximately 7.8 times calculated based on the aggregate consideration of approximately HK$77.9 million for the Previous Acquisition and the Acquisition and the Target Group's audited consolidated net profit for the year ended 31 December 2007 of RMB9,147,000 (equivalent to approximately HK$9,979,377).

In assessing the Consideration, we have conducted a comparable company analysis using price to earning multiple. We have researched listed companies in Hong Kong and the PRC which are principally engaged in e-commerce (including provision of electronic payment system services). However, we cannot identify any comparable listed companies in the PRC with business nature which is directly comparable to that of the Target Group. Therefore, we have extended our research to listed companies in the United States (the "US"). We consider listed companies in the US are relevant comparables in the circumstances given the potential market size of mobile phone users in the US is comparable to that in the PRC. For this purpose, we have identified all the companies (the "Comparables Companies") which are (i) listed on the Stock Exchange or the NASDAQ of the US; and (ii) principally engaged in the provision of electronic payment system or related services. The Comparables Companies selected should also be positive in price to earnings multiple. For that purpose, we have excluded the Company for our comparison because of its loss-making results. Set out below is the analysis of the Comparable Companies:

Company (ticker)	**Country listed**	**Market capitalization (million in local currency)**	**Closing price as at the Latest Practicable Date (in local currency)**	**Historical price to earnings multiples (Times)**
Tradelink Electronic Commerce Limited (0536)	Hong Kong	770.4	1.0	10.1
Universal Technologies Holdings Limited (8091)	Hong Kong	320.3	0.2	19.4
Euronet Worldwide Inc (EEFT)	US	875.8	17.9	15.2
Verifone Holdings Inc (PAY)	US	929.6	11.4	12.7
Total System Services Inc (TSS)	US	5,048.8	25.4	21.0
Fidelity National Information Services Inc (FIS)	US	7,473.8	38.4	13.2
Global Payments Inc (GPN)	US	3,450.0	43.4	24.4

Company (ticker)	Country listed	Market capitalization (million in local currency)	Closing price as at the Latest Practicable Date (in local currency)	Historical price to earnings multiples (Times)
Average				16.6
Median				15.2
Maximum				24.4
Minimum				10.1
Previous Acquisition *(Note)*				8.0
The Acquisition				13.9
Previous Acquisition and the Acquisition as a whole				7.8

As of the Latest Practicable Date
Source: Bloomberg

Note:

Based on the audited net profit of the Target Group for the year ended 31 December 2005 of approximately HK$6.5 million.

As noted from the table above, the Comparable Companies have price to earnings multiples between 10.1 and 24.4 times. The historical price to earnings ratio represented by the Consideration of 13.9 times is within the range of the present rating of the Comparable Companies and lower than the average of 16.6 and the median of 15.2 of the Comparable Companies respectively. Taking into account the Previous Acquisition and the Acquisition as a whole, the historical price to earning multiple represented by the aggregate consideration of approximately 7.8 times is below the lower end of those of the Comparable Companies.

It should be noted that some of the Comparable Companies have principal markets different from those of the Target Group. Companies with different geographical coverage may not be directly comparable to the Target Group and different stock markets may have different ratings for companies engaged in the same industry. We also note that save for Universal Technologies Holdings Limited, none of the Comparable Companies have a significant existing presence in Mainland China comparable to that of the Target Group. This competitive advantage of the Target Group over the Comparable Companies in the Mainland China market may, in our view, explain the relatively lower price-earning multiple of Tradelink Electronic Commerce Limited, the principal market of which is Hong Kong. Nevertheless, we believe that the Comparable Companies serve as reasonable benchmark in assessing the fairness of the Consideration.

We note that the historical price to earning multiple represented by the Acquisition is 13.9 times, which is higher than that of the Previous Acquisition. We also note from the accountants' report of the Target Group as set out in Appendix II to the circular of the Company dated 16 June 2006 in relation to the Previous Acquisition that the Target Group recorded a loss of RMB1.8 million for the year ended 31 December 2004 and a net profit of RMB6.8 million for the year ended 31 December 2005. We have discussed with the Directors about the reasons for different valuation for the two acquisitions. We were advised that at the time of negotiating the Previous Acquisition in April 2006, the Target Group had just turned around and yet to have a solid track record. Though the Target Group may have potential upside but at that time, its business model had not been well supported by its performance and therefore, the Company could be able to negotiate a relatively lower price for the Previous Acquisition. Upon Completion, the Vendor will no longer be able to share the future returns of the Target Group. As discussed in section headed "Industry analysis and business prospects of the Target Group" above, the telecommunication sector in the PRC has been experiencing rapid growth and with the expansion strategy of the Target Group, it is expected that the Target Group can further expand its business and generate higher returns for its shareholders. In addition, the Target Group has demonstrated its earnings ability in the past two years and recorded a promising growth in 2007. Based on the above, we consider it is not unreasonable to expect the Vendor would be in a position to have a better bargaining power and demand a better price regarding the Acquisition.

Taking into account (i) the price to earning multiple represented by the Acquisition is within the range of the Comparable Companies; (ii) the financial results of the Target Group will be fully consolidated to the Group's accounts; and (iii) the future prospect and proven track record of the Target Group, we consider that the Consideration is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

2.2 Settlement method of the Consideration

Pursuant to the Agreement, the total consideration for the Acquisition is HK$41,500,000 and shall be satisfied as follows:

(i) HK$21.5 million in cash, where HK$8.5 million shall be paid at the date of Completion and the remaining balance shall be settled within three months after Completion; and

(ii) the balance of HK$20 million shall be satisfied by the Purchaser by procuring the Company to issue the Convertible Notes to the Vendor upon Completion.

Convertible Notes

As part of the Consideration, Convertible Notes of a principal amount of HK$20 million is to be issued by the Company to the Vendor upon Completion. The Convertible Notes bear interest rate of 2% per annum, and shall be repayable at 100% of the outstanding principal amount three years after the issue of the Convertible Notes (the "Maturity Date"). The Maturity Date may be extended by one year at the option of the Company.

(i) Conversion price

As of any Conversion Date, the conversion price of the Convertible Notes will be the lower of (a) the initial conversion price of HK$1.16 (subject to customary adjustments); and (b) the volume-weighted average price of the Shares for the 20 trading days ending on the day immediately preceding the date of a relevant conversion notice multiplied by a factor of 0.90x, but in any case not lower than HK$0.30.

The initial conversion price of HK$1.16 represents:

(i) a premium of approximately 205.3% over the closing price of HK$0.38 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a premium of approximately 110.9% over the closing price of HK$0.550 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a premium of approximately 127.5% over the average of the closing prices of approximately HK$0.510 per Share as quoted on the Stock Exchange over the last five consecutive trading days up to and including the Last Trading Day;

(iv) a premium of approximately 132.5% over the average of the closing prices of approximately HK$0.499 per Share as quoted on the Stock Exchange over the last 10 consecutive trading days up to and including the Last Trading Day; and

(v) an excess of approximately HK$1.36 over the unaudited consolidated net liabilities per Share as at 30 September 2007 of HK$0.2.

As the initial conversion price is higher than the prevailing market price of the Shares, we consider it is not appropriate to use the initial conversion price in our analysis. We therefore take the volume-weighted average price of the Shares for the 20 trading days ending on the Last Trading Day of HK$0.5 multiplied by a factor of 0.90x, which equals HK$0.45 (the "Reference Conversion Price") in the following analysis. The Reference Conversion Price is higher than the minimum conversion price of HK$0.30.

The Reference Conversion Price of HK$0.45 represents:

(i) a premium of approximately 18.4% over the closing price of HK$0.38 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 18.2% to the closing price of HK$0.55 per Share as quoted on the Stock Exchange on the Last Trading Day;

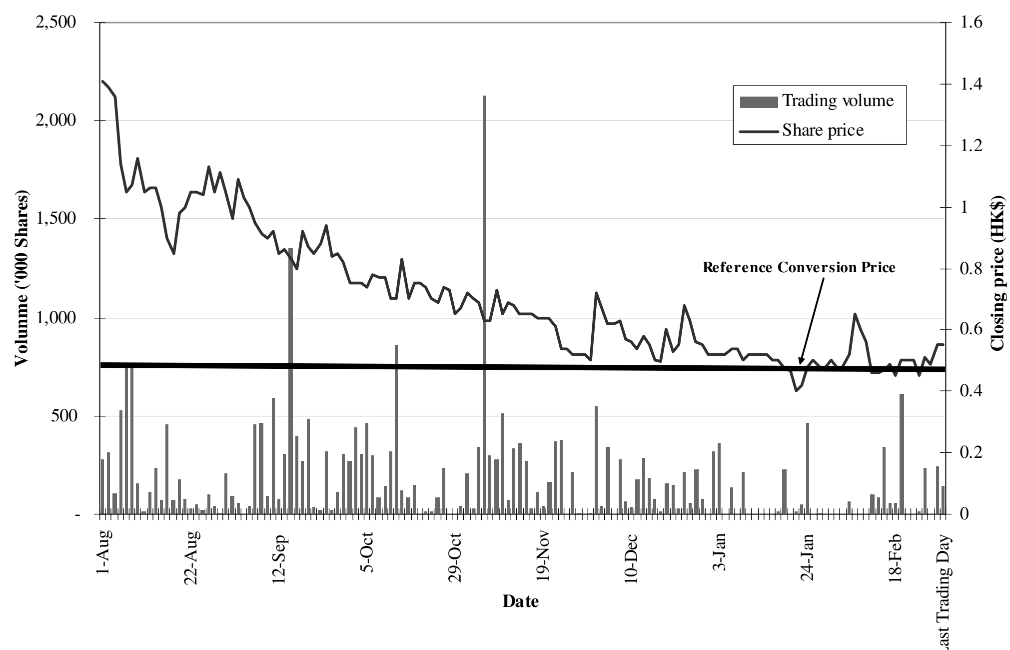
(iii) a discount of approximately 11.8% to the average of the closing prices of approximately HK$0.51 per Share as quoted on the Stock Exchange over the last five consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 10.0% to the average of the closing prices of approximately HK$0.50 per Share as quoted on the Stock Exchange over the last 10 consecutive trading days up to and including the Last Trading Day; and

(v) an excess of approximately HK$0.65 over the unaudited consolidated net liabilities per Share as at 30 September 2007 of HK$0.2.

Share price performance

The chart below shows the closing prices and the trading volume of the Shares on the Stock Exchange from 1 August 2007 up to the Last Trading Day (the "Review Period"):



During the Review Period, the Shares were traded between approximately from HK$0.4 and to HK$1.4. The average daily number of Shares traded per month, and the respectively percentage of the Shares' monthly trading volume as compared to (i) the total number of issued Shares held by the public as at the Last Trading Day; and (ii) the total number of issued Shares as at the Last Trading Day during the Review Period are set out below:

Month	**Average daily trading volume (the "average volume")**	**% of average volume to total number of issued Shares held by the public as at the Last Trading Day** *(Note 1)* %	**% of average volume to total number of issued Shares as at the Last Trading Day** *(Note 2)* %
August 2007	203,326	0.13	0.09
September 2007	285,270	0.19	0.12
October 2007	197,750	0.13	0.08
November 2007	295,000	0.19	0.13
December 2007	127,329	0.08	0.05
January 2008	82,800	0.05	0.04
February 2008	115,236	0.08	0.05

Source: Bloomberg

Notes:

1 Based on 152,330,377 Shares in public hands as at the Last Trading Day.

2 Based on 234,367,577 Shares in issue as at the Last Trading Day.

We noted from the above table that trading in the Shares was relatively thin during the Review Period, with ranges of 0.05% to 0.19% and 0.04% to 0.13% of the total number of issued Shares held by the public as at the Last Trading Day and the total number of issued Shares as at the Last Trading Day respectively. Since trading in the Shares had been inactive historically, we consider that the historical price of the Shares may not serve as a good benchmark to determine the fairness and reasonableness of the Reference Conversion Price of the Convertible Notes.

Comparison with other issues of convertible notes

In order to evaluate the terms of the Convertible Notes, we consider that it would be more appropriate to look into the issue of convertible notes with principal amount of not more than HK$50 million by companies listed on the Stock Exchange announced for the period from 28 October 2007 to 27 February 2008, being the four months period immediately before the date of the Agreement. The key terms of these market comparables (the "CN Comparables") are set out in the following table:

Date of announcement	Company (stock code)	Principal amount *(HK$)*	Interest	Maturity	Redemption price at maturity	Premium/ (discount) of conversion price over /to the last trading day
30 Oct 2007	U-right International Holdings Limited (627)	24 million	HIBOR +1% (approximately 3.5%)	3 yrs	135.0%	10.0%
13 Nov 2007	Gay Giano International Group Limited (686)	18 million	3.0%	3 yrs	100.0%	25.0%
20 Nov 2007	Sino Technology Investments Company Limited (1217)	50 million	0.0%	5 yrs	100.0%	(77.1%)
4 Dec 2007	Wang Sing International Holdings Group Limited (2389)	40 million	0.0%	1.25 yrs	100.0%	(2.9%)
7 Dec 2007	Cosmopolitan International Holdings Limited (120)	25 million	0.0%	2.5 yrs	113.1%	3.5%
11 Dec 2007	New City (China) Development Limited (456)	5.3 million	Prime rate + 2% (approximately 7.3%)	1 yr	100.0%	(47.9%)
15 Jan 2008	Intelli-Media Group (Holdings) Limited (8173)	50 million	0.0%	2 yrs	108.0%	(44.4%)
5 Feb 2008	Sunny Global Holdings Limited (1094)	16.2 million	0.0%	3 yrs	100.0%	(86.7%)
19 Feb 2008	Henry Group Holdings Limited (859)	35.7 million	1.7%	1.5 yrs	100.0%	90.0%
High			7.3%	5.0 yrs	135.0%	90.0%
Low			0.0%	1.0 yrs	100.0%	(86.7%)
Average			1.7%	2.5 yrs	106.2%	(14.5%)
Convertible Notes		20 million	2.0%	3 yrs	100.0%	(18.2%)

As indicated above, the conversion prices of the CN Comparables range from a discount of approximately 86.7% to a premium of approximately 90.0% over the closing price of the last trading day immediately prior to the date of announcement. The discount of the Reference Conversion Price of the Convertible Notes to the closing price on the Last Trading Day of approximately 18.2% is within the range of those of the CN Comparables and slightly above the average of a 14.5% discount of the CN Comparables. In addition, the Group had net liabilities of HK$49.5 million (HK$0.2 per Share) as at 30 September 2007. Each of the Reference Conversion Price and the minimum conversion price of HK$0.30 represents an excess over the net liability per Share. Based on the above, we are of the view that the Conversion Price to be fair and reasonable to the Company.

(ii) Redemption

Under the terms of the Convertible Notes, unless previously converted or redeemed, the Company will repay 100% of the principal amount outstanding under the Convertible Notes on the Maturity Date without premium whereas the CN Comparables are redeemable at maturity at an average premium of 106.2%. Thus, we are of the view that the redemption at 100% of the principal amount of the Convertible Notes at maturity is favourable to the Company.

(iii) Interest rate

The interest rate of the Convertible Notes of 2% per annum falls within the range of the CN Comparables which carry interest rates ranging from 0% to 7.3%. Having considered the interest rate of the Group's unsecured term loan of 5% to 8% as stated in the Annual Report 2007, we are of the view that the interest rate of the Convertible Notes of 2% represents a favourable borrowing rate to the Company.

(iv) Conversion period

Under the terms of the Convertible Notes, the holders thereof will have the right to convert the whole or part of the principal amount of the Convertible Notes into Conversion Shares at the conversion price commencing on 6 months from the issue date of the Convertible Notes up to the Maturity Date.

It is reasonable to assume that the business and financial performance of the Group, to certain extent, can be reflected by the market price per Share. As set out in the above section headed "Conversion Price", the conversion price of the Convertible Notes will be determined based on the then prevailing market price of the Shares. In addition, the Maturity Date can be extended at the same terms by one year at the option of the Company. We are of the view that the above features provide more flexibility to the holders of the Convertible Notes and the Company as the actual conversion price will be marked to market and therefore facilitate the Company to convert the liabilities under the Convertible Notes into equity capital, thus enlarging the capital base of the Group and reducing the gearing ratio of the Group. In addition, the Company would not be required to look for alternative funding or realise its assets with a view to financing redemption of the Convertible Notes on Maturity Date.

(v) Other terms of the Convertible Notes

The Convertible Notes have a maturity period of three years from the date of issue and may be extended at the same terms by one year at the option of the Company. The Convertible Notes may be assigned or transferred to any third party or parties other than a party connected with the Company or any of its subsidiaries, the directors, chief executive and substantial shareholders of the Company and its subsidiaries, and their respective associates unless necessary approvals and consents by Independent Shareholders have been obtained with respect to any assignment or transfer to a connected person. Holders of the Convertible Notes (or any part thereof) will not be entitled to attend or vote at any shareholders' meetings of the Company by reason only of it being a holder of the Convertible Notes (or any part thereof). The Convertible Notes will be direct, unsubordinated, unconditional and unsecured obligations of the Company and will at all time rank pari passu in rights of payment with all other present and future direct, unsubordinated, unconditional and unsecured obligations of the Company. We consider that the above terms of the Convertible Notes in relation to the maturity, transferability, voting and ranking are normal for convertible debt securities of similar kind.

Having considered (i) the conversion price is at premium over unaudited consolidated net liabilities of the Group per Share as at 30 September 2007 and falls within the prevailing market range; (ii) the interest rate of 2% is lower than the interest rate of the Group's unsecured term loan of 5% to 8% as stated in the Annual Report 2007; (iii) the redemption at 100% of principal amount at maturity falls within the range of those of the CN Comparables; (iv) the mark-to-market mechanism on the conversion price and the option to extend the Maturity Date provide flexibility to the Company to enlarge its capital base and reduce the gearing of the Group; and (v) the terms of the Convertible Notes in relation to the maturity, transferability, voting and ranking are normal for convertible debt securities of similar kind, we are of the view that the terms of the Convertible Notes are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

3. Financial effects of the Acquisition on the Group

(a) Earnings

As stated in the letter from the Board to this circular, after Completion, the Target Group will become a wholly-owned subsidiary of the Company and its financial results will be fully consolidated into the financial statements of the Group. As set out in the section headed "Information of the Target Group" above, the Target Group has been recording an increasing turnover since the financial year 31 December 2005 and contributed over 99.6% of the total turnover of the Group for the year ended 31 March 2007. The Target Group's net profit for the financial year ended 31 December 2007 was approximately RMB9.1 million. Interest expense of HK$400,000 would be incurred as a result of the issue of the Convertible Notes. In view of the profitable track record of the Target Group, the Acquisition is expected to make a positive contribution to the turnover and earnings of the Group in overall terms.

(b) Net liabilities

We noted that the unaudited consolidated net liabilities of the Group as at 30 September 2007 were approximately HK$49.5 million, and the pro forma consolidated net liabilities would be approximately HK$61.2 million immediately upon Completion, representing an increase of 23.6%. However, we consider that such increase in the net liabilities position will be off-set by the decrease in the minority interests as a result of the Acquisition and therefore, there would not be any material adverse impact on the net liabilities position after minority interests of the Group. In addition, as mentioned in the paragraph headed "Conversion period" under the section headed "Convertible Notes" above, the conversion mechanism of the Convertible Notes would facilitate the holders to convert the Convertible Notes and thereby converting the Group's liabilities into equity capital and enlarging its capital base.

(c) Cashflow position and gearing ratio

Out of the total Consideration of HK$41.5 million, HK$21.5 million is to be satisfied in cash. As advised by the management of the Company, the Company intends to fund such cash payment by internal resources. As stated in the Interim Report 2007, the Group had total current assets of approximately HK$145.9 million, of which HK$36.7 million were bank balances and cash. As set out in the announcement and the circular of the Company dated 1 February 2008 and 22 February 2008 respectively, the Company disposed of its 51% equity interest in Power Ability Limited for a total cash consideration of US$2.0 million (equivalent to approximately HK$15.6 million).

We have reviewed the cashflow projections prepared by the Directors on the Enlarged Group for the period from 1 May 2008 to 30 April 2009 and have discussed the projections with the management and the auditors of the Company. The Directors have confirmed that they are satisfied that taking into account the internal resources and financing facilities available to the Enlarged Group, the Enlarged Group would have sufficient working capital for at least twelve months from the date of this circular. Having reviewed the bases and assumptions and after discussing the cashflow projections with the above-mentioned parties, we concur with the Directors that the cashflow projections indicate that the Enlarged Group shall have sufficient working capital to fund its normal operation.

Based on the unaudited financial statements of the Group as at 30 September 2007, the Group had a gearing ratio (calculated as total liabilities divided by total assets) of 1.25. The gearing ratio would be increased to 1.28 as a result of the Acquisition based on the unaudited pro forma statement of assets and liabilities of the Enlarged Group as set out in Appendix III to the Circular. We consider that the increase in the gearing ratio of the Group as a result of the Acquisition is modest and acceptable and do not consider such a relatively small increase would have material adverse effect on the overall financial position of the Group.

4. Dilution in shareholding

Set out below is a summary of the shareholding in the Company (i) as at the Latest Practicable Date; and (ii) upon full conversion of the Convertible Notes at the Reference Conversion Price, assuming there would be no changes in the issued share capital of the Company after the Latest Practicable Date other than as stated in each scenario.

	As at the Latest Practicable Date		**Upon full conversion of the Convertible Notes at the Reference Conversion Price of HK$0.45**	
	Number of Shares	*%*	*Number of Shares*	*%*
China Healthcare Services Limited	17,541,000	7.48	17,541,000	6.29
Orient Access International Inc.	17,300,000	7.38	17,300,000	6.20
Guo Kang Pharmaceutical & Medical Supplies Limited	17,000,000	7.25	17,000,000	6.10
Pacific Annex Capital Limited	11,147,000	4.76	11,147,000	4.00
Timenew Limited	8,661,000	3.70	8,661,000	3.11
Dr. Li Zhong Yuan	4,635,000	1.98	4,635,000	1.66
Mr. Lee Jong Dae	3,026,500	1.29	3,026,500	1.09
2Trade Group Limited	1,295,000	0.55	1,295,000	0.46
Mr. Martin Treffer	250,000	0.11	250,000	0.09
Mr. Mu Xiangming	–	–	–	–
Dr. Ni Aimin	750,000	0.32	750,000	0.27
Mr. Deng Ku Hon	432,000	0.18	432,000	0.15
Vendor	–	–	44,444,444	15.94
Other public Shareholders	152,330,077	65.00	152,330,077	54.64
Total	**234,367,577**	**100.00**	**278,812,021**	**100.00**

As shown in the above table, as at the Latest Practicable Date, 152,330,077 Shares were held by public Shareholders, representing approximately 65.0% of the issued share capital of the Company. Upon exercise of the conversion rights attaching to the Convertible Notes at the Reference Conversion Price, such corresponding shareholding will be diluted to approximately 54.6%, representing a dilution effect of approximately 16.0%.

Shareholders should note that potential dilution effect on shareholding is inevitable for issue of the Convertible Notes. Shareholders would face a similar level of dilution if a placing of new Shares and/or issue of consideration shares of similar size of the issue of Convertible Notes is proceeded.

Having considered the cash and cash equivalent of the Group of approximately HK$36.7 million as at 30 September 2007 and the proceed from the disposal of its 51% equity interest in Power Ability Limited of US$2.0 million (equivalent to approximately HK$15.6 million) subsequent to 30 September 2007, the Consideration accounted for approximately 79.3% of the aforesaid total cash and bank balances. We consider the issue of Convertible Notes which bear a favorable interest rate to the Company is one of the best alternatives in settling part of the Consideration and is in the interests of the Company and the Shareholders as a whole. In addition, the issue of the Convertible Notes will enable the Group to preserve its working capital following Completion and help alleviate the financial burden to the Group as a result of the Acquisition. In overall terms, we consider the potential benefits from the Acquisition outweigh the disadvantages on dilution. Based on the above, we are of the view that the potential dilution on the shareholding of the Independent Shareholders is acceptable.

CONCLUSION

Having taken into account the above principal factors, we are of the opinion that the terms of the Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned. We are of the opinion that the Acquisition is in the interests of the Company and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Acquisition.

Yours faithfully,
for and on behalf of
OPTIMA CAPITAL LIMITED
Mei H. Leung
Chairman

1. SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the six months ended 30 September 2007 and the three years ended 31 March 2007, as extracted from the interim report and the annual reports of the Company respectively, is set out below.

Results

	For the six months ended 30 September	For the year ended 31 March		
	2007	2007	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(audited)	(audited)	(audited) (restated)
Turnover	1,398,213	1,632,961	6,834	7,446
Loss before taxation	24,817	73,372	101,863	41,371
Taxation	858	883	–	–
Net loss attributable to Shareholders	26,670	73,210	96,773	51,914
Basic loss per Share	HK$0.11	HK$0.31	HK$0.42	HK$0.24
Diluted earnings per Share	N/A	N/A	N/A	N/A
Dividend per Share	–	–	–	–

Assets and liabilities

	As at 30 September	As at 31 March		
	2007	2007	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(audited)	(audited)	(audited) (restated)
Total assets	200,961	198,807	106,650	147,977
Total liabilities	(250,433)	(225,137)	(69,564)	(30,360)
Net (liabilities)/assets	(49,472)	(26,330)	37,086	117,617

Notes:

1. For the year ended 31 March 2005, RSM issued a qualified opinion in the auditors' report regarding the disagreement about accounting treatment on recognization of impairment loss in respect of the investments in securities and provision for the loan receivables. Save as disclosed above, there was no qualification in the auditors' reports issued by RSM for each of the three years ended 31 March 2007.

2. In 2006, the Group adopted the new / revised standards and interpretations of Hong Kong Financial Reporting Standards which are effective for accounting periods commencing on or after 1 January 2006 and thus the 2005 figures have been amended and restated as required in accordance with the relevant requirements.

2. AUDITED FINANCIAL INFORMATION FOR THE YEAR ENDED 31 MARCH 2007

Set out below is the audited consolidated accounts of the Company for the year ended 31 March 2007 as extracted from the 2007 annual report of the Company. References to page number in this section are to the page numbers of such annual report of the Company.

Consolidated Income Statement
(For the year ended 31 March 2007)

	Note	2007 HK$'000	2006 HK$'000
Turnover	7	1,632,961	6,834
Cost of sales and service		(1,620,215)	(5,287)
Gross profit		12,746	1,547
Other income	8	6,721	1,337
Distribution costs		(5,091)	(4,743)
Administrative expenses		(41,673)	(37,428)
Impairment losses for doubtful debts		(2,307)	(21,217)
Impairment losses of available-for-sale financial assets		–	(22,588)
Impairment losses of goodwill		(14,462)	(15,500)
Other operating expenses		(20,539)	(504)
Loss from operations		(64,605)	(99,096)
Finance costs	9	(9,011)	(2,767)
Gain on disposal of an associate		236	–
Share of profits of an associate		8	–
Loss before tax		(73,372)	(101,863)
Income tax expense	10	(883)	–
Loss for the year	11	(74,255)	(101,863)
Attributable to:			
Equity holders of the Company		(73,210)	(96,773)
Minority interests		(1,045)	(5,090)
		(74,255)	(101,863)
Loss per share (HK$)	14		
– Basic		(0.31)	(0.42)
– Diluted		N/A	N/A

Consolidated Balance Sheet
(At 31 March 2007)

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	15	15,894	11,968
Goodwill	16	30,877	23,886
Other intangible assets	17	1,917	1,111
Prepayment for acquisition of non-current assets		5,253	–
Interest in an associate	18	1	1
		53,942	36,966
Current assets			
Inventories	19	23,255	2,646
Trade receivables	20	18,638	3,289
Prepayments, deposits and other receivables		8,171	8,049
Loan receivables	21	20,434	7,806
Financial assets at fair value through profit or loss	22	345	–
Bank balances and cash	23	74,022	47,894
		144,865	69,684
Current liabilities			
Trade payables	24	552	1,409
Other payables and accrued liabilities		20,647	12,221
Amounts due to directors	25	5,311	6,942
Derivative component of convertible bonds	26	7,947	–
Derivative component of redeemable convertible cumulative preference shares	27	42,569	–
Current tax liabilities		330	–
		77,356	20,572
Net current assets		67,509	49,112
Total assets less current liabilities		121,451	86,078
Non-current liabilities			
Convertible bonds	26	66,643	48,992
Redeemable convertible cumulative preference share	27	81,138	–
		147,781	48,992
NET (LIABILITIES)/ASSETS		(26,330)	37,086

	Note	2007 HK$'000	2006 HK$'000
Capital and reserves			
Share capital	28	23,437	23,437
Reserves	30	(62,496)	8,036
Equity attributable to equity holders of the Company		(39,059)	31,473
Minority interests		12,729	5,613
TOTAL EQUITY		(26,330)	37,086

Consolidated Statement of Changes in Equity

(For the year ended 31 March 2007)

	Attributable to equity holders of the Company										
	Share capital	Share premium	Contributed surplus *(Note 30 (B)(i))*	Statutory reserves *(Note 30 (B)(ii))*	Convertible bonds reserve	Foreign currency translation reserve	Share option reserve *(Note 30 (B)(iii))*	Accumulated losses	Sub-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*	*HK$'000*
At 1 April 2005	21,707	194,543	57,124	–	2,195	16	–	(168,723)	106,862	8,671	115,533
Exchange differences arising on translation of financial statements of overseas operations and net income recognised directly in equity	–	–	–	–	–	344	–	–	344	–	344
Loss for the year	–	–	–	–	–	–	–	(96,773)	(96,773)	(5,090)	(101,863)
Total recognised income and expense for the year	–	–	–	–	–	344	–	(96,773)	(96,429)	(5,090)	(101,519)
Recognition of equity component of convertible bonds	–	–	–	–	3,592	–	–	–	3,592	–	3,592
Issue of shares on conversion of convertible bonds	1,730	17,765	–	–	(2,195)	–	–	–	17,300	–	17,300
Recognition of share-based payments	–	–	–	–	–	–	148	–	148	–	148
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	2,032	2,032
	1,730	17,765	–	–	1,397	–	148	–	21,040	2,032	23,072
At 31 March 2006	23,437	212,308	57,124	–	3,592	360	148	(265,496)	31,473	5,613	37,086
Exchange differences arising on translation of financial statements of overseas operations and net income recognised directly in equity	–	–	–	–	–	2,678	–	–	2,678	360	3,038
Loss for the year	–	–	–	–	–	–	–	(73,210)	(73,210)	(1,045)	(74,255)
Total recognised income and expense for the year	–	–	–	–	–	2,678	–	(73,210)	(70,532)	(685)	(71,217)
Transfer to statutory reserve	–	–	–	179	–	–	–	(179)	–	–	–
Dividend paid to minority equity holders	–	–	–	–	–	–	–	–	–	(597)	(597)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	8,398	8,398
	–	–	–	179	–	–	–	(179)	–	7,801	7,801
At 31 March 2007	23,437	212,308	57,124	179	3,592	3,038	148	(338,885)	(39,059)	12,729	(26,330)

Consolidated Cash Flow Statement

(For the year ended 31 March 2007)

	Note	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(73,372)	(101,863)
Adjustments for:			
Finance cost		9,011	2,767
Share of profits of an associate		(8)	–
Interest income		(3,678)	(1,029)
Reversal of impairment losses for doubtful debts		(531)	(44)
Amortisation of other intangible assets		330	191
Depreciation		4,851	2,625
Impairment losses for doubtful debts		2,307	21,217
Impairment losses of goodwill		14,462	15,500
Impairment losses for obsolete inventories		700	377
Impairment losses of available-for-sale financial assets		–	22,588
Fair value gains (realised and unrealised) on financial assets at fair value through profit or loss		(595)	–
Fair value loss on derivative component of convertible bonds		5,720	–
Fair value loss on derivative component of redeemable convertible cumulative preference shares		10,311	–
Issue cost of derivative component of redeemable convertible cumulative preference shares		3,640	–
Gain on disposal of an associate		(236)	–
Loss on disposal of property, plant and equipment		869	3
Share-based payment expenses		–	148
Operating cash flows before movements in working capital		(26,219)	(37,520)
(Increase)/decrease in inventories		(12,755)	402
(Increase)/decrease in trade receivables		(5,583)	487
Increase in prepayment, deposits and other receivables		(2,322)	(4,243)
(Decrease)/increase in trade payables		(856)	421
(Decrease)/increase in other payables and accrued liabilities		(11,142)	2,574
(Decrease)/increase in amounts due to directors		(4)	1,228
Cash used in operations		(58,881)	(36,651)
Income tax paid		(1,036)	–
Interest paid		(1,545)	(1,333)
Net cash outflow from operating activities		(61,462)	(37,984)

	Note	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING			
Acquisition of subsidiaries	32(A)	(3,477)	–
Interest received		2,840	722
Prepayment for acquisition of non-current assets		(5,253)	–
Purchase of property, plant and equipment		(1,622)	(5,861)
Proceeds from disposal of property, plant and equipment		259	100
Proceeds from disposal of an associate		1,980	–
Purchase of financial asset at fair value through profit or loss		(3,715)	–
Proceeds from disposal of financial assets at fair value through profit or loss		3,965	–
Advances of loan receivables		(19,559)	(13,893)
Repayment of loan receivables		1,900	6,087
Net cash used in investing activities		(22,682)	(12,845)
CASH FLOWS FROM OPERATING			
Proceeds from issue of convertible bonds		–	51,256
Proceeds from issue of redeemable convertible cumulative preference shares		117,000	–
Issue cost of redeemable convertible cumulative preference shares paid		(8,358)	–
Dividends paid to minority equity holders		(597)	–
Net cash generated from financing activities		108,045	51,256
NET INCREASE IN CASH AND CASH EQUIVALENTS		23,901	427
Effect of foreign currency exchange rate changes		2,227	149
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		47,894	47,318
CASH AND CASH EQUIVALENTS AT END OF YEAR, REPRESENTED BY BANK BALANCES AND CASH		74,022	47,894

Notes to the Financial Statements

(For the year ended 31 March 2007)

1. GENERAL INFORMATION

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

The Company is an investment holding company. The principal activities of its subsidiaries and an associate are set out in notes 38 and 18 to the financial statements respectively.

2. ADOPTION OF NEW AND REVISED HKFRSS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2006. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting polices and amounts reported for the current year and prior years.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The adoption of these new and revised HKFRSs will have no material impact on the financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and derivative components of convertible bonds and redeemable convertible cumulative preference shares which are carried at their fair values.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires management to exercise its judgements in the process of applying the accounting policies. The areas where assumptions and estimates are significant to these financial statements, are disclosed in note 4 to the financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 March. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the subsidiary which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

Inter-company transactions, balances and unrealised profits 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 subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests represent the interests of minority shareholders in the operating results and net assets of subsidiaries. Minority interests are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity. Minority interests are presented in the consolidated income statement as an allocation of profit or loss for the year between minority and shareholders of the Company. Losses applicable to the minority in excess of the minority's interests in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the interests of the Group until the minority's share of losses previously absorbed by the Group has been recovered.

(b) Business combination and goodwill

The purchase method of accounting is used to account for the acquisition of subsidiaries by the 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 subsidiary in an acquisition are measured at their fair values at the acquisition date.

The excess of the cost of acquisition over the Group's share of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses of goodwill are recognised in the consolidated income statement and are not subsequently reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

The interests of minority shareholders in the subsidiary is initially measured at the minority's proportion of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities at the acquisition date.

(c) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has significant influence.

Investment in an associate is accounted for in the consolidated financial statements by the equity method of accounting and is initially recognised at cost. Identifiable assets, liabilities and contingent liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

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

The gain or loss on the disposal of an associate represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the associate which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

(i) Held-to-maturity investments

Debt securities with fixed or determinable payments and fixed maturity and that the Group has the positive intention and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method, less any impairment losses.

An impairment loss is recognised in the income statement when there is objective evidence that the held-to-maturity investments are impaired, and is measured as the difference between the investments' carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods and recognised in the income statement when an increase in the investments' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investments at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Investments other than held-to-maturity investments are classified as either financial assets at fair value through profit or loss or available-for-sale financial assets.

(ii) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either investments held for trading or designated as at fair value through profit or loss upon initial recognition. These investments are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in the income statement.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are investments not classified as held-to-maturity investments, loans and receivables or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised directly in equity, until the investments are disposed of or are determined to be impaired, at which time the cumulative gains or losses previously recognised in equity are recognised in the income statement.

Impairment losses recognised in the income statement for equity investments classified as available-for-sale financial assets are not subsequently reversed through the income statement. Impairment losses recognised in the income statement for debt instruments classified as available-for-sale financial assets are subsequently reversed and recognised in the income statement if an increase in the fair value of the instruments can be objectively related to an event occurring after the recognition of the impairment loss.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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 the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual value over the 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 residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

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.

(f) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset is recognised only if all of the following conditions are met:

– An asset is created that can be identified (such as software and new processes);

– It is probable that the asset created will generate future economic benefits; and

– The development cost of the asset can be measured reliably.

Internally-generated intangible assets are measured initially at cost and are amortised on a straight-line basis over their estimated useful lives. Where no internally generated intangible asset can be recognised, development expenditure is charged to the income statement in the period in which it is incurred.

(g) Patents and computer software

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

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. 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.

(i) Trade and other receivables

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

Impairment losses are reversed in subsequent periods and recognised in the income statement when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(j) Cash and cash equivalents

For the purpose of the cash flow statement, 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. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(k) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

(l) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(m) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Convertible bonds

(i) Convertible bonds issued with equity components

Convertible bonds which entitle the holder to convert the bonds into a fixed number of equity instruments at a fixed conversion price are regarded as compound instruments consist of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible bonds and the fair value assigned to the liability component, representing the embedded option for the holder to convert the bonds into equity of the Group, is included in equity as convertible bonds reserve.

Issue costs are apportioned between the liability and equity components of the convertible bonds based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate of similar non-convertible debt to the liability component of the instruments. The difference between this amount and the interest paid is added to the carrying amount of the convertible bonds.

(ii) Convertible bonds issued with derivative components

Convertible bonds which entitle the holder to convert into a variable equity instruments, other than into a fixed number of equity instrument at a fixed conversion price, are regarded as combined instruments consist of a liability and a derivative component. On issuance of convertible bonds, the fair value of the derivative component is determined using an option pricing model; and this amount is carried as a derivative liability until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The derivative component is measured at fair value with gains and losses recognised in the income statement.

Issue costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are first recognised.

(o) Redeemable convertible cumulative preference shares

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

Issue costs are apportioned between the liability and derivative components of the redeemable convertible cumulative preference shares based on the allocation of proceeds to the liability and derivative components when the instruments are first recognised.

(p) Equity instruments

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

(q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenues from the sales of manufactured goods and trading of raw materials are recognised on the transfer of significant 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 E-commerce distribution of mobile pre-charge are recognised on delivery of relevant data to the customers.

Service fee income is recognised when the service is rendered.

Interest income is recognised on a time-proportion basis using the effective interest method.

(r) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease term.

(s) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

Translation differences on non-monetary items, such as equity instruments classified as financial assets at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equity instruments classified as available-for-sale financial assets, are included in the investment revaluation reserve in equity.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the profit or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(t) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick level and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the income statement represents contributions payable by the Group to the funds.

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(u) Share-based payment

The Group issues equity-settled share-based payments to employees and consultants. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

(v) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised as income in the period in which they become receivable.

Government grants relating to the purchase of assets are deducted from the carrying amount of the assets. The grant is recognised as income over the life of a depreciable asset by way of a reduced depreciation charge.

Repayment of a grant related to income is applied first against any unamortised deferred income set up in respect of the grant. To the extent that the repayment exceeds any such deferred income, or where no deferred income exists, the repayment is recognised immediately as an expense. Repayment of a grant related to an asset is recorded by increasing the carrying amount of the asset or reducing the deferred income by the amount repayable. The cumulative additional depreciation that would have been recognised to date as an expense in the absence of the grant is recognised immediately as an expense.

(w) Taxation

Income tax expense represents the sum of the current tax 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. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the 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, unused tax losses or unused tax credits 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 the 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(x) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products and services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Segment revenue, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment. Unallocated costs mainly represent corporate expenses. Segment assets consist primarily of property, plant and equipment, goodwill, inventories and trade receivables. Segment liabilities comprise operating liabilities and exclude items such as tax liabilities and corporate borrowings.

Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on terms mutually agreed between the segments.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

In respect of geographical segment reporting, sales are based on the countries in which customers are located. Total assets and capital expenditure are based on where the assets are located.

(y) Related parties

A party is related to the Group if:

(i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

(ii) the party is an associate;

(iii) the party is a joint venture;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

(z) Impairment of assets

Intangible assets that have an indefinite useful life or not yet available for use are reviewed annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill, investments, inventories and receivables 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 any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of 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 risks 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 or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset 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 or 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 (net of amortisation or depreciation) had no impairment loss been recognised for the asset or 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.

(aa) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group 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.

(bb) Events after the balance sheet date

Events after the balance sheet date that provide additional information about the 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. Events after the balance sheet date that are not adjusting events are disclosed in the notes to the financial statements when material.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

(a) Impairment loss for bad and doubtful debts

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

(b) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(c) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating the value in use requires the Group to estimate the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Changing the assumptions selected by management to determine the level, if any, of impairment, including the discount rates or the growth rate assumptions applied in the cash flows projections, could significantly affect the Group's reported financial condition and results of operation.

Impairment of goodwill of HK$14,462,000 was charged to the consolidated income statements, further details of which are set out in notes 16 to the financial statements.

(d) Fair value of embedded derivatives

As disclosed in notes 26 and 27 to the financial statements, the fair values of the derivative components of convertible bonds and redeemable convertible cumulative preference shares at the date of issued and the balance sheet date were determined using option pricing models with reference to the valuations performed by an independent valuer. Application of option pricing models requires the Group to estimate the prominent factors affecting the fair value, including but not limited to, the expected life of the derivative components, the expected volatility of the share price of the Company and the potential dilution in the share price of the Company. Where the estimation on these factors is different from those previously estimated, such differences will impact the fair value gain or loss of the derivative components of convertible bonds and redeemable convertible cumulative preference shares in the period in which such determination is made.

5. FINANCIAL RISK MANAGEMENT

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

(a) Interest rate risk

The interest rates of the convertible bonds and redeemable convertible cumulative preference shares are fixed as disclosed in notes 26 and 27 to the financial statements respectively. They expose the Group to fair value interest rate risk.

(b) Foreign currency risk

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

(c) Price risk

The Group's financial assets at fair value through profit or loss are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The directors manage this exposure by maintaining a portfolio of investments with different risk profiles.

(d) Credit risk

The Group only trades with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. Bank deposits are placed directly with reputable financial institutions. The Group has no significant concentrations of credit risk.

(e) Liquidity risk

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

(f) Fair values

Except for the convertible bonds and redeemable convertible cumulative preference shares disclosed in 26 and 27 to the financial statements respectively, the carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated balance sheet approximate their respective fair values.

6. SEGMENT INFORMATION

(a) Primary reporting format – business segments

The Group is currently organised into four operating divisions – (i) production and trading of biotechnology products, (ii) procurement of healthcare services, (iii) E-commerce distribution of mobile pre-charge and (iv) investment holding.

(b) Secondary reporting format – geographical segments

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

Primary reporting format – Business segments

Consolidated income statement
For the year ended 31 March 2007

	Production and trading of biotechnology products *HK$'000*	Procurement of healthcare services *HK$'000*	E-commerce distribution of mobile pre-charge *HK$'000*	Investment holding *HK$'000*	Consolidated *HK$'000*
Segment revenue	2,852	3,033	1,627,076	–	1,632,961
Segment results	(3,221)	(11,915)	4,694	–	(10,442)
Other income					6,721
Unallocated corporate expenses					(60,884)
Loss from operations					(64,605)
Finance costs					(9,011)
Gain on disposal of an associate					236
Share of profits of an associate					8
Loss before tax					(73,372)

For the year ended 31 March 2006

	Production and trading of biotechnology products *HK$'000*	Procurement of healthcare services *HK$'000*	E-commerce distribution of mobile pre-charge *HK$'000*	Investment holding *HK$'000*	Consolidated *HK$'000*
Segment revenue	3,683	3,151	–	–	6,834
Segment results	(9,220)	(18,623)	–	(48,806)	(76,649)
Other income					1,337
Unallocated corporate expenses					(23,784)
Loss from operations					(99,096)
Finance costs					(2,767)
Loss before tax					(101,863)

Consolidated balance sheet

For the year ended 31 March 2007

	Production and trading of biotechnology products *HK$'000*	Procurement of healthcare services *HK$'000*	E-commerce distribution of mobile pre-charge *HK$'000*	Investment holding *HK$'000*	Consolidated *HK$'000*
ASSETS					
Segment assets	8,164	18,292	66,782	1	93,239
Unallocated corporate assets					105,568
Consolidated total assets					198,807
LIABILITIES					
Segment liabilities	781	2,955	5,824	–	9,560
Unallocated corporate liabilities					215,577
Consolidated total liabilities					225,137

For the year ended 31 March 2006

	Production and trading of biotechnology products *HK$'000*	Procurement of healthcare services *HK$'000*	E-commerce distribution of mobile pre-charge *HK$'000*	Investment holding *HK$'000*	Consolidated *HK$'000*
ASSETS					
Segment assets	19,324	23,507	–	1	42,832
Unallocated corporate assets					63,818
Consolidated total assets					106,650
LIABILITIES					
Segment liabilities	1,645	2,895	–	–	4,540
Unallocated corporate liabilities					65,024
Consolidated total liabilities					69,564

Other information

For the year ended 31 March 2007

	Production and trading of biotechnology products *HK$'000*	Procurement of healthcare services *HK$'000*	E-commerce distribution of mobile pre-charge *HK$'000*	Investment holding *HK$'000*	Unallocated corporate assets *HK$'000*	Consolidated *HK$'000*
Additions:						
– Property, plant and equipment	73	1,926	7,001	–	155	9,155
– Goodwill	–	2,348	19,105	–	–	21,453
– Other intangible assets	–	–	1,050	–	–	1,050
Impairment losses of inventories	613	87	–	–	–	700
Impairment losses for doubtful debts	1,765	–	483	–	59	2,307
Impairment losses of goodwill	8,301	6,161	–	–	–	14,462
Amortisation of other intangible assets	198	–	132	–	–	330
Depreciation	344	2,392	1,726	–	389	4,851

For the year ended 31 March 2006

	Production and trading of biotechnology products *HK$'000*	Procurement of healthcare services *HK$'000*	E-commerce distribution of mobile pre-charge *HK$'000*	Investment holding *HK$'000*	Unallocated corporate assets *HK$'000*	Consolidated *HK$'000*
Additions:						
– Property, plant and equipment	215	6,268	–	–	1,156	7,639
– Goodwill	–	1,213	–	–	–	1,213
Impairment losses of inventories	377	–	–	–	–	377
Impairment losses for doubtful debts	40	–	–	21,177	–	21,217
Impairment losses of available -for-sale financial assets	–	–	–	22,588	–	22,588
Impairment losses of goodwill	5,600	5,400	–	4,500	–	15,500
Amortisation of other intangible assets	191	–	–	–	–	191
Depreciation	497	1,753	–	–	375	2,625
Share-based payment expense	–	–	–	–	148	148

7. TURNOVER

An analysis the Group's turnover which represents sales of biotechnology products and revenue from E-commerce distribution of mobile pre-charge and healthcare services are as follows:

	2007 *HK$'000*	**2006** *HK$'000*
Turnover		
Sales of biotechnology products	2,852	3,683
Revenue from E-commerce distribution of mobile pre-charge	1,627,076	–
Services income	3,033	3,151
	1,632,961	6,834

8. OTHER INCOME

	2007 *HK$'000*	**2006** *HK$'000*
Interest income on bank deposits	2,805	687
Other interest income	873	342
Reversal of impairment losses for doubtful debts	531	44
Government subsidies	665	–
Fair value gains (realised and unrealised) on financial assets at fair value through profit or loss	595	–
Sundry income	1,252	264
	6,721	1,337

9. FINANCE COSTS

	2007	2006
	HK$'000	*HK$'000*
Interest on convertible bonds wholly repayable within five years	3,023	2,767
Interest on other loans wholly repayable within five years	31	–
Interest on liability component of redeemable convertible cumulative preference shares wholly repayable within five years	5,957	–
	9,011	2,767

10. INCOME TAX EXPENSE

	2007	2006
	HK$'000	*HK$'000*
Current tax – PRC	883	–

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

Tax charge on profits assessable in the PRC have been calculated at the rates of tax prevailing in the PRC in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

The reconciliation between the income tax expense and the product of loss before tax multiplied by the Hong Kong Profits Tax rate is as follows:

	2007	2006
	HK$'000	*HK$'000*
Loss before tax	(73,372)	(101,863)
Tax at the Hong Kong Profits Tax rate of 17.5%	(12,840)	(17,826)
Tax effect of income that is not taxable in determining taxable profit	(2,259)	(193)
Tax effect of expenses that are not deductible in determining taxable profit	16,350	15,193
Tax effect of losses not recognised due to uncertainty on future profit streams	139	4,606
Tax effect of difference on depreciation between tax and accounting purposes	39	129
Effect of different tax rates operating in other jurisdiction	(546)	(1,909)
Income tax expense	883	–

11. LOSS FOR THE YEAR

Loss for the year is stated after charging the following:

	2007	2006
	HK$'000	*HK$'000*
Amortisation of other intangible assets included in administrative expenses	330	191
Auditors' remuneration		
Current year	1,358	831
Underprovision in prior years	–	35
	1,358	866
Cost of inventories recognised as expenses *(Note)*	1,617,088	3,218
Depreciation	4,851	2,625
Net exchange losses	375	233
Fair value loss on derivative component of convertible bonds	5,720	–
Fair value loss on derivative component of redeemable convertible cumulative preference shares	10,311	–
Impairment losses for doubtful debts	2,307	21,217
Impairment losses for obsolete inventories	700	377
Impairment losses of available-for-sale financial assets	–	22,588
Loss on disposal of property, plant and equipment	869	3
Operating leases payments in respect of land and buildings	4,977	3,748
Research and development expenditure	278	384
Staff costs (including directors' remuneration)		
– Salaries and allowances	16,047	16,202
– Retirement benefit scheme contributions	1,122	117
	17,169	16,319
Share-based payment expense	–	148

Note: Other than the purchase cost of finished goods, raw material and consumables and other overhead, cost of inventories recognised included staff costs, depreciation, operating lease payments with total of HK$813,000 (2006: HK$894,000).

12. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES

Directors' remuneration

The remuneration of every director for the year ended 31 March 2007 is set out below:

Name	Directors' fee	Salaries and other benefits	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Dr. Li Zhong Yuan	–	2,615	12	2,627
Dr. Ni Aimin	–	1,533	12	1,545
Mr. Lee Jong Dae	–	2,140	12	2,152
Mr. Deng Ku Hon	–	1,000	12	1,012
Non-executive directors				
Mr. Robin Will (Resigned on 15 August 2006)	–	–	–	–
Mr. Martin Treffer	–	–	–	–
Independent non-executive directors				
Mr. Li Xiao Ru (Resigned on 29 August 2006)	500	–	–	500
Dr. Ma Yin Ming (Resigned on 30 November 2006)	–	–	–	–
Mr. Mu Xiang Ming	175	–	–	175
Dr. Yan Shi Yun (Appointed on 29 August 2006)	–	–	–	–
Mr. Zhou Bao Yi (Appointed on 1 December 2006)	–	–	–	–
Total	675	7,288	48	8,011

The remuneration of every director for the year ended 31 March 2006 is set out below:

Name	Directors' fee	Salaries and other benefits	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Dr. Li Zhong Yuan	–	2,787	12	2,799
Dr. Ni Aimin	–	1,800	12	1,812
Mr. Lee Jong Dae	–	2,040	12	2,052
Mr. Deng Ku Hon	–	1,200	12	1,212
Non-executive directors				
Mr. Robin Will (Resigned on 15 August 2006)	–	–	–	–
Mr. Martin Treffer	–	–	–	–
Independent non-executive directors				
Mr. Li Xiao Ru (Resigned on 29 August 2006)	–	–	–	–
Dr. Ma Yin Ming (Resigned on 30 November 2006)	–	–	–	–
Mr. Mu Xiang Ming	–	–	–	–
Dr. Yan Shi Yun (Appointed on 29 August 2006)	–	–	–	–
Mr. Zhou Bao Yi (Appointed on 1 December 2006)	–	–	–	–
Total	–	7,827	48	7,875

Details of share options granted to the directors are set out in note 31 to the financial statements. None of the directors has waived any emoluments during the both years.

There was no arrangement under which a director waived or agreed to waive any emoluments during the year.

Highest paid employees

The five highest paid employees of the Group included five (2006: four) directors, details of whose emoluments are set out above. The emoluments of the remaining one individual for the year ended 31 March 2006 are set out below:

	HK$'000
Salaries and other benefits	410
Retirement benefit scheme contributions	12
	422

During the years ended 31 March 2006 and 2007, no emoluments have been paid or payable by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

13. DIVIDEND

No dividend has been paid or declared by the Company during the year (2006: Nil).

14. LOSS PER SHARE

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

	2007	**2006**
	HK$'000	*HK$'000*
Loss for the purposes of basic loss per share (loss for the year attributable to equity holders of the Company)	(73,210)	(96,773)

	2007	**2006**
Weighted average number of ordinary shares for the purpose of basic loss per share	234,367,577	230,244,015

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

15. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost						
At 1 April 2005	–	4,005	1,100	2,316	1,590	9,011
Exchange realignment	–	131	52	62	9	254
Additions	–	650	54	3,443	1,714	5,861
Disposals/write off	–	(98)	–	(15)	–	(113)
Reclassification	–	(8)	–	8	–	–
Acquired on acquisition of a subsidiary	–	1,459	–	319	–	1,778
At 31 March 2006	–	6,139	1,206	6,133	3,313	16,791
Exchange realignment	41	289	286	326	99	1,041
Additions	–	99	108	1,412	3	1,622
Disposals/write off	(931)	–	(34)	(6)	(248)	(1,219)
Reclassification/transfer from inventories	–	–	(92)	114	–	22
Acquired on acquisition of subsidiaries	890	253	4,646	1,330	414	7,533
At 31 March 2007	–	6,780	6,120	9,309	3,581	25,790
Accumulated depreciation						
At 1 April 2005	–	106	137	398	1,480	2,121
Exchange realignment	–	24	32	22	9	87
Provided for the year	–	1,112	343	902	268	2,625
Elimination on disposals/write off	–	–	–	(10)	–	(10)
At 31 March 2006	–	1,242	512	1,312	1,757	4,823
Exchange realignment	–	92	100	93	28	313
Provided for the year	–	1,263	1,453	1,688	447	4,851
Elimination on disposals/write off	–	–	(23)	(1)	(67)	(91)
Reclassification	–	–	(76)	76	–	–
At 31 March 2007	–	2,597	1,966	3,168	2,165	9,896
Carrying amounts						
At 31 March 2007	–	4,183	4,154	6,141	1,416	15,894
At 31 March 2006	–	4,897	694	4,821	1,556	11,968

16. GOODWILL

	HK$'000
Cost	
At 1 April 2005	36,547
Arising on acquisition of a subsidiary	1,213
Elimination of accumulated amortisation upon the adoption of HKFRS 3	(2,262)
At 31 March 2006	35,498
Arising on acquisition of subsidiaries and additional equity interests in a subsidiary	21,453
At 31 March 2007	56,951
Amortisation	
At 1 April 2005	2,262
Elimination of accumulated amortisation upon the adoption of HKFRS 3	(2,262)
At 31 March 2006 and 31 March 2007	–
Impairment	
At 1 April 2005	612
Impairment loss recognised in the current year	11,000
At 31 March 2006	11,612
Impairment loss recognised in the current year	14,462
At 31 March 2007	26,074
Carrying amounts	
At 31 March 2007	30,877
At 31 March 2006	23,886

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generation units ("CGUs") that are expected to benefit from that business combination. Before recognition of impairment losses for the current year, the carrying amount of goodwill had been allocated as follows:

	2007 HK$'000	2006 HK$'000
Production and trading of biotechnology products:		
Shanghai Haoyuan Biotechnology Co., Ltd. ("SHB")	11,533	17,133
Procurement of healthcare services:		
Beijing Universal Medical Assistance Co., Ltd. ("BUMA")	11,140	16,540
CHC (Shanghai) Medical and Healthcare Services Limited ("SMHS")	2,015	1,213
Shanghai New Everstep Investment Management and Consultancy Limited ("SNEI")	1,546	–
E-commerce distribution of mobile pre-charge:		
Shanghai Harvest Network Technology Co. Limited and its subsidiary ("Harvest Group")	18,612	–
Shanghai Epay Information Technology Company Limited ("Shanghai Epay")	493	–
	45,339	34,886

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

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

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next three years with the residual period using the growth rate of 5%. This rate does not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows from the Group's production and trading of biotechnology products activities is 12.6%, and from the Group's procurement of healthcare services activities is 11.5%.

At 31 March 2007, before impairment testing, goodwill of approximately HK$11.5 million, HK$11.1 million, HK$2 million and HK$1.5 million were allocated to SHB, BUMA, SMHS and SNEI respectively. As a result of changes in market condition, the Group has revised its cash flow forecasts for these CGUs. The goodwill allocated to the above CGUs have therefore been reduced to its recoverable amount through recognition of an impairment loss against goodwill during the year as follows:

	HK$'000
Production and trading of biotechnology products:	
SHB	8,301
Procurement of healthcare services	
BUMA	2,600
SMHS	2,015
SNEI	1,546
Impairment loss of goodwill recognised in the current year	14,462

17. OTHER INTANGIBLE ASSETS

	Patent	Computer software	Total
	HK$'000	*HK$'000*	*HK$'000*
Cost			
At 1 April 2005	1,415	–	1,415
Exchange realignment	34	–	34
At 31 March 2006	1,449	–	1,449
Exchange realignment	66	43	109
Acquired on acquisition of subsidiaries	–	1,050	1,050
At 31 March 2007	1,515	1,093	2,608
Amortisation			
At 1 April 2005	141	–	141
Exchange realignment	6	–	6
Charge for the year	191	–	191
At 31 March 2006	338	–	338
Exchange realignment	20	3	23
Charge for the year	198	132	330
At 31 March 2007	556	135	691
Carrying amounts			
At 31 March 2007	959	958	1,917
At 31 March 2006	1,111	–	1,111

The Group's patents protect the design and specification of the Group's biotechnology products. The respective average remaining amortisation periods of the patents is 4.75 years (2006: 5.75 years) and the computer software are 5 years (2006: N/A).

18. INTEREST IN AN ASSOCIATE

	2007	2006
	HK$'000	*HK$'000*
Unlisted investments:		
Share of net assets	1	1
Amount due from an associate	151	151
	152	152
Less: Impairment loss for amount due from an associate	(151)	(151)
	1	1

Particulars of the associate of the Group as at 31 March 2007 are as follows:

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

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

	2007	2006
	HK$'000	*HK$'000*
Total assets	1	1
Total liabilities	(165)	(160)
Net liabilities	(164)	(159)
Revenue	–	–
Loss for the year	(5)	(156)

The Group has not recognised its share of loss for the year amounting to HK$2,000 (2006: HK$62,000) for Moment Touch Management Limited. The accumulated losses not recognised were HK$66,000 (2006: HK$64,000).

19. INVENTORIES

	2007	2006
	HK$'000	*HK$'000*
Raw materials	847	1,205
Finished goods	22,408	1,441
	23,255	2,646

20. TRADE RECEIVABLES

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

	2007	2006
	HK$'000	*HK$'000*
Within 30 days	17,395	280
31 to 60 days	79	273
61 to 90 days	151	156
91 to 120 days	222	165
Over 120 days	791	2,415
Total	18,638	3,289

As at 31 March 2007, an allowance was made for estimated irrecoverable trade receivables of approximately HK$8,742,000 (2006: HK$818,000).

21. LOAN RECEIVABLES

	2007	2006
	HK$'000	*HK$'000*
Secured term loans	37,618	27,828
Unsecured term loans	3,842	1,004
	41,460	28,832
Less: Impairment losses	(21,026)	(21,026)
	20,434	7,806

The interest rates received were as follows:

	2007	2006
Secured term loans	5.5% – 5.75%	2% – 8%
Unsecured term loans	5% – 8%	7.75% – 8%

The Group's loan receivables are arranged at fixed interest rates and expose the Group to fair value interest rate risk.

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2007	**2006**
	HK$'000	*HK$'000*
Equity securities, at fair value		
Listed in Hong Kong	192	–
Listed outside Hong Kong	153	–
Market value of listed securities	345	–

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

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

23. BANK BALANCES AND CASH

As at 31 March 2007, the bank balances and cash of the Group denominated in Renminbi ("RMB") amounted to HK$22,483,000 (2006: HK$5,825,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

24. TRADE PAYABLES

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

	2007	**2006**
	HK$'000	*HK$'000*
Within 30 days	444	42
31 to 60 days	5	–
61 to 90 days	12	4
91 to 120 days	23	494
Over 120 days	68	869
Total	552	1,409

25. AMOUNTS DUE TO DIRECTORS

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

26. CONVERTIBLE BONDS

	2007	2006
	HK$'000	*HK$'000*
Liability component of convertible bonds		
Convertible bonds issued with equity component *(Note a)*	49,904	48,992
Convertible bonds issued with derivative component *(Note b)*	16,739	–
	66,643	48,992
Derivative component of convertible bonds *(Note b)*	7,947	–

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

	2007	2006
	HK$'000	*HK$'000*
In the second to fifth years inclusive	66,643	48,992

Notes:

(a) Convertible bonds issued with equity component

On 19 May 2005, the Company issued convertible bonds with a nominal value of US$6,600,000 due on 18 May 2009 ("CB1"). CB1 carrying 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 CB1 entitles the holder to convert the bonds into new ordinary shares of the Company at a conversion price, subject to adjustment, of HK$2.525 per share during the period from 19 May 2005 to 18 May 2009. In addition, if CB1 remain outstanding on the maturity date, the Company will redeem the principal of CB1 at 100% of their face value.

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

	2007	2006
	HK$'000	*HK$'000*
Nominal value	51,256	51,256
Equity component	(3,592)	(3,592)
Liability component at date of issue	47,664	47,664
Interest charged	4,557	2,100
Interest paid	(2,317)	(772)
Liability component at 31 March	49,904	48,992

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

The directors estimate the fair value of the liability component of CB1 at 31 March 2007 to be approximately HK$47,461,000 (2006: HK$45,237,000). The fair value has been calculated by discounting the future cash flows at the market rate.

(b) Convertible bonds issued with derivative component

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

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

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

In addition, if CB2 remain outstanding on the maturity date, the Company will redeem the principal of CB2 at 100% of their face value. Details are disclosed in the Company's circular dated 16 June 2006.

The net proceeds received for the issue of CB2 have been split between the liability element and an derivative component as follows:

	2007
	HK$'000
Nominal value	18,400
Derivative component	(2,227)
Liability component at date of issue	16,173
Interest charged	566
Liability component at 31 March 2007	16,739
Derivative component at the date of issue	2,227
Fair value loss recognised in current year	5,720
Derivative component at 31 March 2007	7,947

The interest charged on CB2 for the year is calculated by applying an effective interest rate of 5.479% to the liability component for the 8 month period since the loan notes were issued.

The directors estimate the fair value of the liability component of CB2 at 31 March 2007 to be approximately HK$15,451,000. This fair value has been calculated by discounting the future cash flows at the market rate.

The derivative component of CB2 were revalued as at the date of issue and 31 March 2007 based on valuations by an independent valuer, BMI Appraisal Limited, determined using option pricing models.

27. REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES

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

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

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

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

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

	2007
	HK$'000
Nominal value of PS	117,000
Transaction cost related to liability component	(9,561)
Derivative component at the date of issue	(32,258)
Liability component at the date of issue	75,181
Interest charged	5,957
Liability component at 31 March 2007	81,138
Derivative component at the date of issue	32,258
Fair value loss recognised in current year	10,311
Derivative component at 31 March 2007	42,569

The interest charged for the year is calculated by applying the effective interest rate of 11.965% to the liability component for the 8 month period since the PS was issued.

The directors estimate the fair value of the liability component of PS at 31 March 2007 to be approximately HK$93,621,000. This fair value has been calculated by discounting the future cash flows at the market value.

The derivative component of redeemable convertible cumulative preference shares were revalued as at the date of issue and 31 March 2007 based on valuations by an independent valuer, BMI Appraisal Limited, determined using option pricing models.

28. SHARE CAPITAL

	2007 *Number of shares*	2007 *HK$'000*	2006 *Number of shares*	2006 *HK$'000*
Authorised:				
Ordinary shares of HK$0.1 each	5,000,000,000	500,000	5,000,000,000	500,000
Non-voting preference shares of HK$10 each	–	–	100,000,000	1,000,000
Redeemable convertible cumulative preference shares of US$0.01 each *(Note 27)*	15,000	1	–	–
Issued and fully paid:				
Ordinary shares of HK$0.1 each at beginning of year	234,367,577	23,437	217,067,577	21,707
Issue of shares upon conversion of convertible bonds	–	–	17,300,000	1,730
At end of year	234,367,577	23,437	234,367,577	23,437

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

(a) During the year ended 31 March 2006, the Company had issued a total of 17,300,000 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$1.0	17,300	17,300,000	1,730

(b) Pursuant to an ordinary resolution passed on 10 July 2006, the authorised share capital of the Company of HK$1,500,000,000 comprising 5,000,000,000 ordinary shares of HK$0.1 each and 100,000,000 non-voting preference shares of HK$10 each be altered and reduced as follows:

(i) by cancelling the authorised but unissued 100,000,000 non-voting preference shares of HK$10 each; and

(ii) by the creation of 15,000 PS of US$0.01 each, with the respective rights and privileges and subject to the restrictions as set out in note 27 and the Company's circular dated 16 June 2006,

to an aggregate of HK$500,000,000 comprising 5,000,000,000 ordinary shares of HK$0.1 each and US$150 comprising 15,000 PS.

29. BALANCE SHEET OF THE COMPANY

	2007	2006
	HK$'000	*HK$'000*
Property, plant and equipment	–	3
Investments in subsidiaries	24,552	14,022
Due from subsidiaries	141,070	68,483
Other current assets	2,254	11,978
Due to subsidiaries	(942)	(2,955)
Convertible bonds	(66,643)	(48,992)
Redeemable convertible cumulative preference shares	(81,138)	–
Other current liabilities	(57,732)	(3,281)
NET (LIABILITIES)/ASSETS	(38,579)	39,258
Share capital	23,437	23,437
Reserves	(62,016)	15,821
TOTAL EQUITY	(38,579)	39,258

30. RESERVES

(A) The Group

Details of the movements in the reserves of the Group are set out in Consolidated Statement of Changes in Equity on page 28.

(B) Nature and purpose of reserves

(i) Contribution surplus

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

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

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

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

In the opinion of the directors, as at 31 March 2007, the Company did not have any reserve available for distribution to shareholders.

(ii) Statutory reserve

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

(iii) Share option reserve

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

(C) The Company

	Share premium	Contributed surplus	Convertible bonds reserve	Share option reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2005	194,543	57,124	2,195	–	(269,846)	(15,984)
Recognition of equity component of convertible bonds	–	–	3,592	–	–	3,592
Issue of shares on conversion of convertible bonds	17,765	–	(2,195)	–	–	15,570
Recognition of share-based payments	–	–	–	148	–	148
Profit for the year	–	–	–	–	12,495	12,495
At 31 March 2006	212,308	57,124	3,592	148	(257,351)	15,821
Loss for the year	–	–	–	–	(77,837)	(77,837)
At 31 March 2007	212,308	57,124	3,592	148	(335,188)	(62,016)

31. SHARE OPTION SCHEMES

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

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

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

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

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

Particulars of share options granted by the Company as at 31 March 2006 and 2007 are as follows:

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

The following tables summarise movements in the Company's share options during the year ended 31 March 2007.

Old scheme

	Option type	Number of share options Outstanding at 1 April 2006	Lapsed/ Exercised	Outstanding at 31 March 2007
Directors	A	25,000	–	25,000

New scheme

	Option type	Number of options Outstanding at 1 April 2006	Reallocation *(Note)*	Granted	Lapsed	Outstanding at 31 March 2007
Directors	B	7,002,000	(1,002,000)	–	–	6,000,000
	C	8,370,000	(1,260,000)	–	–	7,110,000
Total of directors		15,372,000	(2,260,000)	–	–	13,110,000
Employees	B	150,000	–	–	(90,000)	60,000
	C	390,000	–	–	(120,000)	270,000
Total of employees		540,000	–	–	(210,000)	330,000
Advisors and consultants	B	9,046,000	1,002,000	–	–	10,048,000
	C	8,622,000	1,260,000	–	–	9,882,000
	D	99,000	–	–	–	99,000
Total of advisors and consultants		17,767,000	2,262,000	–	–	20,029,000
Total		33,679,000	–	–	(210,000)	33,469,000

Note: Mr. Robin Willi, Mr. Li Xiao Ru and Mr. Ma Yin Ming resigned as directors of the Company on 15 August 2006, 29 August 2006 and 30 November 2006 respectively, but they remain as advisors within the Group. Therefore, according to the Share Option Scheme, Mr. Robin Willi, Mr. Li Xiao Ru and Mr. Ma Yin Ming are eligible to entitle as holders of the options granted. Accordingly, the outstanding options of the resigned directors were reallocated under advisors and consultants.

The following tables summarise the movements in the Company's share options during the year ended 31 March 2006:

Old scheme

		Number of share options		
	Option type	**Outstanding at 1 April 2005**	**Lapsed/ Exercised**	**Outstanding at 31 March 2006**
Directors	A	25,000	–	25,000

New Scheme

		Number of options			
	Option type	**Outstanding at 1 April 2005**	**Granted**	**Lapsed**	**Outstanding at 31 March 2006**
Directors	B	7,002,000	–	–	7,002,000
	C	8,370,000	–	–	8,370,000
Total of directors		15,372,000	–	–	15,372,000
Employees	B	469,000	–	(319,000)	150,000
	C	840,000	–	(450,000)	390,000
Total of employees		1,309,000	–	(769,000)	540,000
Advisors and consultants	B	9,046,000	–	–	9,046,000
	C	8,622,000	–	–	8,622,000
	D	–	99,000	–	99,000
Total of advisors and consultants		17,668,000	99,000	–	17,767,000
Total		34,349,000	99,000	(769,000)	33,679,000

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

	2007		2006	
	Average exercise price in HK$ per share	Number of share options	Average exercise price in HK$ per share	Number of share options
At 1 April	2.846	33,704,000	2.846	34,374,000
Granted	–	–	2.330	99,000
Lapsed	2.786	(210,000)	2.771	(769,000)
At 31 March	2.846	33,494,000	2.846	33,704,000

The options outstanding at the end of the year have a weighted average remaining contractual life of 5.02 years (2006: 6.02 years).

During the year ended 31 March 2006, the fair values of the 99,000 share options granted by the Company to the consultants amounted to HK$148,000.

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

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

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

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

(a) Acquisition of subsidiaries

For the year ended 31 March 2007

On 26 May 2006, the Group acquired 100% equity interest in Shanghai New Everstep Investment Management and Consultancy Limited ("SNEI") at a total cash consideration of HK$4,484,000.

On 1 August 2006, the Group acquired 70% equity interest in Shanghai Harvest Network Technology Co. Limited and its subsidiary ("Harvest Group") at a total consideration of HK$36.4 million, of which HK$18 million was satisfied in cash and HK$18.4 million was satisfied by the issue of convertible notes.

On 1 November 2006, the Group acquired 60% equity interest in Shanghai EPay Information Technology Company Limited ("Shanghai EPay") at a cash consideration of approximately HK$1 million. Shanghai EPay is a domestic company incorporated in Mainland China and is principally engaged in E-commerce distribution of mobile pre-charge and other E-commerce prepaid products and services.

The fair values of the identifiable assets and liabilities of the subsidiaries acquired as at its date of acquisition, which has no significant difference from their carrying amounts are as follows:

	SNEI	Harvest Group	Shanghai Epay	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Net assets acquired:				
Property, plant and equipment	898	6,322	313	7,533
Intangible assets	–	1,050	–	1,050
Interests in associates	–	1,703	–	1,703
Inventories	–	7,907	669	8,576
Bank balances and cash	2,968	12,526	19	15,513
Trade receivables	–	10,183	94	10,277
Prepayments, deposits and other receivables	532	1,638	541	2,711
Other payables and accrued liabilities	(1,460)	(12,342)	(808)	(14,610)
Amount due to minority equity holders	–	(2,686)	–	(2,686)
Tax payable	–	(446)	–	(446)
Total net assets	2,938	25,855	828	29,621
Minority interests	–	(8,067)	(331)	(8,398)
Net assets acquired	2,938	17,788	497	21,223
Goodwill on acquisition	1,546	18,612	493	20,651
	4,484	36,400	990	41,874
Satisfied by:				
Cash consideration	–	18,000	990	18,990
Offsetting amount advanced to the third party	4,484	–	–	4,484
Issue of convertible bonds	–	18,400	–	18,400
Total consideration	4,484	36,400	990	41,874
Net cash outflow arising on acquisition:				
Cash consideration	–	(18,000)	(990)	(18,990)
Bank balances and cash acquired	2,968	12,526	19	15,513
	2,968	(5,474)	(971)	(3,477)

The goodwill arising on the acquisition of these subsidiaries attributable to the anticipated profitability of the provision of the Group's services in the new markets and the anticipated future operating synergies from the combination.

The subsidiaries acquired during the year contributed HK$1,627,076,000 to the Group's turnover and profit of HK$5,061,000 to the Group's loss before tax for the period between the dates of acquisition and the balance sheet date.

Had the acquisition been completed on 1 April 2006, total Group turnover for year would have been HK$2,387,462,000 and loss for the year would have been HK$71,942,000. The proforma information is for illustrative purpose only and is not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2006, nor is intended to be a projection of future results.

For the year ended 31 March 2006

On 22 April 2005, the Group subscribed 56% equity interest in the SMHS by capital contribution of HK$3,800,000. The fair values of the identifiable assets and liabilities of the subsidiary as at its date of acquisition which has no significant difference from their carrying amounts are as follows:

	HK$'000
Net assets acquired:	
Property, plant and equipment	1,778
Inventories	69
Prepayments, deposits and other receivables	71
Bank balances and cash	3,800
Trade payables	(28)
Other payables and accrued liabilities	(1,071)
Total net assets	4,619
Minority interests	(2,032)
Net assets acquired	2,587
Goodwill on acquisition	1,213
Satisfied by :	
Cash	3,800
Net cash outflow arising on acquisition:	
Cash consideration	(3,800)
Bank balances and cash acquired	3,800
	–

(b) Major non-cash transactions

During the years ended 31 March 2006 and 2007, the Group had he following major non-cash transactions:

(i) Conversion of the convertible bonds into the Company's shares during the year ended 31 March 2006 as set out in note 28(a).

(ii) On 1 August 2006, the Group acquired the additional 12.46% equity interest in CHC (Shanghai) Medical & Healthcare Services Limited at a consideration of HK$802,000. The consideration was settled by offsetting the amount advanced to a minority equity holder.

(iii) During the year, a borrower of the loan receivables agreed to take up the amount due to a director and accrued liabilities amounting HK$4,229,000 of the Group as partial repayment. Accordingly, these balances were set off against the loan receivables.

(iv) Included in other payables and accrued liabilities as at 31 March 2007 was an amount of HK$4,843,000 in respect of the issue cost of redeemable convertible cumulative preference shares not yet paid at the balance sheet date.

33. DEFERRED TAXATION

At the balance sheet date the Group has unused tax losses of approximately HK$37,843,000 (2006: HK$23,847,000) and other temporary differences of HK$14,079,000 (2006: Nil) that are available for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses and other temporary differences due to unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$35,421,000 (2006: HK$23,522,000) that will be expired from 2007 to 2012. Other losses may be carried forward indefinitely.

34. CAPITAL COMMITMENTS

The Group's capital commitments at the balance sheet date are as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Capital expenditure contracted but not provided for in the financial statements in respect of:		
Capital contribution to subsidiaries *(Note)*	1,010	10,530
Acquisition of non-current assets	5,051	–
	6,061	10,530

Note:

On 26 February 2007, the Group incorporated a wholly owned subsidiary, Beijing Joyzone Network Technologic Co, Ltd., in the PRC with required contribution of RMB1,000,000 (equivalent to HK$1,010,000). The capital has not been contributed by the Group at 31 March 2007.

35. OPERATING LEASE COMMITMENTS

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

	2007	**2006**
	HK$'000	*HK$'000*
Within one year	5,087	2,103
In the second to fifth years inclusive	7,231	3,557
	12,318	5,660

At the balance sheet date, the total future minimum sublease payments expected to be received under non-cancellable subleases amounted to HK$520,000 (2006: HK$177,000).

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

36. EVENT AFTER THE BALANCE SHEET DATE

Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25%, which will be effective from 1 January 2008. The impact of such change of enterprise income tax rate on the Group's consolidated financial statements will depend on the implementation details that have not been issued as of the date of the approval of these consolidated financial statements. Therefore, the Group cannot reasonably estimate the financial impact of the new tax law to the Group at this stage.

37. PRESENTATION OF FINANCIAL STATEMENTS

The expenses presented in the consolidated income statement have been changed from by nature to by function as the directors consider that the new presentation is more appropriate to the financial statements following the diversification of the Group's business to include the E-commerce distribution of mobile pre-charge through the acquisition of subsidiaries during the year.

38. SUBSIDIARIES

Particulars of the subsidiaries of the Company as at 31 March 2007 are as follows:

	Place of incorporation/ registration and operations	Class of shares held	Issued/ registered capital	Percentage of interest in ownership held by			Principal activities
				Group	*Company*	*Subsidiaries*	
Artel Limited	Hong Kong	Ordinary	HK$10	60%	–	60%	Investment holding
Beijing Joyzone Network Technologic Co., Ltd *(Note a)*	PRC	Registered capital	RMB 1,000,000	100%	–	100%	General trading by e-commerce
Beijing Universal Medical Assistance Co., Ltd. *(Note b)*	PRC	Registered capital	RMB 3,000,000	62.36%	–	70%	Provision of exclusive nationwide medical assistance services
Beijing Weichang Medical Clinic Co., Ltd. ("BWC") *(Notes c and d)*	PRC	Registered capital	RMB 2,000,000	100%	100%	–	Provision of medical services
Card Symbols Limited	British Virgin Islands/ Hong Kong	Ordinary	US$1	100%	–	100%	Investment holding
CHC Investment Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary	US$100	100%	100%	–	Investment holding
CHC (Shanghai) Medical and Healthcare Services Ltd. *(Notes c and d)*	PRC	Registered capital	RMB 6,820,000	68.46%	–	68.46%	Provision of healthcare services
China Clinical Trials Centre Limited	British Virgin Islands/ Hong Kong	Ordinary	US$100	100%	–	100%	Clinical trials of drugs and devices
China Healthcare Holdings (Hong Kong) Limited	Hong Kong	Ordinary	HK$10,000	100%	100%	–	Investment holding
China Healthcare Services Investment Limited	British Virgin Islands/ Hong Kong	Ordinary	US$137,500	89.09%	–	89.09%	Investment holding

	Place of incorporation/ registration and operations	Class of shares held	Issued/ registered capital	Percentage of interest in ownership held by			Principal activities
				Group	*Company*	*Subsidiaries*	
China Medicare Limited	Hong Kong	Ordinary	HK$1,000,000	89.09%	–	100%	Investment holding
Fullway Technology Limited	British Virgin Islands/ Hong Kong	Ordinary	US$1,000	51%	–	51%	Investment holding
Junghua Enterprises Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary	US$1	100%	–	100%	Investment holding
Power Ability Limited	British Virgin Islands/ Hong Kong	Ordinary	US$10,000	51%	–	51%	Investment holding and trading of medical equipments
Shanghai EPay Information Technology Company Limited *(Note c)*	PRC	Registered capital	US$920,000	60%	–	60%	E-commerce distribution of mobile pre-charge
Shanghai Haoyuan Biotechnology Co., Ltd. *(Note a)*	PRC	Registered capital	RMB 8,090,970	51%	–	100%	Developing, production and marketing NAT clinical reagents and medical equipments
Shanghai Harvest Network Technology Co. Limited (Note c)	PRC	Registered capital	RMB 40,000,000	70%	–	70%	E-commerce distribution of mobile pre-charge
Shanghai Kejin Network Technology Company Limited *(Note c)*	PRC	Registered capital	RMB 5,000,000	63%	–	90%	E-commerce distribution of mobile pre-charge
Shanghai New Everstep Investment Management and Consultancy Limited *(Note a)*	PRC	Registered capital	US$ 420,000	100%	–	100%	Provision of maternal and fetal care services
Shanghai Weichang Investment and Management Consulting Co., Ltd. *(Note a)*	PRC	Registered capital	US$ 3,350,000	100%	100%	–	Investment management and consultancy services

	Place of incorporation/ registration and operations	Class of shares held	Issued/ registered capital	Percentage of interest in ownership held by			Principal activities
				Group	*Company*	*Subsidiaries*	
Success Gateway Investments Limited	British Virgin Islands/ Hong Kong	Ordinary	US$100	100%	–	100%	Investment holding
TechCap BioTech Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary	US$1,000	100%	100%	–	Investment holding
West Regent Property Limited	British Virgin Islands/ Hong Kong	Ordinary	US$1	100%	–	100%	Investment holding
Wisdom Profit Investment Limited	Hong Kong	Ordinary	HK$10,000	100%	–	100%	Investment holding and money lending

Notes:

(a) Wholly foreign owned enterprises established in PRC.

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

(c) Domestic enterprises established in PRC.

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

3. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

Set out below are the unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2007 as extracted from the 2007 interim report of the Company. References to page number in this section are to the page numbers of such interim report of the Company.

The Board of Directors (the "Board") of China HealthCare Holdings Limited (the "Company") would like to present the unaudited consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2007. These interim financial statements have been reviewed by the Audit Committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

		For the six months ended 30 September	
		2007	**2006**
		(Unaudited)	(Unaudited)
	Notes	*HK$'000*	*HK$'000*
Turnover	*3*	1,398,213	378,868
Cost of sales and service		(1,386,291)	(374,871)
Gross profit		11,922	3,997
Other income		9,310	10,125
Distribution costs		(3,121)	(2,752)
Administrative expenses		(19,065)	(20,227)
Impairment losses for doubtful debts		(118)	–
Other operating expenses	*4*	(17,477)	(627)
Loss from operations	*4*	(18,549)	(9,484)
Finance costs	*5*	(6,268)	(5,637)
Share of profits of an associate		–	26
Loss before tax		(24,817)	(15,095)
Income tax expense	*6*	(858)	(202)
Loss for the period		(25,675)	(15,297)
Attributable to:			
Equity holders of the Company		(26,670)	(15,007)
Minority interests		995	(290)
		(25,675)	(15,297)
Loss per share (HK$)	*8*		
– Basic		(0.11)	(0.06)
– Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET – UNAUDITED

AT 30 SEPTEMBER 2007

	Notes	At 30 September 2007 (Unaudited) HK$'000	At 31 March 2007 (Audited) HK$'000
Non-current assets			
Property, plant and equipment		15,915	15,894
Goodwill		30,877	30,877
Other intangible assets		1,768	1,917
Prepayment for acquisition of non-current assets		6,458	5,253
Interest in associates		1	1
		55,019	53,942
Current assets			
Inventories		41,946	23,255
Trade receivables	9	20,184	18,638
Prepayments, deposits and other receivables		26,399	8,171
Loan receivables		20,434	20,434
Financial assets at fair value through profit or loss		286	345
Bank balances and cash		36,693	74,022
		145,942	144,865
Current liabilities			
Trade payables	10	1,679	552
Other payables and accrued liabilities		34,594	20,647
Amounts due to directors		1,783	5,311
Current tax liabilities		389	330
Derivative component of convertible bonds		4,895	7,947
Derivative component of redeemable convertible cumulative preference shares	12	59,972	42,569
		103,312	77,356
Net current assets		42,630	67,509
Total assets less current liabilities		97,649	121,451

	Notes	At 30 September 2007 (Unaudited) HK$'000	At 31 March 2007 (Audited) HK$'000
Non-current liabilities			
Convertible bonds	*11*	61,333	66,643
Redeemable convertible cumulative preference shares	*12*	85,788	81,138
		147,121	147,781
NET LIABILITIES		(49,472)	(26,330)
Capital and reserves			
Share capital	*13*	23,437	23,437
Reserves		(86,985)	(62,496)
Equity attributable to equity holders of the Company		(63,548)	(39,059)
Minority interests		14,076	12,729
TOTAL EQUITY		(49,472)	(26,330)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

	Share capital	Share premium	Contributed surplus	Statutory reserve	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*	*HK$'000*
At 1 April 2006	23,437	212,308	57,124	–	3,592	360	148	(265,496)	31,473	5,613	37,086
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	8,066	8,066
Dividend payable to minority interests	–	–	–	–	–	–	–	–	–	2,646	2,646
Exchange difference arising on translation of financial statements of overseas operations	–	–	–	–	–	1,068	–	–	1,068	168	1,236
Loss for the period	–	–	–	–	–	–	–	(15,007)	(15,007)	(290)	(15,297)
At 30 September 2006	23,437	212,308	57,124	–	3,592	1,428	148	(280,503)	17,534	16,203	33,737
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	332	332
Dividend paid to minority equity holders	–	–	–	–	–	–	–	–	–	(3,243)	(3,243)
Transfer to statutory reserve	–	–	–	179	–	–	–	(179)	–	–	–
Exchange difference arising on translation of financial statements of overseas operations	–	–	–	–	–	1,610	–	–	1,610	192	1,802
Loss for the period	–	–	–	–	–	–	–	(58,203)	(58,203)	(755)	(58,958)
At 31 March 2007	23,437	212,308	57,124	179	3,592	3,038	148	(338,885)	(39,059)	12,729	(26,330)
Exchange difference arising on translation of financial statements of overseas operations	–	–	–	–	–	2,181	–	–	2,181	352	2,533
Loss for the period	–	–	–	–	–	–	–	(26,670)	(26,670)	995	(25,675)
At 30 September 2007	23,437	212,308	57,124	179	3,592	5,219	148	(365,555)	(63,548)	14,076	(49,472)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

	For the six months ended 30 September	
	2007	**2006**
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Net cash used in from operating activities	(33,167)	(47,842)
Net cash used in investing activities	(4,532)	(4,145)
Net cash from financing activities	–	116,025
Net (decrease)/increase in cash and cash equivalents	(37,699)	64,038
Effect of foreign exchange rate changes	370	839
Cash and cash equivalents at 1 April	74,022	47,894
Cash and cash equivalents at 30 September represented by bank balances and cash	36,693	112,771

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

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 consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 March 2007, except as described below.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivates
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions

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

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKFRS 8	Operating Segments
HKAS 23 (Revised)	Borrowing Costs
HK(IFRIC)-Int 12	Service Concession Arrangements

3. SEGMENT INFORMATION

For management and group's revenue breakdown purposes, the Group is currently organized into four operating segments – (i) E-commerce distribution of mobile pre-charge and others, (ii) procurement of healthcare services, (iii) producing and trading of biotechnology products and (iv) investment holding. These segments 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

	E-commerce distribution of mobile pre-charge and others (Unaudited) *HK$'000*	**Procurement of healthcare services** (Unaudited) *HK$'000*	**Producing and trading of biotechnology products** (Unaudited) *HK$'000*	**Investment holding** (Unaudited) *HK$'000*	**Consolidated Total** (Unaudited) *HK$'000*
Income statement					
For the six months ended 30 September 2007					
Segment revenue	1,392,943	2,214	3,056	–	1,398,213
Segment results	3,969	(3,929)	(1,419)	–	(1,379)
Other operating income					9,310
Unallocated corporate expenses					(26,480)
Loss from operations					(18,549)
Finance costs					(6,268)
Loss before tax					(24,817)

Business segments

	E-commerce distribution of mobile pre-charge and others (Unaudited) *HK$'000*	Procurement of healthcare services (Unaudited) *HK$'000*	Producing and trading of biotechnology products (Unaudited) *HK$'000*	Investment holding (Unaudited) *HK$'000*	Consolidated Total (Unaudited) *HK$'000*
Income statement					
For the six months ended 30 September 2006					
Segment revenue	375,525	1,661	1,682	–	378,868
Segment results	1,352	(6,379)	(1,124)	–	(6,151)
Other operating income					10,125
Unallocated corporate expenses					(13,458)
Loss from operations					(9,484)
Share of profits of an associate					26
Finance costs					(5,637)
Loss before tax					(15,095)

Geographical segments

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

4. **LOSS FROM OPERATIONS**

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

	For the six months ended 30 September 2007 (Unaudited) *HK$'000*	2006 (Unaudited) *HK$'000*
Depreciation	3,113	1,863
Amortisation of intangible assets	206	130
Fair value (gain)/loss on derivative component of convertible bonds	(3,052)	627
Loss/(Profit) on disposal of property, plant and equipment	74*	(3)
Interest Income	(1,103)	(1,226)
Fair value loss/(gain) on derivative component of redeemable convertible cumulative preference shares	17,403*	(8,509)
Gain on repurchase of convertible bonds wholly repayable within five years	(2,958)	–

* *Included in "Other operating expenses" on the face of the condensed consolidated income statement.*

5. FINANCE COSTS

	For the six months ended 30 September 2007 (Unaudited) *HK$'000*	2006 (Unaudited) *HK$'000*
Interest on convertible bonds wholly repayable within five years	1,618	1,275
Interest on liability component of redeemable convertible cumulative preference shares wholly repayable within five years	4,650	1,451
Issue costs on redeemable convertible cumulative preference shares wholly repayable within five years	–	2,907
Interest on other loans wholly repayable within five years	–	4
	6,268	5,637

6. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax has been made since the Group did not generate any assessable profits during the period (2006: Nil).

Tax charge on profits assessable in PRC have been calculated at the rates of tax prevailing in the PRC in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

	For the six months ended 30 September 2007 (unaudited) *HK$'000*	2006 (unaudited) *HK$'000*
Current tax – PRC	858	202

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 (2006: Nil).

8. LOSS PER SHARE

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

	For the six months ended 30 September 2007	2006
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Loss for the purposes of basic loss per share (loss for the period attributable to equity holders of the Company)	(26,670)	(15,007)
	'000	'000
Weighted average number of ordinary shares for the purposes of basic loss per share	234,368	234,368

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

9. TRADE RECEIVABLES

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

	At 30 September 2007	At 31 March 2007
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Within 30 days	19,004	17,395
31 – 60 days	60	79
61 – 90 days	163	151
91 – 120 days	313	222
Over 120 days	644	791
Total	20,184	18,638

The directors consider that the carrying amount of trade receivables approximates their fair value.

10. TRADE PAYABLES

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

	At 30 September 2007 (Unaudited) *HK$'000*	At 31 March 2007 (Audited) *HK$'000*
Within 30 days	263	444
31 – 60 days	665	5
61 – 90 days	711	12
91-120 days	10	23
over 120 Days	30	68
Total	1,679	552

The directors consider that the carrying amount of trade payables approximates their fair value.

11. CONVERTIBLE BONDS

	Convertible Bonds due on 18 May 2009 (the "CB1") *HK$'000*	Convertible Bonds due on 6 August 2010 (the "CB2") *HK$'000*	Total *HK$'000*
At 1 April 2007	49,904	16,739	66,643
Interest charged during the period	1,168	450	1,618
Interest paid during the period	(772)	–	(772)
Repurchase during the period	(6,156)	–	(6,156)
At 30 September 2007	44,144	17,189	61,333

CB1 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 CB1 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 CB1 remain outstanding on the maturity date, the Company will redeem the principal of CB1 at 100% of their face value.

CB2 carry interest at 2% per annum payable semi-annually in arrears with the first interest payment due on 6 February 2007 and the last interest payment due on 6 August 2010. During the period from 7 August 2006 to 6 August 2010, each CB2 entitles the holder to convert the bonds into new ordinary shares of the Company at the lower of the following:

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

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

In addition, if CB2 remain outstanding on the maturity date, the Company will redeem the principal of CB2 at 100% of their face value. Details are disclosed in the Company's circular dated 16 June 2006.

During the period, CBI of nominal value of US$820,000 (equivalent to HK$6,396,000) was transfered to the wholly owned subsidiary of the Company at a total cash consideration of US$410,000 (equivalent to HK$3,198,000). A gain on repurchase of CBI of HK$2,958,000 was recognised during the period.

The directors consider that the carrying amount of the liability component of the convertible bonds approximates their fair value.

12. REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES

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

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

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

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

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

	At 30 September 2007	**At 31 March 2007**
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Nominal value of PS	117,000	117,000
Transaction cost related to liability component	(9,561)	(9,561)
Derivative component at the date of issue	(32,258)	(32,258)
Liability component at the date of issue	75,181	75,181
Interest charged	10,607	5,957
Liability component at 30 September 2007/31 March 2007	85,788	81,138
Derivative component at 1 April 2007/the date of issue	42,569	32,258
Fair value loss recognised in current period/year	17,403	10,311
Derivative component at 30 September 2007/31 March 2007	59,972	42,569

13. SHARE CAPITAL

	Number of shares	Nominal value *HK$'000*
Authorised:		
Ordinary shares of HK$0.1 each	5,000,000,000	500,000
Redeemable convertible cumulative preference shares of US$0.01 each	15,000	1
At 31 March 2007 and 30 September 2007		500,001
Issued and fully paid:		
Ordinary shares of HK$0.1 each		
At 31 March 2007 and 30 September 2007	234,367,577	23,437

14. RELATED PARTY TRANSACTIONS

No significant related party transaction was entered into by the Group during the period ended 30 September 2007.

4. INDEBTEDNESS

As at the close of business on 31 March 2008, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had outstanding borrowings of approximately HK$3,525,534, comprising unsecured amounts due to directors of approximately HK$2,152,000 and unsecured amounts due to third parties of approximately HK$1,373,534.

As at the close of business on 31 March 2008, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had the following outstanding convertible loans:

(a) 3% convertible bonds with a principal amount of approximately HK$45,090,000 (equivalent to US$5,780,000) issued by the Company on 19 May 2005 ("CB 1"). The CB1 carries interest at 3% per annum payable semi-annually in arrears with the first interest payment due on 18 November 2005 and the last interest payment due on 18 May 2009;

(b) 2% convertible bonds with a principal amount of HK$18,400,000 issued by the Company on 7 August 2006 ("CB 2"). The CB 2 carries interest at 2% per annum payable semi-annually in arrears with the first interest payment due on 6 February 2007 and the last interest payment due on 6 August 2010; and

(c) 2% redeemable convertible cumulative preference shares with a nominal value of approximately HK$117,000,000 (equivalent to US$15,000,000) issued by the Company on 28 July 2006 ("PS"). The PS carries dividend at 2% per annum, subject to adjustment to 5% on certain special events payable semi-annually in arrears. The maturity date of the PS is falling on the fifth anniversary of 28 July 2006 or such later date, not being later than the seventh anniversary of 28 July 2006, as may be agreed in writing between the Company and the holders of the PS.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business, as at the close of business on 31 March 2008, the Enlarged Group did not have other outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, 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 31 March 2008.

5. WORKING CAPITAL

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

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm that there was no material adverse change in the financial or trading position of the Group since 31 March 2007 (being the date to which the latest published audited financial statements 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.

RSM Nelson Wheeler
羅申美會計師行
Certified Public Accountants

29th Floor, Caroline Centre,
Lee Gardens Two,
28 Yun Ping Road,
Hong Kong

30 April 2008

The Board of Directors
China HealthCare Holdings Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of Shanghai Harvest Network Technology Company Limited (上海德豐網絡技術有限公司(formerly known as 上海德豐信息網絡技術有限公司)) ("Shanghai Harvest") and its subsidiaries (hereinafter collectively referred to as the "Shanghai Harvest Group") for each of the three years ended 31 December 2005, 2006 and 2007 (the "Relevant Periods") for inclusion in the circular dated 30 April 2008 issued by China HealthCare Holdings Limited (the "Company") in connection with the proposed acquisition of 30% equity interest in Shanghai Harvest (the "Circular").

Shanghai Harvest was a domestic company established on 23 November 2000 in the People's Republic of China (the "PRC") with limited liability and was converted into a sino-foreign equity joint venture enterprise on 23 November 2007. Shanghai Harvest 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 subsidiaries:

Name of subsidiary	**Place and date of establishment**	**Registered and fully paid capital**	**Proportion of equity interest held by Shanghai Harvest**		**Principal activities**
			Directly	*Indirectly*	
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

Name of subsidiary	Place and date of establishment	Registered and fully paid capital	Proportion of equity interest held by Shanghai Harvest		Principal activities
			Directly	*Indirectly*	
Guangdong Harvest Network Technology Company Limited (廣東德豐網絡科技有限公司) ("Guangdong Harvest")	PRC 6 August 2007	RMB10,000,000	90%	10%	Dormant

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

All the companies of the Shanghai Harvest Group have adopted 31 December as the financial year end date.

The statutory financial statements of Shanghai Harvest and Shanghai Kejin have been prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC and were audited by the following certified public accountants registered in the PRC.

Name of company	Financial year	Name of auditors
Shanghai Harvest	Each of the three years ended 31 December 2007	Gong Xin Zhong Nan Certified Public Accountants (公信中南會計師事務所)
Shanghai Kejin	Each of the three years ended 31 December 2007	Gong Xin Zhong Nan Certified Public Accountants (公信中南會計師事務所)

No audited financial statements of Guangdong Harvest have been prepared for the Relevant Periods as Guangdong Harvest has not been involved in any significant business transactions.

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 Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). We have carried out independent audit procedures on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

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

The Financial Information has been prepared from the Underlying Financial Statements in accordance with HKFRSs. No adjustments were considered necessary 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, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of Shanghai Harvest and of the Shanghai Harvest Group as at 31 December 2005, 2006 and 2007 and of the Shanghai Harvest Group's results and cash flows for the Relevant Periods.

FINANCIAL INFORMATION

A. CONSOLIDATED INCOME STATEMENTS

	Note	**2005** *RMB'000*	**2006** *RMB'000*	**2007** *RMB'000*
Turnover	*6*	1,993,407	2,265,904	2,554,621
Cost of sales		(1,980,205)	(2,249,050)	(2,535,305)
Gross profit		13,202	16,854	19,316
Other income	*7*	6,768	1,960	1,963
Selling expenses		(2,319)	(3,137)	(3,003)
Administrative expenses		(8,499)	(6,828)	(7,349)
Other operating expenses		(211)	–	–
Profit from operations		8,941	8,849	10,927
Share of loss of associates		(49)	–	–
Gain on disposal of associates		–	238	–
Finance costs	*9*	(334)	(256)	(278)
Profit before tax		8,558	8,831	10,649
Income tax expense	*10*	(1,777)	(1,459)	(1,502)
Profit for the year	*11*	6,781	7,372	9,147
Attributable to:				
Equity holders of Shanghai Harvest		6,805	7,387	9,198
Minority interests		(24)	(15)	(51)
		6,781	7,372	9,147
Dividends	*12*	5,393	9,760	–

B. CONSOLIDATED BALANCE SHEETS

	Note	**2005** *RMB'000*	**2006** *RMB'000*	**2007** *RMB'000*
Non-current assets				
Property, plant and equipment	*13*	7,544	5,529	5,139
Intangible assets	*14*	1,200	998	798
Investment in associates	*16*	1,760	–	–
		10,504	6,527	5,937
Current assets				
Inventories	*17*	15,107	24,341	15,438
Trade and other receivables	*18*	11,530	16,761	21,178
Due from an equity holder	*25(b)*	700	–	–
Bank and cash balances		2,634	2,031	13,648
		29,971	43,133	50,264
Less: Current liabilities				
Trade and other payables	*19*	3,182	5,049	6,559
Due to immediate holding company	*25(b)*	–	6,120	5,920
Due to a fellow subsidiary	*25(b)*	–	9,000	5,000
Due to equity holders	*25(b)*	1,000	467	467
Current tax liabilities		316	315	399
		4,498	20,951	18,345
Net current assets		25,473	22,182	31,919
NET ASSETS		35,977	28,709	37,856
Capital and reserves				
Capital	*20*	40,000	40,000	40,000
Reserves	*21*	(4,494)	(11,747)	(2,549)
Equity attributable to equity holders of Shanghai Harvest		35,506	28,253	37,451
Minority interests		471	456	405
TOTAL EQUITY		35,977	28,709	37,856

C. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of Shanghai Harvest						
	Capital	Statutory surplus reserve	Accumulated losses	Proposed final dividend	Total	Minority interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2005	40,000	475	(11,261)	–	29,214	495	29,709
Profit for the year and total recognised income and expense for the year	–	–	6,805	–	6,805	(24)	6,781
Transfer to reserves	–	673	(673)	–	–	–	–
2005 interim dividend paid	–	–	(513)	–	(513)	–	(513)
2005 proposed final dividend	–	–	(4,880)	4,880	–	–	–
At 31 December 2005	40,000	1,148	(10,522)	4,880	35,506	471	35,977
Profit for the year and total recognised income and expense for the year	–	–	7,387	–	7,387	(15)	7,372
Transfer to reserves	–	1,722	(1,722)	–	–	–	–
2005 final dividend paid	–	–	–	(4,880)	(4,880)	–	(4,880)
2006 interim dividend paid	–	–	(9,760)	–	(9,760)	–	(9,760)
At 31 December 2006	40,000	2,870	(14,617)	–	28,253	456	28,709
Profit for the year and total recognised income and expense for the year	–	–	9,198	–	9,198	(51)	9,147
Transfer to reserves	–	918	(918)	–	–	–	–
At 31 December 2007	40,000	3,788	(6,337)	–	37,451	405	37,856

D. CONSOLIDATED CASH FLOW STATEMENTS

	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax	8,558	8,831	10,649
Adjustments for:			
Amortisation of intangible assets	200	202	200
Depreciation	2,829	2,559	2,710
Loss/(gain) on disposals of property, plant and equipment	211	(48)	70
Gain on disposal of associates	–	(238)	–
Impairment of trade receivables	808	–	–
Inventories written off	283	–	–
Interest income	(126)	(59)	(86)
Interest expenses	334	256	278
Share of loss of associates	49	–	–
Operating profit before changes in working capital	13,146	11,503	13,821
(Increase)/decrease in inventories	(5,397)	(9,211)	8,997
Increase in trade and other receivables	(1,432)	(5,231)	(4,417)
(Decrease)/increase in trade and other payables	(11,406)	3,847	1,437
Cash (used in)/generated from operations	(5,089)	908	19,838
Income taxes paid	(1,805)	(1,460)	(1,418)
Interest paid	(334)	(227)	(205)
Net cash (used in)/generated from operating activities	(7,228)	(779)	18,215
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on disposal of associates	–	1,998	–
Proceeds from disposals of property, plant and equipment	97	203	224
Interest received	126	59	86
Purchases of property, plant and equipment	(766)	(722)	(2,708)
Net cash (used in)/generated from investing activities	(543)	1,538	(2,398)

	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
CASH FLOW FROM FINANCING ACTIVITIES			
Bank loans raised	5,000	–	–
Other loans raised	2,009	–	–
Repayments of bank loans	(5,000)	–	–
Repayments of other loans	(749)	(2,009)	–
(Increase)/decrease in due from an equity holder	(37)	700	–
Decrease in due to a director	(100)	–	–
Increase/(decrease) in due to immediate holding company	–	6,120	(200)
Increase/(decrease) in due to a fellow subsidiary	–	9,000	(4,000)
Increase/(decrease) in due to equity holders	1,000	(533)	–
Dividend paid to equity holders of Shanghai Harvest	(513)	(14,640)	–
Net cash generated from/(used in) financing activities	1,610	(1,362)	(4,200)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(6,161)	(603)	11,617
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	8,795	2,634	2,031
CASH AND CASH EQUIVALENTS AT END OF YEAR	2,634	2,031	13,648
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances	2,634	2,031	13,648

E. BALANCE SHEETS

	Note	2005 RMB'000	2006 RMB'000	2007 RMB'000
Non-current assets				
Property, plant and equipment	*13*	7,544	5,529	5,136
Intangible assets	*14*	1,200	998	798
Investment in subsidiaries	*15*	4,500	4,500	13,500
Investment in associates	*16*	1,760	–	–
		15,004	11,027	19,434
Current assets				
Inventories	*17*	15,107	24,341	15,438
Trade and other receivables	*18*	11,005	16,203	20,539
Due from an equity holder	*25(b)*	700	–	–
Bank and cash balances		1,596	1,982	13,362
		28,408	42,526	49,339
Less: Current liabilities				
Trade and other payables	*19*	3,120	4,898	6,115
Due to immediate holding company	*25(b)*	–	6,120	5,920
Due to a fellow subsidiary	*25(b)*	–	9,000	5,000
Due to equity holders	*25(b)*	1,000	467	467
Due to subsidiaries	*15(b)*	3,212	4,102	12,401
Current tax liabilities		316	315	399
		7,648	24,902	30,302
Net current assets		20,760	17,624	19,037
NET ASSETS		35,764	28,651	38,471
Capital and reserves				
Capital	*20*	40,000	40,000	40,000
Reserves	*21(b)*	(4,236)	(11,349)	(1,529)
TOTAL EQUITY		35,764	28,651	38,471

F. 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 101-103, Build No. 3, 1500 Zuchong Zhi Road, Shanghai.

The principal activities of Shanghai Harvest Group are sales of mobile phone usage fees by e-commerce in the PRC.

During the year ended 31 December 2005 and up to 31 July 2006, Shanghai Harvest was owned by Panjinfenyuan Technology Investment Limited (盤錦鋒源科技投資有限公司) ("Panjinfenyuan") (28% of equity interest), Shanghai Hengde Technology Limited (上海恒德科技有限公司) ("Shanghai Hengde") (5% equity interest) and Mr. Hou Shu Ming (67% of equity interest). On 1 August 2006, the Company, through its wholly-owned subsidiary, Success Gateway Investments Limited ("Success Gateway") and Panjinfenyuan acquired the entire interests in Shanghai Harvest held by Mr. Hou Shu Ming and Shanghai Hengde. Since the acquisition, the Company and Success Gateway became the ultimate holding company and the immediate holding company of Shanghai Harvest (70% of equity interest) respectively and Panjinfenyuan remains a minority equity holder of Shanghai Harvest (30% of equity interest).

2. BASIS OF PREPARATION

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

For the purpose of preparing and presenting the Financial Information, Shanghai Harvest Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2007 for each of the Relevant Periods. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations.

Shanghai Harvest Group has not adopted the new HKFRSs that have been issued but are not yet effective. The application these new HKFRSs will have no material impact on the Financial Information.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost convention.

The preparation of the Financial Information in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to the Financial Information, are disclosed in note 4 below.

The significant accounting policies applied in the preparation of the Financial Information are set out below.

(a) Consolidation

The Financial Information includes the financial statements of Shanghai Harvest and its subsidiaries made up to each balance sheet date. Subsidiaries are entities over which Shanghai Harvest Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether Shanghai Harvest Group has control.

Subsidiaries are fully consolidated from the date on which control is transferred to Shanghai Harvest Group. They are de-consolidated from the date the control ceases.

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

Minority interests represent the interests of minority shareholders in the operating results and net assets of subsidiaries. Minority interests are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity. Minority interests are presented in the consolidated income statement as an allocation of profit or loss for the year between minority and shareholders of Shanghai Harvest. Losses applicable to the minority in excess of the minority's interests in the subsidiary's equity are allocated against the interests of Shanghai Harvest Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the interests of Shanghai Harvest Group until the minority's share of losses previously absorbed by Shanghai Harvest Group has been recovered.

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

(b) Associates

Associates are entities over which Shanghai Harvest Group has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether Shanghai Harvest Group has significant influence.

Investment in an associate is accounted for in the Financial Information by the equity method of accounting and is initially recognised at cost. Identifiable assets, liabilities and contingent liabilities of the associate 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 associate's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of Shanghai Harvest Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

Shanghai Harvest Group's share of an associate's post-acquisition profits or losses is recognised in the consolidated income statement, and its share of the post-acquisition movements in reserves is recognised in the consolidated 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. If the associate subsequently reports profits, Shanghai Harvest Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate represents the difference between the proceeds of the sale and Shanghai Harvest Group's share of its net assets together with any goodwill relating to the associate which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

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

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

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of Shanghai Harvest Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Information is presented in Renminbi, which is Shanghai Harvest's presentation currency and the functional currency of all entities of the Shanghai Harvest Group.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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 the Shanghai Harvest Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

Leasehold improvements	5 years
Machinery	6 years
Office equipment	5 years
Computer equipment	5 – 10 years
Motor vehicles	5 – 8 years

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

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.

(e) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the lease term.

(f) Computer software and licenses

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

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. 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) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the balance sheet when Shanghai Harvest Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; Shanghai Harvest Group transfers substantially all the risks and rewards of ownership of the assets; or Shanghai Harvest Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the income statement.

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

(i) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance 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 allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in the income statement.

Impairment losses are reversed in subsequent periods and recognised in the income statement when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(j) Cash and cash equivalents

For the purpose of the cash flow statement, 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. Bank overdrafts which are repayable on demand and form an integral part of Shanghai Harvest Group's cash management are also included as a component of cash and cash equivalents.

(k) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost 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 12 months after the balance sheet date.

(l) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to Shanghai Harvest Group and the amount of revenue can be measured reliably.

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

Interest income is recognised on a time-proportion basis using the effective interest method.

(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) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of Shanghai Harvest Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

(p) Government grants

A government grant is recognised when there is reasonable assurance that Shanghai Harvest Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to Shanghai Harvest Group with no future related costs are recognised as income in the period in which they become receivable.

(q) Taxation

Income tax represents the sum of the current tax 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, unused tax losses or unused tax credits 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, 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and Shanghai Harvest Group intends to settle its current tax assets and liabilities on a net basis.

(r) Related parties

A party is related to Shanghai Harvest Group if:

(i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, Shanghai Harvest Group; has an interest in Shanghai Harvest Group that gives it significant influence over Shanghai Harvest Group; or has joint control over Shanghai Harvest Group;

(ii) the party is an associate;

(iii) the party is a joint venture;

(iv) the party is a member of the key management personnel of Shanghai Harvest or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of Shanghai Harvest Group, or of any entity that is a related party of Shanghai Harvest Group.

(s) Impairment of assets

At each balance sheet date, Shanghai Harvest Group reviews the carrying amounts of its tangible and intangible assets except inventories and receivables 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 any impairment loss. 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 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 risks 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 or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset 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 or 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 (net of amortisation or depreciation) had no impairment loss been recognised for the asset or 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.

(t) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when Shanghai Harvest Group 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.

(u) Events after the balance sheet date

Events after the balance sheet date 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. Events after the balance sheet date that are not adjusting events are disclosed in the notes when material.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

(a) 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.

(b) Impairment loss for bad and doubtful debts

Shanghai Harvest Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

5. FINANCIAL RISK MANAGEMENT

Shanghai Harvest Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, interest rate 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.

(a) 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. Accordingly, no foreign currency exchange rate sensitivity analysis is presented.

(b) Credit risk

The carrying amount of the bank and cash balances and trade and other receivables included in the consolidated balance sheet represents Shanghai Harvest Group's maximum exposure to credit risk in relation to Shanghai Harvest Group's financial assets.

Shanghai Harvest Group has no significant concentration of credit risks.

The credit quality of the counterparties in respect of trade and other receivables is assessed by taking into account their financial position, credit history and other factors. Individual credit limits are set based on the assessment of the credit quality. Given the constant repayment history, the directors are of the opinion that the risk of default by these counterparties is low.

The credit risk on bank and cash balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies and large state-controlled PRC banks.

(c) Interest rate risk

As Shanghai Harvest Group has no significant interest income or expenses from or for its interest-bearing assets or liabilities respectively, Shanghai Harvest Group's income, expense and operating cash flows are substantially independent of changes in market rates.

(d) Liquidity risk

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

The maturity of Shanghai Harvest Group's financial liabilities at respective balance sheet dates is less than one year.

(e) Fair values

The carrying amounts of Shanghai Harvest Group's financial assets and financial liabilities as reflected in the consolidated balance sheets approximate their respective fair values.

6. TURNOVER

Shanghai Harvest Group's turnover which represents revenue from sales of mobile phone usage fees by e-commerce is as follows:

	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Sale of mobile phone usage fees	2,018,448	2,286,394	2,576,617
Less: sale discounts	(25,041)	(20,490)	(21,996)
	1,993,407	2,265,904	2,554,621

7. OTHER INCOME

	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Income on sale of computer software	3,991	–	–
Interest income	126	59	86
Reversal of allowance for receivables	–	–	536
Government subsidies	2,543	1,686	1,027
Sundry income	108	215	314
	6,768	1,960	1,963

8. 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.

9. FINANCE COSTS

	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Bank loan interests	141	–	–
Interest on loans wholly repayable within five years			
– loan from an equity holder *(Note 25(a))*	84	86	–
– advances from a director *(Note 25(a))*	2	–	–
– advances from a fellow subsidiary *(Note 25(a))*	–	82	278
– other loans	107	88	–
	334	256	278

10. INCOME TAX EXPENSE

	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Current tax			
– PRC Enterprise Income Tax	1,777	1,459	1,502

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 differences. At each respective dates of balance sheets, there was no significant unrecognised deferred tax assets/liabilities.

The reconciliation between the income tax expense and the product of profit before tax multiplied by the PRC enterprise income tax rate is as follows:

	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Profit before tax	8,558	8,831	10,649
Tax at the domestic tax rate of 33%	2,824	2,914	3,514
Tax effect of expenses that are not deductible	267	4	15
Tax effect of income that is not taxable	(1,314)	(1,579)	(2,207)
Tax effect of tax losses not recognised	–	120	216
Tax effect of utilisation of tax losses not previously recognised	–	–	(36)
Income tax expense	1,777	1,459	1,502

The new PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007 introduces various changes which include the unification of the enterprise income tax rate for domestic and foreign enterprises at 25%. The new tax law is effective from 1 January 2008.

11. PROFIT FOR THE YEAR

Profit for the year are stated after charging/(crediting) the following:

	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Amortisation of intangible assets (included in administrative expenses)	200	202	200
Auditor's remuneration	8	18	57
Cost of inventories sold	1,977,513	2,247,267	2,534,146
Depreciation	2,829	2,559	2,710
Directors' emoluments			
– as directors	–	–	–
– for management	166	398	165
	166	398	165
Loss/(gain) on disposals of property, plant and equipment	211	(48)	70
Impairment of trade receivables	808	–	–
Inventories written off (included in administrative expenses)	283	–	–
Operating leases of land and buildings	840	758	802
Staff costs, including directors' emoluments			
– salaries and wages	2,014	2,299	2,394
– contributions to retirement benefit plans	320	411	498
– other benefits	287	379	474
	2,621	3,089	3,366

12. DIVIDENDS

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

	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Interim dividend declared and paid	513	9,760	–
Final dividend proposed and paid after the balance sheet date	4,880	–	–
	5,393	9,760	–

13. PROPERTY, PLANT AND EQUIPMENT

Shanghai Harvest Group

	Leasehold improvements	Machinery	Office equipment	Computer equipment	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost						
At 1 January 2005	–	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
Additions	–	227	4	323	168	722
Transfer to inventories	–	(23)	–	–	–	(23)
Disposals/write off	–	(203)	–	–	–	(203)
At 31 December 2006	313	10,644	64	4,381	861	16,263
Additions	–	1,972	–	204	532	2,708
Transfer to inventories	–	(94)	–	–	–	(94)
Disposals/write off	–	(36)	(12)	(757)	(686)	(1,491)
At 31 December 2007	313	12,486	52	3,828	707	17,386
Accumulated depreciation						
At 1 January 2005	–	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
Charge for the year	62	1,716	12	667	102	2,559
Disposals/write off	–	(48)	–	–	–	(48)
At 31 December 2006	78	6,866	28	3,285	477	10,734
Charge for the year	63	1,926	10	616	95	2,710
Disposals/write off	–	(31)	(10)	(641)	(515)	(1,197)
At 31 December 2007	141	8,761	28	3,260	57	12,247
Carrying amount						
At 31 December 2005	297	5,445	44	1,440	318	7,544
At 31 December 2006	235	3,778	36	1,096	384	5,529
At 31 December 2007	172	3,725	24	568	650	5,139

Shanghai Harvest

	Leasehold improvements	Machinery	Office equipment	Computer equipment	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost						
At 1 January 2005	–	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
Additions	–	227	4	323	168	722
Transfer to inventories	–	(23)	–	–	–	(23)
Disposals/write off	–	(203)	–	–	–	(203)
At 31 December 2006	313	10,644	64	4,381	861	16,263
Additions	–	1,972	–	201	532	2,705
Transfer to inventories	–	(94)	–	–	–	(94)
Disposals/write off	–	(36)	(12)	(757)	(686)	(1,491)
At 31 December 2007	313	12,486	52	3,825	707	17,383
Accumulated depreciation						
At 1 January 2005	–	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
Charge for the year	62	1,716	12	667	102	2,559
Disposals/write off	–	(48)	–	–	–	(48)
At 31 December 2006	78	6,866	28	3,285	477	10,734
Charge for the year	63	1,926	10	616	95	2,710
Disposals/write off	–	(31)	(10)	(641)	(515)	(1,197)
At 31 December 2007	141	8,761	28	3,260	57	12,247
Carrying amount						
At 31 December 2005	297	5,445	44	1,440	318	7,544
At 31 December 2006	235	3,778	36	1,096	384	5,529
At 31 December 2007	172	3,725	24	565	650	5,136

14. INTANGIBLE ASSETS

Shanghai Harvest Group and Shanghai Harvest	Computer software
	RMB'000
Cost	
At 1 January 2005 and 31 December 2005, 2006 and 2007	2,000
Accumulated amortisation	
At 1 January 2005	600
Charge for the year	200
At 31 December 2005	800
Charge for the year	202
At 31 December 2006	1,002
Charge for the year	200
At 31 December 2007	1,202
Carrying amount	
At 31 December 2005	1,200
At 31 December 2006	998
At 31 December 2007	798

15. INVESTMENT IN SUBSIDIARIES

Shanghai Harvest	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Unlisted, at cost	4,500	4,500	13,500

(a) Details of the subsidiaries at 31 December 2007 are set out in pages 107 and 108.

(b) The amounts due to subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms.

16. INVESTMENT IN ASSOCIATES

Shanghai Harvest Group	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Unlisted investments:			
Share of net assets	1,760	–	–

On 1 December 2006, Shanghai Harvest Group disposed of its entire interests in its associates, Sichuan Harvest Network Technology Company Limited and Sichuan Kejin Network Technology Company Limited.

Details of Shanghai Harvest Group's associates before the date of disposal and during the Relevant Periods are as follows:–

Name	Place and date of incorporation/ establishment	Registered and fully paid capital	Proportion of equity interest held by Shanghai Harvest		Principal activities
			Directly	Indirectly	
Sichuan Harvest Network Technology Company Limited (四川德豐信息網絡技術有限公司)	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 (四川科錦網絡科技有限公司)	PRC 28 May 2003	RMB2,000,000	–	36%	Sales of mobile phone usage fees by e-commerce in the PRC

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

	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Total assets	5,750	–	–
Total liabilities	(1,350)	–	–
Net assets	4,400	–	–
Shanghai Harvest Group's share of associates' net assets	1,760	–	–

	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Total revenue	285,413	–	–
Total loss for the year	(121)	–	–
Shanghai Harvest Group's share of associates' loss for the year	(49)	–	–

Shanghai Harvest	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Equity interest, at cost	2,000	–	–
Impairment loss	(240)	–	–
	1,760	–	–

17. INVENTORIES

Shanghai Harvest Group and Shanghai Harvest	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Mobile phone usage fees	14,115	23,481	14,388
Machineries and consumable tools	992	860	1,050
	15,107	24,341	15,438

18. TRADE AND OTHER RECEIVABLES

Shanghai Harvest Group	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	9,387	14,552	17,668
Deposits and prepayments	518	276	280
Other receivables	1,625	1,933	3,230
	11,530	16,761	21,178

Shanghai Harvest	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	8,882	13,998	17,063
Deposits and prepayments	516	276	274
Other receivables	1,607	1,929	3,202
	11,005	16,203	20,539

The normal credit period granted to customers of sales of mobile phone usage fees by e-commerce is 3 to 7 days. For new customers, payment in advance is normally required. An aging analysis of trade receivables at respective balance sheet dates of Shanghai Harvest Group and Shanghai Harvest, based on invoice dates is as follows:

Shanghai Harvest Group	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Within 30 days	8,234	14,197	17,313
31 to 60 days	2	–	–
61 to 90 days	1	–	–
Over 90 days	8,428	7,633	7,633
	16,665	21,830	24,946
Impairment losses	(7,278)	(7,278)	(7,278)
	9,387	14,552	17,668

Shanghai Harvest	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Within 30 days	7,729	13,643	16,708
31 to 60 days	2	–	–
61 to 90 days	1	–	–
Over 90 days	8,428	7,633	7,633
	16,160	21,276	24,341
Impairment losses	(7,278)	(7,278)	(7,278)
	8,882	13,998	17,063

At respective balance sheet dates, the following trade receivables were past due but not impaired. These relate to a number of independent customers for whom deposits were paid in advance for settlement of trade receivables in case of default. An aging analysis of these trade receivables of Shanghai Harvest Group and Shanghai Harvest is as follows:

	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Shanghai Harvest Group and Shanghai Harvest			
31 to 60 days	2	–	–
61 to 90 days	1	–	–
Over 90 days	1,150	355	355
	1,153	355	355

19. TRADE AND OTHER PAYABLES

Shanghai Harvest Group	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables *(Note a)*	–	592	1,294
Advances from customers	36	1,479	2,705
Accrued charges and others	1,137	2,978	2,560
Other loans *(Note b)*			
– interest bearing	1,009	–	–
– non-interest bearing	1,000	–	–
	3,182	5,049	6,559

Shanghai Harvest	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables *(Note a)*	–	592	1,294
Advances from customers	36	1,479	2,705
Accrued charges and others	2,084	2,827	2,116
Other loans *(Note b)*			
– interest bearing	–	–	–
– non-interest bearing	1,000	–	–
	3,120	4,898	6,115

(a) An aging analysis of the trade payables at respective balance sheet dates of Shanghai Harvest Group and Shanghai Harvest, based on receipt dates of goods, is as follows:

	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Shanghai Harvest Group and Shanghai Harvest			
0 to 30 days	–	592	452
30 to 60 days	–	–	–
60 to 90 days	–	–	–
Over 90 days	–	–	842
	–	592	1,294

(b) The other loans are unsecured and repayable within one year.

The carrying amounts of the other loans of Shanghai Harvest Group and Shanghai Harvest are denominated in Renminbi.

The average interest rates for interest bearing loans are summarised as follows:

	2005	2006	2007
Shanghai Harvest Group			
Other loans	1% – 1.25%	Nil	Nil
Shanghai Harvest			
Other loans	Nil	Nil	Nil

20. CAPITAL

	Registered and paid-up capital
	RMB'000
At 1 January 2005 and 31 December 2005, 2006 and 2007	40,000

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group currently does not have any specific policies and processes for managing capital.

21. RESERVES

(a) Shanghai Harvest Group

The amounts of Shanghai Harvest Group's reserves and the movements therein are presented in the consolidated statements of changes in equity.

(b) Shanghai Harvest

	Statutory surplus reserve	**Accumulated losses**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2004	475	(11,217)	(10,742)
Profit for the year	–	7,019	7,019
2005 Interim dividend paid	–	(513)	(513)
Transfer to reserves	673	(673)	–
At 31 December 2005	1,148	(5,384)	(4,236)
Profit for the year	–	7,527	7,527
2005 Final dividend paid	–	(4,880)	(4,880)
2006 Interim dividend paid	–	(9,760)	(9,760)
Transfer to reserves	1,722	(1,722)	–
At 31 December 2006	2,870	(14,219)	(11,349)
Profit for the year	–	9,820	9,820
Transfer to reserves	918	(918)	–
At 31 December 2007	3,788	(5,317)	(1,529)

(c) Nature and purpose of reserves

Statutory surplus reserve

The statutory surplus reserve, which is non-distributable, is appropriated from the profit after tax of Shanghai Harvest Group's PRC subsidiaries under the applicable laws and regulations in the PRC.

22. CAPITAL COMMITMENTS

The Group's and the Company's capital commitments at the balance sheet dates are as follows:

	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Acquisition of property, plant and equipment contracted but not provided for	–	–	600

23. LEASE COMMITMENTS

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

Shanghai Harvest Group	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Within one year	894	721	594
In the second to fifth years inclusive	2,651	1,570	975
	3,545	2,291	1,569

Shanghai Harvest	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Within one year	781	497	511
In the second to fifth years inclusive	2,575	1,300	835
	3,356	1,797	1,346

Operating lease payments represent rentals payable by Shanghai Harvest Group for certain of its offices. Leases are negotiated for an average term of one to five years and rentals are fixed over the lease terms and do not include contingent rentals.

24. 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.

25. RELATED PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed elsewhere in the Financial Information, Shanghai Harvest Group and Shanghai Harvest had the following transactions with its related parties during the year and balances with its related parties at respective dates of balance sheets:

(a) Transactions with related parties

	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Shanghai Harvest Group			
Loan interest expenses paid to an equity holder	84	86	–
Loan interest expenses paid to a director	2	–	–
Loan interest expenses paid to a fellow subsidiary	–	82	278

(b) Year end balances with related parties

	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Shanghai Harvest Group and Shanghai Harvest			
Due from an equity holder *(Note i)*	700	–	–
Due to an immediate holding company *(Note i)*	–	6,120	5,920

	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Due to a fellow subsidiary			
– Interest-bearing *(Note ii)*	–	6,000	2,000
– Non-interest bearing *(Note i)*	–	3,000	3,000
	–	9,000	5,000
Due to an equity holder			
– Interest-bearing *(Note ii)*	1,000	–	–
– Non-interest bearing *(Note i)*	–	467	467
	1,000	467	467

Notes

(i) The amounts due are unsecured, interest-free and have no fixed repayment terms.

(ii) The amounts due are unsecured, bear interest at 7% per annum and have no fixed repayment terms.

26. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Shanghai Harvest or any of its subsidiaries in respect of any period subsequent to 31 December 2007.

Yours faithfully,
RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

A. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The accompanying unaudited pro forma statement of assets and liabilities of the Enlarged Group (the "Statement") has been prepared to illustrate the effect of the acquisition of the remaining 30% equity interest in the Target (the "Acquisition"), assuming the transaction had been completed as at 30 September 2007, might have affected the financial position of the Group.

The Statement is prepared based on the unaudited consolidated balance sheet of the Group as at 30 September 2007 as extracted from the interim report of the Group for the six months ended 30 September 2007 after making certain proforma adjustments resulting from the Acquisition.

The Statement 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 Statement, it may not give a true picture of the actual financial position of the Enlarged Group that would have been attained had the Acquisition actually occurred on 30 September 2007. Furthermore, the Statement does not purport to predict the Enlarged Group's future financial position.

The Statement should be read in conjunction with the financial information of the Group as set out in Appendix I of this circular, the financial information of the Target Group as set out in Appendix II of this circular and other financial information included elsewhere in this circular.

	The Group *HK$'000* (Unaudited)	Proforma Adjustments (Note) *HK$'000*	The Enlarged Group *HK$'000*
Non-current assets			
Property, plant and equipment	15,915		15,915
Goodwill	30,877	29,797	60,674
Other intangible assets	1,768		1,768
Prepayment for acquisition of non-current assets	6,458		6,458
Interest in associates	1		1
	55,019		84,816
Current assets			
Inventories	41,946		41,946
Trade receivables	20,184		20,184
Prepayments, deposits and other receivables	26,399		26,399
Loan receivables	20,434		20,434
Financial assets at fair value through profit or loss	286		286
Bank balances and cash	36,693	(8,500)	28,193
	145,942		137,442
Less: Current liabilities			
Trade payables	1,679		1,679
Other payables and accrued liabilities	34,594	13,000	47,594
Amounts due to directors	1,783		1,783
Current tax liabilities	389		389
Derivative component of convertible bonds	4,895	11,498	16,393
Derivative component of redeemable convertible cumulative preference shares	59,972		59,972
	103,312		127,810
Net current assets	42,630		9,632
Total assets less current liabilities	97,649		94,448
Non-current liabilities			
Convertible bonds	61,333	8,502	69,835
Redeemable convertible cumulative preference shares	85,788		85,788
	147,121		155,623
Net liabilities	(49,472)		(61,175)

Note: At 30 September 2007, the Company, through its wholly-owned subsidiary, Success Gateway Investments Limited ("Success Gateway"), held 70% equity interest in the Target. Pursuant to the sale and purchase agreement dated 28 February 2008 entered into between Success Gateway and Panjinfenyuan Technology Investment Limited, Success Gateway has conditionally agreed to acquire the remaining 30% equity interest in the Target at a consideration of HK$41,500,000 which shall be satisfied by (a) cash of HK$21,500,000, of which HK$8,500,000 will be paid on completion of the Acquisition and the balance of HK$13,000,000 shall be settled within 3 months after the completion of the Acquisition; and (b) HK$20,000,000 in the form of convertible notes issued by the Company. Upon completion of the Acquisition, the Target will become a wholly-owned subsidiary of the Company. The adjustments represent the recognition of (a) goodwill arising from the Acquisition, which is the difference between the consideration of HK$41,500,000 for the Acquisition and the carrying value of the 30% minority interests of the Target of HK$11,703,000 (approximately RMB11,235,000) as at 31 December 2007; and (b) consideration to be settled by the Group upon completion of the Acquisition as detailed above. A liability and a derivative component of the convertible notes are recognised and accounted for the HK$20,000,000 convertible notes issued upon completion of the Acquisition. The estimated fair value of the derivative component is HK$11,498,000, determined using an option pricing model. The remainder of the principal amount of the convertible notes of HK$8,502,000 is allocated to the liability component.

B. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountants, RSM, in respect of the unaudited pro forma financial information of the Enlarged Group.

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

29th Floor,
Caroline Centre,
Lee Gardens Two,
28 Yun Ping Road,
Hong Kong

30 April 2008

The Board of Directors
China HealthCare Holdings Limited

Dear Sirs,

We report on the unaudited pro forma statement of assets and liabilities (the "Statement") 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 the 30% interests in Shanghai Harvest Network Technology Company Limited might have affected the assets and liabilities of the Group presented, for inclusion in Appendix III to the circular of the Company dated 30 April 2008 (the "Circular"). The basis of preparation of the Statement is set out on pages 145 to 147 to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Statement 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 (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Statement 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 Statement beyond that owed 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 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 Statement with the directors of the Company. The 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 Statement 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 purpose of the Statement as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Statement is for illustrative purpose 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 the financial position of the Group as at 30 September 2007 or at any future date.

Opinion

In our opinion:

(a) the Statement 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 Statement as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

FOR THE YEAR ENDED 31 DECEMBER 2005

Results

For the year ended 31 December 2005, the Target Group recorded a consolidated turnover and net profit of approximately RMB1,993.4 million and RMB6.8 million respectively.

Business review

As at 31 December 2005, almost 4,000 proprietary e-charge POS systems were placed in the major convenience store chains and other retail spots in Shanghai. The Target Group has attained a dominant market share of approximately 25% in the Shanghai mobile prepayment market.

The turnover of the Target Group for the year ended 31 December 2005 increased by approximately 16% as compared to the last corresponding period. The improvement was mainly attributable to the substantial increase in demand and penetration of the e-payment service market. The profit margin also improved as the Target Group achieved certain economies of scale.

Capital structure, liquidity and financial resources

The Target 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 Target Group relied principally on its internally generated capital and external borrowings to fund its business.

As at 31 December 2005, the total borrowings of the Target Group amounted to approximately RMB3.0 million, which comprised approximately RMB1.0 million of interest-bearing loans with fixed interest rate of 1% to 1.25% per annum, RMB1.0 million of non-interest-bearing loan and RMB1.0 million of amount due to an equity holder, bearing interest at 7% per annum. All borrowings of the Target Group were denominated in RMB. The bank and cash balances of the Target Group was approximately RMB2.6 million. The Target Group's gearing ratio, as expressed as the ratio of total liabilities divided by total assets, was approximately 0.11 as at 31 December 2005.

All of the sales and expenditures of the Target Group were denominated in RMB. The Target Group had no significant foreign exchange exposure and did not use any financial instrument for hedging purposes.

As at 31 December 2005, the Target Group neither had any contingent liability nor charges on any of its assets.

Material investments, acquisitions or disposals

The Target Group had no significant investment held and there was no material acquisition and disposal of subsidiaries and associated companies during the year.

As at 31 December 2005, the Target Group neither had any material capital expenditure commitment nor future plan for material investments or capital assets.

Segmental Analysis

The Target Group was solely engaged in the selling of mobile phone prepaid card in the PRC for the year under review.

Human Resources

The total number of employees of the Target Group was 53 as at 31 December 2005 and the total staff cost, including directors' emoluments, for the year ended 31 December 2005 was approximately RMB2.6 million.

Salaries of employees were maintained at a competitive level and the Target Group continued to review remuneration packages of employees with reference to the general market condition and individual performance. Remuneration packages comprised salaries, contributions to the PRC government pension schemes based on applicable rates of monthly salary in accordance with government regulations in the PRC and discretionary bonuses, which was linked to the performance of the Target Group and the individual and is subject to the decision of the board of directors of the Target Group.

FOR THE YEAR ENDED 31 DECEMBER 2006

Results

For the year ended 31 December 2006, the Target Group recorded a consolidated turnover and net profit of approximately RMB2,265.9 million and RMB7.4 million respectively.

Business review

For the year ended 31 December 2006, the number of proprietary e-charge POS systems placed in the major convenience store chains and other retail outlets in Shanghai was approximately 5,000. The Target Group maintained a dominant market share of approximately 24% in the Shanghai mobile prepayment market.

Resulted from the substantial increase in demand and growth of the e-payment service market, the turnover of the Target Group for the year ended 31 December 2006 increased by approximately 14% as compared to the last corresponding period.

Capital structure, liquidity and financial resources

The Target 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 Target Group relied principally on its internally generated capital and external borrowings to fund its business.

As at 31 December 2006, the total borrowings of the Target Group amounted to approximately RMB15.6 million, which comprised approximately RMB9.0 million of amount due to a fellow subsidiary, of which RMB6.0 million bore interest at 7% per annum and the remaining RMB3.0 million was interest-free, RMB6.1 million of amount due to immediate holding company and RMB0.5 million of amount due to an equity holder. All borrowings of the Target Group were denominated in RMB. The bank and cash balances of the Target Group was approximately RMB2.0 million. The Target Group's gearing ratio, as expressed as the ratio of total liabilities divided by total assets, was approximately 0.42 as at 31 December 2006.

All of the sales and expenditures of the Target Group were denominated in RMB. The Target Group had no significant foreign exchange exposure and did not use any financial instrument for hedging purposes.

As at 31 December 2006, the Target Group neither had any contingent liability nor charges on any of its assets.

Material investments, acquisitions or disposals

On 1 December 2006, the Target Group disposed of its entire interest in its associates, Sichuan Harvest Network Technology Company Limited and Sichuan Kejin Network Technology Company Limited, at a total consideration of RMB885,000, and resulted in a gain of disposal of associates of approximately RMB238,000.

Save as disclosed above, the Target Group had no significant investment held and there was no material acquisition and disposal of subsidiaries and associated companies during the year.

As at 31 December 2006, the Target Group neither had any material capital expenditure commitment nor future plan for material investments or capital assets.

Segmental Analysis

The Target Group was engaged in the selling of mobile phone prepaid card and provision of e-payment platform in the PRC for the year under review.

Human Resources

The total number of employees of the Target Group was 60 as at 31 December 2006 and the total staff cost, including directors' emoluments, for the year ended 31 December 2006 was approximately RMB3.1 million.

Salaries of employees were maintained at a competitive level and the Target Group continued to review remuneration packages of employees with reference to the general market condition and individual performance. Remuneration packages comprised salaries, contributions to the PRC government pension schemes based on applicable rates of monthly salary in accordance with government regulations in the PRC and discretionary bonuses, which was linked to the performance of the Target Group and the individual and is subject to the decision of the board of directors of the Target Group.

FOR THE YEAR ENDED 31 DECEMBER 2007

Results

For the year ended 31 December 2007, the Target Group recorded a consolidated turnover and net profit of approximately RMB2,554.6 million and RMB9.1 million respectively.

Business review

For the year ended 31 December 2007, there were almost 5,700 proprietary e-charge POS systems placed in the major convenience store chains and other retail spots in Shanghai. The Target Group has achieved a dominant market share of approximately 24% in the Shanghai mobile prepayment market. The Target Group also expanded its business to the operation of e-payment cards, the Health Debit Cards to facilitate the procurement of an array of health and wellness related consumption in Shanghai.

The turnover of the Target Group for the year ended 31 December 2007 increased by approximately 13% as compared to the last corresponding period.

Capital structure, liquidity and financial resources

The Target 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 Target Group relied principally on its internally generated capital and external borrowings to fund its business.

As at 31 December 2007, the total borrowings of the Target Group amounted to approximately RMB11.4 million, which comprised approximately RMB5.0 million of amount due to a fellow subsidiary, of which RMB2.0 million bore interest at 7% per annum and the remaining RMB3.0 million was interest-free, RMB5.9 million of amount due to immediate holding company and RMB0.5 million of amount due to an equity holder. All borrowings of the Target Group were denominated in RMB. The bank and cash balances of the Target Group was approximately RMB13.6 million. The Target Group's gearing ratio, as expressed as the ratio of total liabilities divided by total assets, was approximately 0.33 as at 30 September 2007.

All of the sales and expenditures of the Target Group were denominated in RMB. The Target Group had no significant foreign exchange exposure and did not use any financial instrument for hedging purposes.

As at 31 December 2007, the Target Group neither had any contingent liability nor charges on any of its assets.

Material investments, acquisitions or disposals

The Target Group had no significant investment held and there was no material acquisition and disposal of subsidiaries and associated companies during the year.

As at 31 December 2007, the Target Group neither had any material capital expenditure commitment nor future plan for material investments or capital assets.

Segmental Analysis

The Target Group was engaged in the selling of mobile phone prepaid card and provision of e-payment platform in the PRC for the period under review.

Human Resources

The total number of employees of the Target Group was 70 as at 31 December 2007 and the total staff cost, including directors' emoluments for the year ended 31 December 2007 was approximately RMB3.4 million.

Salaries of employees were maintained at a competitive level and the Target Group continued to review remuneration packages of employees with reference to the general market condition and individual performance. Remuneration packages comprised salaries, contributions to the PRC government pension schemes based on applicable rates of monthly salary in accordance with government regulations in the PRC and discretionary bonuses, which was linked to the performance of the Target Group and the individual and is subject to the decision of the board of directors of the Target Group.

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.

PROCEDURES FOR DEMANDING A POLL

Pursuant to the Bye-laws 66 of the Company, every 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 results of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded:

(a) by the chairman of such meeting; or

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

(c) by a member or members present in person or in the case of a member 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 members having the right to vote at the meeting; or

(d) by a member or members present in person or in the case of a member being a corporation by its duly authorized representative or by proxy and holding shares in the Company 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 all shares conferring that right.

A poll which is duly demanded shall be then held in such manner prescribed by the Bye-laws of the Company.

SHARE CAPITAL OF THE COMPANY

Authorized capital:

		HK$'000
5,000,000,000	ordinary shares of HK$0.1 each	500,000
15,000	redeemable convertible cumulative preference shares of US$0.01 each	1
		500,001

Issued and fully paid or credited as fully paid:

As at the Latest Practicable Date:

234,367,577	ordinary shares of HK$0.1 each	23,437

Upon allotment and issue of the Conversion Shares:

234,367,577	existing Shares	23,437
17,243,379	Conversion Shares to be issued upon full conversion of the Convertible Notes at the initial conversion price of HK$1.16	1,724
251,610,956		25,161

A total of 15,862,068 Shares, 100,344,827 Shares and 33,494,000 Shares will be issued upon full conversion of the Existing Convertible Notes, the Preference Shares and the outstanding share options respectively.

DISCLOSURE OF INTERESTS

(A) Interests in the Company or its associated companies

(a) Interests of Directors and chief executives

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives 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 SFO) which: (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provision of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code of 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	Interests in underlying shares pursuant to equity derivatives *(Note 3)*	Total interests in shares/ underlying shares	Percentage of shares and underlying shares held to existing total issued shares
Dr. Li Zhong Yuan	The Company	Corporate	19,808,000 *(Note 1)*	–	19,808,000	8.45%
		Personal	4,635,000	3,625,000	8,260,000	3.52%
Mr. Lee Jong Dae	The Company	Personal	3,026,500	3,600,000	6,626,500	2.83%
Mr. Martin Treffer	The Company	Corporate	1,295,000 *(Note 2)*	–	1,295,000	0.55%
		Personal	250,000	900,000	1,150,000	0.49%
Mr. Mu Xiangming	The Company	Personal	–	210,000	210,000	0.09%

Notes:

1. These shares included 11,147,000 Shares held by Pacific Annex Capital Limited and 8,661,000 Shares held by Timenew Limited. Both Pacific Annex Capital Limited and Timenew Limited were wholly-owned by Dr. Li Zhong Yuan as at the Latest Practicable Date.

2. These shares were held by 2Trade Group Limited which was beneficially-owned as to 35% by Mr. Martin Treffer as at the Latest Practicable Date.

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 and chief executives of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which: (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies 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 was known to the Directors and chief executives of the Company, the persons (other than the Directors and chief executives of the Company) who had an interest or short position in the Shares and 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, directly or indirectly, 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 Enlarged Group and the amount of each of such persons' interests in such securities, together with particulars of any options in respect of such capital were as follows:

Name of substantial shareholders	Capacity	Interest in shares	Interests in underlying shares pursuant to equity derivatives	Total interests in shares/ underlying shares	Percentage of shares and underlying shares held to existing total issued shares
China Healthcare Services Ltd.	Beneficial owner	17,541,000	–	17,541,000	7.48%
Guo Kang Pharmaceutical & Medical Supplies Ltd.	Beneficial owner	17,000,000	–	17,000,000	7.25%
Orient Access International Inc.	Beneficia owner	17,300,000	–	17,300,000	7.38%
OZ Master Fund, Ltd. *(Note 1)*	Beneficial owner	–	47,356,068	47,356,068	20.21%
OZ Asia Master Fund, Ltd. *(Note 2)*	Beneficial owner	–	46,586,758	46,586,758	19.88%
OZ Management, L.L.C. *(Note 3)*	Interest of controlled corporations	–	100,344,827	100,344,827	42.82%
Och-Ziff Holding Corporation *(Note 4)*	Interest of controlled corporations	–	100,344,827	100,344,827	42.82%
Och-Ziff Capital Management Group L.L.C. *(Note 4)*	Interest of controlled corporations	–	100,344,827	100,344,827	42.82%
Mr. Daniel Saul Och *(Note 4)*	Interest of controlled corporations	–	100,344,827	100,344,827	42.82%
Mr. Hou Shu Ming *(Note 5)*	Beneficial owner	–	15,862,068	15,862,068	6.77%

Notes:

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

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

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

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

5. The underlying shares represent convertible notes of the Company which entitle the holder thereof to convert for 15,862,068 fully paid Shares at an initial conversion price of HK$1.16 per Share (subject to adjustments).

Save as disclosed above, as at the Latest Practicable Date, the Directors and chief executives of the Company were not aware of any person (other than the Directors and chief executives of the Company) who had an interest or short position in the Shares and 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, directly or indirectly, 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 Enlarged Group.

(B) Interests in contracts

As at the Latest Practicable Date, there was no contract or arrangement subsisting in which a Director was materially interested and which was significant in relation to the business of the Enlarged Group.

(C) Interests in assets

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any asset which has been, since 31 March 2007, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Enlarged Group or was proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors and their respective associates was interested in any business 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 a service contract with any member of the Enlarged Group which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

MATERIAL LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was involved in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Enlarged Group.

MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by the Company and/or member(s) of the Enlarged Group within two years immediately preceding up to and including the Latest Practicable Date:

a) a share purchase agreement dated 31 January 2008 entered into between West Regent Property Limited, a wholly-owned subsidiary of the Company, and TBG, Inc., pursuant to which West Regent Property Limited agreed to sell, and TBG, Inc. agreed to purchase, 51% equity interest in Power Ability Limited at a total consideration of US$2 million (equivalent to approximately HK$15.6 million); and

b) the Agreement.

As at the Latest Practicable Date, save as disclosed above, no material contract (not being contract entered into in the ordinary course of business) was entered into by any member of the Enlarged Group within two years immediately preceding up to and including the Latest Practicable Date.

QUALIFICATIONS AND CONSENT OF EXPERTS

a) The following are qualifications of experts who have given opinions, letters or advice which are contained in this circular:

Optima Capital	a licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as set out in the SFO
RSM	Certified Public Accountants

b) Each of Optima Capital and RSM has given and has not withdrawn its written consent to the issue of this circular with the inclusion of the references to its name and/or its opinion in the form and context in which they are included.

c) As at the Latest Practicable Date, none of Optima Capital and RSM had any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

d) None of Optima Capital and RSM had any interest, direct or indirect, in any asset which has been, since 31 March 2007, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Enlarged Group, or was proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

GENERAL

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 holds a bachelor degree in business administration in accounting. He is an associate member of 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) Tricor 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) This circular and the accompanying form of proxy are prepared in both English and Chinese. In the event of inconsistency, the English texts shall prevail.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours at the head office and principal place of business of the Company in Hong Kong, Room 1001-2, 10/F., Man Yee Building, 68 Des Voeux Road Central, Hong Kong, up to and including the date of the SGM:

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 2007;

c) the letter from Optima Capital, the text of which is set out on pages 19 to 37 of this circular;

d) the accountants' report on the Target Group prepared by RSM for the three years ended 31 December 2007, the text of which is set out in Appendix II to this circular;

e) the report prepared by RSM on the unaudited pro forma statements of assets and liabilities of the Enlarged Group, the text of which is set out in Appendix III to this circular;

f) the written consents referred to in the paragraph headed "Qualifications and Consent of Experts" in this Appendix;

g) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix;

h) the circular of the Company dated 22 February 2008; and

i) the Agreement.

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

(incorporated in Bermuda with limited liability)

(Stock Code: 673)

NOTICE IS HEREBY GIVEN that a special general meeting (the "SGM") of China HealthCare Holdings Limited (the "Company") will be held at 9th Floor, Shun Ho Tower, 24-30 Ice House Street, Central, Hong Kong, on 20 May 2008 at 10:00 a.m. for the purpose of transacting the following business:

ORDINARY RESOLUTION

"**THAT**:–

a) the sale and purchase agreement (the "Agreement"), entered into between Panjinfenyuan Technology Investment Limited (盤錦鋒源科技投資有限公司) as vendor (the "Vendor") and Success Gateway Investments Limited, a wholly-owned subsidiary of the Company as purchaser (the "Purchaser"), dated 28 February 2008 whereby, the Purchaser conditionally agreed to purchase from the Vendor the remaining 30% of the existing issued share capital of Shanghai Harvest Network Technology Co. Limited (the "Target") with a total consideration of HK$41.5 million, of which HK$21.5 million shall be satisfied in cash and HK$20.0 million shall be satisfied by the issuance of the convertible notes of a principal amount of HK$20.0 million (the "Convertible Notes") with an initial conversion price of HK$1.16 per share (subject to adjustments), a copy of which has been produced to the meeting and initialed by the chairman of the meeting for the purpose of identification, and the transactions contemplated thereby be and are hereby approved, ratified and confirmed;

b) the issue of the Convertible Notes in accordance with the terms and conditions of the Agreement and the transactions contemplated thereunder be and hereby approved; and

c) the directors of the Company be and are hereby authorized to allot and issue the ordinary shares of HK$0.1 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 necessary, desirable and expedient to implement and/or give effect to the terms of, and all transactions contemplated under the Agreement for and on behalf of the Company and to approve any change and amendment thereto as he (or they) may consider necessary, desirable or expedient."

By order of the Board
China HealthCare Holdings Limited
Zhou Bao Yi
Executive Director

Hong Kong, 30 April 2008

Notes:

1. A member entitled to attend and vote at the SGM is entitled to appoint one or more proxies to attend and on a poll vote instead of him. A proxy need not be a member of the Company.

2. In order to be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of authority, must be deposited at the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time fixed for holding the meeting or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude any member from attending and voting in person at the SGM or any adjourned meeting thereof should he so wishes.

3. In case of joint shareholdings, the vote of the senior joint shareholder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint shareholder(s) and for this purposes seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the joint shareholdings.

4. As at the date hereof, the board of directors of the Company comprises three executive directors, namely Dr. Li Zhong Yuan, Mr. Lee Jong Dae and Mr. Zhou Bao Yi; one non-executive director, namely Mr. Martin Treffer; and three independent non-executive directors, namely Mr. Mu Xiangming, Mr. Jiang Bo and Dr. Yan Shi Yun.

* *For identification purpose only*