中國衛生控股有限公司

CHINA HEALTHCARE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 673)

China Healthcare

Annual Report 2006

Contents

Corporate Information

DIRECTORS

EXECUTIVE DIRECTORS

Dr. Li Zhong Yuan *(Chairman)*
Dr. Ni Aimin
Mr. Lee Jong Dae
Mr. Deng Ku Hon

NON-EXECUTIVE DIRECTORS

Mr. Robin Willi
Mr. Martin Treffer

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Xiao Ru
Dr. Ma Yin Ming
Mr. Mu Xiang Ming

COMPANY SECRETARY

Mr. Lo Chi Ko

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 1001-2, 10/F
Man Yee Building
68 Des Voeux Road Central
Hong Kong

PRINCIPAL BANKERS

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

AUDITORS

RSM Nelson Wheeler
Certified Public Accountants
7/F, Allied Kajima Building
138 Gloucester Road
Hong Kong

LEGAL ADVISERS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Chairman's Statement

Dear Shareholders,

Fiscal year beginning 1 April 2005 signified a clean start for the Group's exclusive focus to create a business platform to develop interrelated healthcare services and consumer marketing channels to offer foreign visitors to China, expatriates living in China and, most importantly, the burgeoning affluent Chinese consumer segment along the country's eastern coastal cities.

During the past year, working in public-private partnership with the Chinese Ministry of Health (the "MOH") and leading public hospitals in China, and via other strategic partnerships with leading international healthcare institutions, the Group continued to build up and fine tune its delivery platform for interrelated healthcare and wellness services. In Emergency Assistance Medical Services ("EAMS"), an integrated call center procuring post-pay emergency medical assistance nationwide via the MOH selected 914 Network Hospitals which the Group has exclusive right to utilize as authorized by the MOH, the Group has been forming alliances with domestic and international insurance companies, travel agencies and financial institutions to distribute and franchise such services. In order to have direct and effective interface with health and wellness consumers, the Group has also established proprietary Health Asset Management Services clinics and specialty medicine clinics in Beijing and Shanghai. It was a year of development for the Group and significant progress in forming alliances with a leading Chinese insurance company and a Taiwanese financial institution has been made to position the Group to grow rapidly in the forthcoming year.

In order to build up an integrated value chain of health/wellness service provision in China, the Group has been searching for ways and means to have its own direct B-to-C access/settlement platform to distribute its health and wellness products and services efficiently, effectively and conveniently. The Group entered into an acquisition agreement to purchase 70% equity interest in Shanghai Harvest Network Technology Co. Limited ("Shanghai Harvest"), a profitable B-to-C e-commerce platform with annual revenue during last fiscal year in excess of US$250 million and a substantial customer flow in Shanghai. The acquisition will substantially enhance the Group's overall business performance and strengthen its revenue base and consumer reach.

The Group also entered into a subscription agreement with Och-Ziff Capital Management Group ("OZ Capital"), which will subscribe convertible preference shares of the Company for a total consideration of US$15 million (approximately HK$117 million). OZ Capital is a global institutional asset management firm having in excess of US$18 billion of assets under management. The subscription will provide new funding to the Group for expansion of the existing business and new business development and OZ Capital will also provide the Group access to its portfolio companies that have synergistic businesses with the Group, which in turn should significantly further increase shareholder value as well as enhance the financial position of the Group.

Chairman's Statement

I would like to express my greatest appreciation to the entire staff of the Group for their hard work and efforts. I would also like to extend my gratitude to the investors, business partners, and shareholders for their support and confidence in the Group over the past years. Thanks to our dedicated staff, the support of our shareholders and the trust of our partners, I am highly confident that the Group will continue to grow and create significant value to the consumers of our services, which shall generate significant shareholder value. I look forward to sharing with you more positive developments in years to come.

Yours sincerely,

Dr. Li Zhong Yuan
Chairman

Hong Kong
14 July 2006

Management Discussion and Analysis

RESULTS

For the year ended 31 March 2006, the Group reported a turnover of approximately HK$6.8 million, representing a decrease of 80.5% as compared to HK$34.8 million for the previous financial year. The Group's net loss from ordinary activities attributable to shareholders for the year was approximately HK$96.8 million as compared to approximately HK$51.9 million for the previous financial year. Basic loss per share for the year was HK$0.42 (2005: HK$0.24).

BUSINESS OPERATION

During the past year, the Group was principally engaged in investment holding and provision of healthcare services in the PRC. The Group devoted most of its resources to create a platform to develop interrelated healthcare services and consumer marketing targeted at foreign visitors to China, expatriates living in China and, most importantly, the burgeoning affluent consumer segment in the PRC. The Group, working in an expansive public-private partnership with the Chinese Ministry of Health (the "MOH") and leading public hospitals in China, and via other strategic partnerships with leading international healthcare institutions, continues to build up and fine tune its delivery platform for interrelated and complementary healthcare and wellness businesses. In order to build up an integrated value chain of health/wellness service provision in China, the Group has been searching for ways and means to have its own direct B-to-C access/settlement platform to distribute its health and wellness products efficiently, effectively and conveniently. The Directors secured an opportunity to acquire 70% equity interest in Shanghai Harvest Network Technology Co. Limited ("Shanghai Harvest"), a profitable B-to-C e-commerce platform with annual revenue in excess of US$250 million and with a substantial customer reach and flow in Shanghai. The developments during the past financial year served to strengthen the management's confidence in the Group's general business prospect.

While the business lines of the Group in healthcare are still in development stage and undergoing generic growth, substantial progress has been made during the financial year.

Emergency Assistance Medical Services ("EAMS") is a centralized and highly scalable healthcare procurement program under the Group, which is an integrated call center providing post-pay, 24-hour emergency medical assistance nationwide, targeting offshore travelers to China and onshore travelers within China, via a nationwide network of 914 hospitals (the "Network Hospitals") pre-selected by the MOH. The Group through its subsidiary Beijing Universal Medical Assistance Co., Ltd. ("BUMA") is the only designated entity with the right to utilize the Network Hospitals. During the fiscal year, BUMA has been fine tuning and upgrading its operational protocols and working with the Network Hospitals closely to improve the infrastructure for delivering EAMS to target customers.

The Group has been devoting bulk of its resources in establishing its marketing infrastructure for distributing EAMS through a model of membership based program. The core component of such an infrastructure is to systematically establish and manage contractual relationships with insurance companies, financial institutions or travel agencies and related institutions for distributing EAMS to their customers respectively.

Management Discussion and Analysis

During the fiscal year, among the key contracts following are noteworthy; an agreement with Central Insurance, a major Taiwanese insurance company, via Bank of Communications (HK) Insurance, to distribute EAMS to Taiwanese travelers to mainland China through a program of membership plus charge per service; a comprehensive framework agreement with Sunshine Property and Casualty Insurance ("Sunshine"), a PRC insurance company as the provider of value added medical assistance and health management services to Sunshine customers, and in particular, an agreement with Sunshine to provide EAMS to its policy holders of compulsory car insurance on a basis of membership plus charge per service; and most significantly, BUMA has made very substantial progress, with assistance from the MOH, towards securing the status of the emergency medical assistance provider among a range of different products, to a dominant Chinese insurance company which has a huge customer nationwide based on similar business model.

During the fiscal year, BUMA has also entered into alliances with entities such as Evercare Inc., a leading Korean healthcare service provider with over 300,000 members, to provide EAMS services to each member who is traveling to China and Ctrip, a NASDAQ listed Chinese travel company, and other travel agencies to distribute EAMS. In addition, BUMA has collaborated with the International Assistance Group ("IAG"), a global medical assistance organization with 25 member companies in the field around the world, to position BUMA as a service provider for procuring EAMS to ever growing outbound Chinese travelers to Europe, North America and other parts of the world in partnership with Chinese insurance companies.

In order to have direct and effective interface with health and wellness consumers, the Group has also been engaging in Health Asset Management Services ("HAMS") which is designed to provide health care and wellness services on both onsite and outsourcing basis and established Premium Specialty Centers (the "PSCs") providing premium services with international knowledge transfer partners in areas of obstetrics/ gynecology and cosmetic surgery. Utilizing BUMA's unique access to the Network Hospitals and two HAMS clinics that the Group established in Beijing and Shanghai under medical licenses of its subsidiaries BUMA and CHC (Shanghai) Medical & Healthcare Services Ltd., HAMS offers customized health care management membership programs for both individuals and institutional clients, ranging from health check-ups to 24-hour private medical services. During the financial year, the Group's marketing strategy for HAMS was focused on targeting institutional clients, where institutional HAMS clients in Beijing include such companies as CITIC Industrial Bank, PetroChina-Hutchison IT Co., Guangdong Development Bank, and Beijing Mobile. Shanghai HAMS clinic targeted principally corporate customers and as of May 2006, the Shanghai HAMS clinic generated a customer flow of around 8,000 health check-ups, where institutional HAMS clients in Shanghai include such companies as Bank of Shanghai, Shanghai Bar Association, Shenzhen Development Bank, Price Waterhouse Coopers and Intel. The PSCs is targeting affluent domestic residents as consumers and as of May 2006, the PSC in obstetrics and gynecology in Shanghai has over 1,200 outpatients and inpatients since early 2006 and the cosmetic surgery clinic in Beijing has completed over 200 procedures since May 2005.

Management Discussion and Analysis

LIQUIDITY AND CAPITAL RESOURCES

During the year under review, the Company completed a fund raising activity from the issue of convertible bonds in aggregate principal amount of US$6.6 million (approximately HK$51.5 million). This fund raising exercise improved the financial position of the Group, and partially offset significant cash outlays related to the development of businesses. The Group's cash and cash equivalents amounted to approximately HK$47.9 million as at 31 March 2006.

The Group's total borrowings as at 31 March 2006 amounted to HK$49 million, all of which was represented by convertible bonds.

On this basis, the gearing ratio is calculated at 1.56 (2005: 0.14 (restated)), based on an amount of shareholders' equity of HK$31,473,000 (2005: HK$108,946,000 (restated)).

After the balance sheet date, the Company entered into the Subscription Agreement with certain institutional investors in relation to the subscription of 15,000 redeemable convertible cumulative preference shares of the Company at a total subscription price of US$15 million (approximately HK$117 million) on 5 April 2006, which has been approved by the shareholders of the Company at a special general meeting of the Company on 10 July 2006.

CONTINGENT LIABILITIES

At 31 March 2006, there were no contingent liabilities of the Group.

CHARGE ON GROUP'S ASSETS

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

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2006, the Group employed 149 (2005: 89) staff members. Total staff cost including Directors' emoluments was HK$16.3 million as compared to HK$15.1 million for the previous year.

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

Management Discussion and Analysis

FUTURE PROSPECTS

On 5 April 2006, the Group entered into a subscription agreement with Och-Ziff Capital Management Group ("OZ Capital"), which will subscribe convertible preference shares of the Company for a total consideration of US$15 million (approximately HK$117 million). OZ Capital is a global institutional asset management firm having in excess of US$18 billion of assets under management. The subscription will provide new funding to the Group for expansion of the existing business and new business development and OZ capital will also provide the Group access to its portfolio companies that have synergistic businesses with the Group, which in turn should significantly further increase shareholder value as well as enhance the financial position of the Group.

The acquisition of Shanghai Harvest represents an excellent start for the Group to expand not just based on generic growth but through value enhancing acquisitions as well. Besides its synergy as an e-commerce platform in distributing health and wellness services to consumers, Shanghai Harvest in its own right enjoys a market share about 25% in Shanghai mobile prepayment market of about RMB10 billion and is well poised to quickly capture 50% market share there through rapidly expanding e-commerce terminals in partnership with UnionPay and retail networks in addition to convenience stores. As such and in addition to its vast consumer reach of almost 4,000 e-commerce terminals of its own in convenience stores throughout Shanghai, the acquisition also substantially enhances the Group's overall business performance and strengthens its revenue base.

With substantial progress made in forming marketing infrastructures in EAMS as elaborated earlier, the Directors believe the prospect for the Group to achieve the dominant position in medical assistance industry in the PRC as a value added service provider is now within sight and reach. In an effort to upgrade and improve business models; product offerings; operational protocols and marketing channels, the Directors have also initiated regular exchanges with the America's leading travel insurance provider which is a subsidiary of one of the largest US insurance companies to explore knowledge transfer and joint venture. With huge and ever growing Chinese travelers in line with Chinese economy growth, unique resources that the Group is able to access in offering medical assistance and highly capital efficient and scalable business operation, we are confident of very significant value creation there.

With the Group on sound financial footing and with continuing support from the Group's investors and business partners, the Group is well-positioned for the coming fiscal year. We look forward to building and growing the Group's businesses; creating substantial values to consumers of our services; generating significant shareholders' value; and reporting back to shareholders as we take strides toward our goals.

Directors and Senior Management

EXECUTIVE DIRECTORS

Dr. Li Zhong Yuan, aged 45, is the Chairman and Executive Director of the Company and is responsible for the overall strategic planning of the Group. Dr. Li received his PhD. in Mathematics from the University of Michigan at Ann Arbor, the USA and subsequently worked as an Assistant Professor of Mathematics at the Massachusetts Institute of Technology, the USA ("MIT"), where he was consecutively awarded research grants from the National Science Foundation. After MIT, he held senior positions with a number of major international investment banks, including Bankers Trust Company, Salomon Brothers and IBJ Asia Limited and has extensive experience in capital raising and risk management. In late 1996, he was in charge of building up capital markets and derivative businesses in multi-asset classes in Northern Asia and was a director of Rabobank International before setting up a financial and technology investment firm.

Mr. Lee Jong Dae, aged 47, is the Chief Executive Officer and Executive Director of the Company. He was appointed as the Executive Director of the Company on 8 July 2004. Mr. Lee is an experienced international lawyer and investment banker. He received his undergraduate degree in economics from Haverford College, Pennsylvania, and later obtained his Doctor of Jurisprudence from Georgetown University, Washington, D.C. He began his practice in Washington, D.C. where he specialized in international trade matters, and moved to Hong Kong in 1988 to join Coudert Brothers. As a partner of Coudert Brothers, he practiced in the corporate and finance areas focusing on regional cross border transactions, often involving China. He left full time law practice in 1997 to become a senior investment banker for Rabobank International, Citigroup, and certain other financial institutions, with broad responsibilities for complex cross-border transactions. He serves on the Executive Committee of Lee International IP & Law Group and is an advisor to and director of several corporations.

Dr. Ni Aimin, aged 46, is the Executive Director of the Company. Dr. Ni has extensive knowledge and experience in the medical industry and medical information industry and is responsible for the company's overall administration and business development in the healthcare sector. He received his Master in Medicine degree from Shanghai Medical University in the PRC and worked as a surgeon both in the PRC and the USA for 13 years. Dr. Ni worked as an information system manager with a US-based plastic/cosmetic surgery clinic for 6 years before joining the Company in 2002.

Mr. Deng Ku Hon, aged 40, is the Executive Director of the Company. He is an experienced business operation and corporate/financial management executive. Mr. Deng holds an economic degree from Capital University of Economics and Business in Beijing, China. Mr. Deng held a number of senior financial positions with Great Wall Industry Corporation and China Aerospace International Holdings Group Ltd. before moving into his entrepreneurial pursue, which have involved founding an internet security business and building it to more than US$10 million in revenues.

Directors and Senior Management

NON-EXECUTIVE DIRECTORS

Mr. Martin Treffer, aged 41, is a Non-Executive Director of the Company. He has extensive experience in investment and financial areas. Mr. Treffer holds a Master Degree in Banking and Economics from KV Zurich Business School, Switzerland. He has worked for several major international investment management and financial organizations. He is a founding member and principal partner of 2trade Group Ltd., an independent money management company in Switzerland.

Mr. Robin Willi, aged 46, is the Non-Executive Director of the Company. He is a senior investment banker with major international financial institutions and had over 10 years of investment banking experience in Asia. Mr. Willi holds Master's degree in Political Science, History and International Law from the University of a Zurich, Switzerland. After receiving his degree, he was a research scholar for the Council of Europe at the University of Uppsala, Sweden. Mr. Willi then embarked on a distinguished career in investment banking with postings in New York, London, Hong Kong and Seoul, working for JP Morgan, Goldman Sachs, Salomon, Bankers Trust and Bear Stearns, in the areas of asset-and-liability management, derivatives, equity capital markets, distressed debt and proprietary investments.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Ma Yin Ming, aged 39, is an Independent Non-Executive Director of the Company. He holds a doctoral degree in accounting as well as a bachelor and a master degree in economics from the Central South University. He is a seasoned accounting and financial expert and has been appointed as a member of the Auditing Standards Drafting Committee of the China Institute of Certified Public Accountants as the leader of the Chinese Expert Advisory Group on accounting issues in connection with Asian Development Bank sponsored projects in China. He has also held senior financial positions in the commercial field and is currently the Professor of Shanghai National Accounting Institute.

Mr. Li Xiao Ru, aged 49, is an Independent Non-Executive Director of the Company. Mr. Li was educated at the Shanghai Foreign Language University in the PRC and received his Bachelor of Arts from Columbia University in New York City and his Doctor of Jurisprudence from New York University. At present, Mr. Li is a Partner at Morrison & Foerster in Hong Kong. Previously a Partner at Coudert Brothers and Morrison & Foerster in Hong Kong, Mr. Li has worked with a number of major international law firms in New York and Hong Kong. In addition, Mr. Li has over twenty years of China joint venture experience as well as capital markets and management experience. From 1998 to 2001, he was the Managing Director of Hong Kong Construction (Holdings) Limited which is a listed company in Hong Kong.

Mr. Mu Xiangming, aged 50, is an Independent Non-Executive Director of the Company. He is an experienced international lawyer. He received his L.L.B. degree from Fudan University Law School in Shanghai, China and L.L.M. degree from University of Oregon Law School in the United States. Mr. Mu was a member of Shanghai Municipal Government Foreign Economic Trade Committee and a practicing lawyer in a US solicitors firm for four years. He is currently a senior partner of Shanghai Ming & Yuan Law Firm, a law firm with principal office in Shanghai and affiliated offices in USA and Japan.

Directors and Senior Management

SENIOR MANAGEMENT

Mr. Tsui Siu Hung Raymond, aged 30, is the Financial Controller of the Company. Mr. Tsui received his Bachelor of Business Administration in Accounting from the Chinese University of Hong Kong. He has over 7 years of experience in finance, consulting, accounting and auditing. He is an associate member of both the Association of Chartered Certified Accountants and the Hong Kong Institute of the Certified Public Accountants.

COMPANY SECRETARY

Mr. Lo Chi Ko, aged 36, is the secretary of the Company. He holds a bachelor degree from the Hong Kong and a master degree in business administration from Australia. He has over 11 years of experience in corporate secretarial and finance/accounting sectors. Mr. Lo is a practicing member of the Hong Kong Institute of Certified Public Accountants, Australia Society of Certified Practicing Accountants and The Taxation of Institute of Hong Kong.

Report of the Directors

The directors submitting herewith their annual report and the audited financial statements for the year ended 31 March 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 19 to the financial statements. The Group's overall business strategy is to act as a facilitating platform for international healthcare expertise, products and capital to gain timely and cost effective access to the PRC's burgeoning healthcare market. In previous year, in order to focus Group's resources on the PRC healthcare sector, the Group ceased its entire business operation of electronic parts and components since 1 November 2004. The details of discontinued operations are set out in note 7 to the financial statements.

RESULTS

The results of the Group for the year ended 31 March 2006 are set out in the consolidated income statement on page 25.

PROPERTY, PLANT AND EQUIPMENT

Details of movement in the property, plant and equipment of the Group during the year are set out in note 16 to the financial statements.

CONVERTIBLE BONDS

Details of the convertible bonds are set out in the note 28 to the financial statements.

SHARE CAPITAL

Details of movement in the Company's share capital during the year are set out in note 29 to the financial statements.

RESERVES

Movements in the reserves of the Company and of the Group during the year are set out in note 30 to the financial statements and consolidated statement of changes in equity on page 29 respectively.

DISTRIBUTABLE RESERVES

As at 31 March 2006, the Company had no reserves available for cash distribution and/or distribution in specie, as calculated in accordance with the Companies Act 1981.

Report of the Directors

DIRECTORS AND THEIR SERVICE CONTRACTS

The directors of the Company ("Directors") during the year were:

EXECUTIVE DIRECTORS

Dr. Li Zhong Yuan
Mr. Lee Jong Dae
Dr. Ni Aimin
Mr. Deng Ku Hon

NON-EXECUTIVE DIRECTORS

Mr. Robin Willi
Mr. Martin Treffer

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Xiao Ru
Dr. Ma Yin Ming
Mr. Mu Xiang Ming

The biographical details of the directors of the Company and senior management of the Group are set out on page 9 to 11.

In accordance with the Company's Bye-law 87, Dr. Li Zhong Yuan, Mr. Deng Ku Hon and Mr. Martin Treffer will retire from the board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Dr. Li Zhong Yuan has a service contract with the Company for a term of three years commencing from 28 August 2004 being terminable by not less than a six-months' notice in writing served by either party.

Dr. Ni Aimin has a service contract with the Company for a term of three years commencing from 5 November, 2003 being terminable by not less than a six-months' notice in writing served by either party.

Mr. Lee Jong Dae and Mr. Deng Ku Hon have a service contract with the Company for a term of two years commencing from 8 July 2004 being terminable by not less than a six-months' notice in writing served by either party.

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

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation, other than normal statutory obligations.

Report of the Directors

DIRECTORS' INTERESTS IN CONTRACT OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

As at 31 March 2006, the interests and short positions of the Directors/chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Part XV of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which the directors were deemed or taken to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") to be notified to the Company and the Stock Exchange, were as follows:

Name of Director/ Chief Executive	Company/ associated corporation	Capacity/ Nature of interests	Interests in shares (other than pursuant to equity derivatives) *(Note 3)*	Interests in underlying shares (pursuant to equity derivatives) *(Note 3)*	Total interests in shares/ underlying shares	Percentage of shares and underlying shares to issued shares at 31 March 2006
Dr. Li Zhong Yuan	The Company	Corporate *(Note 1)*	19,808,000	–	19,808,000	8.45%
		Personal	4,635,000	3,625,000	8,260,000	3.52%
Mr. Lee Jong Dae	The Company	Personal	3,026,500	3,600,000	6,626,500	2.83%
Dr. Ni Aimin	The Company	Personal	750,000	2,400,000	3,150,000	1.34%
Mr. Deng Ku Hon	The Company	Personal	432,000	2,400,000	2,832,000	1.21%
Mr. Robin Willi	The Company	Personal	912,000	900,000	1,812,000	0.77%
Mr. Martin Treffer	The Company	Corporate *(Note 2)*	1,295,000	–	1,295,000	0.55%
		Personal	250,000	900,000	1,150,000	0.49%
Mr. Li Xiao Ru	The Company	Personal	–	1,212,000	1,212,000	0.52%
Mr. Ma Yin Ming	The Company	Personal	–	150,000	150,000	0.06%
Mr. Mu Xiang Ming	The Company	Personal	–	210,000	210,000	0.09%

Report of the Directors

Notes:

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

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

(3) The underlying shares of equity derivatives represent the shares issuable upon the exercise of share options granted to the Directors/chief executives by the Company. Details of share options are set out under the heading of "SHARE OPTION SCHEME" on page 87. All interests in shares and underlying shares of equity derivatives stated above represent long positions.

Save as disclosed above, as at 31 March 2006, none of the Directors and chief executive of the Company or any of their spouses or children under eighteen years of age has interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which the directors were deemed or taken to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

Report of the Directors

SHARE OPTIONS

Particulars of the Company's share options schemes are set out in note 36 to the financial statements.

As at 31 March 2006, the Directors, employees and consultants of the Company had the following interests in options to subscribe for shares of the Company. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of HK$0.10 each of the company.

	Option type	Outstanding at 1.4.2005	Granted	Exercised	Lapsed	Outstanding at 31.3.2006
Directors						
Dr. Li Zhong Yuan	A	25,000	–	–	–	25,000
	B	1,500,000	–	–	–	1,500,000
	C	2,100,000	–	–	–	2,100,000
Mr. Lee Jong Dae	B	1,500,000	–	–	–	1,500,000
	C	2,100,000	–	–	–	2,100,000
Dr. Ni Aimin	B	1,500,000	–	–	–	1,500,000
	C	900,000	–	–	–	900,000
Mr. Deng Ku Hon	B	1,500,000	–	–	–	1,500,000
	C	900,000	–	–	–	900,000
Mr. Robin Willi	C	900,000	–	–	–	900,000
Mr. Martin Treffer	C	900,000	–	–	–	900,000
Mr. Li Xiao Ru	B	1,002,000	–	–	–	1,002,000
	C	210,000	–	–	–	210,000
Dr. Ma Yin Ming	C	150,000	–	–	–	150,000
Mr. Mu Xiang Ming	C	210,000	–	–	–	210,000
Total Directors		15,397,000	–	–	–	15,397,000
Management and staffs						
	B	469,000	–	–	(319,000)	150,000
	C	840,000	–	–	(450,000)	390,000
Total management and staffs		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 advisors and consultants		17,668,000	99,000	–	–	17,767,000
Total		34,374,000	99,000	–	(769,000)	33,704,000

Report of the Directors

Option type	Date of grant	Exercisable period From	Exercisable period To	Exercise price HK$	Closing price immediately before the date of grant HK$
A	31 August 2001	31 August 2001	15 May 2011	8.600*	12.000*
B	2 February 2004	2 February 2004	7 April 2012	3.400	3.800
C	3 March 2005	3 March 2005	7 April 2012	2.325	2.325
D	20 June 2005	20 June 2005	7 April 2012	2.330	2.300

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

Information on the accounting policy for share options granted and the weighted average value per option is provided in notes 3(S) and 36 to the financial statements respectively.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, and neither the Directors nor chief executive, nor any of their spouse or children under the age 18, had any right to subscribe for securities of the Company, or exercised any such right.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 March 2006, so far as is known to Directors, those persons other than Directors and chief executive of the Company, who had the interests or short positions in the shares or underlying shares of the Company which have been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under section 336 of the SFO, were as follows:

Name	Interests in shares (other than pursuant to equity derivatives)	Interests in underlying shares pursuant to equity derivatives	Total interests in shares/ underlying shares	Percentage of shares and underlying shares to issued shares at 31 March 2006
Orient Access International Inc.	17,300,000	–	17,300,000	7.38%
Guo Kang Pharmaceutical & Medical Supplies Ltd	17,000,000	–	17,000,000	7.25%
China Healthcare Services Ltd.	15,896,000	–	15,896,000	6.78%

Report of the Directors

Save as disclosed above, as at 31 March 2006, the Directors were not aware of any other person (other than the Directors and the chief executives of the Company) who had an interest or short positions in the shares or underlying share (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

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

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 94 of the annual report.

PRE-EMPTIVE RIGHTS

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

POST BALANCE SHEET EVENTS

Details of the post balance sheet events of the Group are set out in note 37 to the financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

The largest supplier and the five largest suppliers of the Group accounted for approximately 31.0% and 66.0%, respectively, of the Group's total purchases during the year.

The largest customer and the five largest customers of the Group accounted for approximately 13.3% and 43.4%, respectively, of the Group's total sales for the year.

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the year ended 31 March 2006.

Report of the Directors

DISCLOSURE UNDER CHAPTER 13 OF THE LISTING RULES

As at 31 March 2006, the Group had a loan of US$2.7 million (equivalent to HK$21,026,000) made to Multi-line Digital Co. Ltd, an independent third party. Full impairment loss for the loan has been made during the year. Details of which are disclosed in note 25 to the financial statements.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint the auditors, Messrs. RSM Nelson Wheeler.

On behalf of the Board

Dr. Li Zhong Yuan
Chairman

Hong Kong, 14 July 2006

Corporate Governance Report

In the opinion of the board of directors of the Company (the "Board"), the Company has complied with the Code of Corporate Governance Practices (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 March 2006 except for certain deviations disclosed herein.

DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

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

The Board currently consists of four Executive Directors, two Non-Executive Directors and three Independent Non-Executive Directors. One of our Independent Non-Executive Directors has relevant financial management expertise required by the Listing Rules.

The Board schedules four meetings a year and also meets as and when required. During the year, the Board held four regular meetings.

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

Directors	**Number of attendance**
Executive directors	
Dr. Li Zhong Yuan	4/4
Mr. Lee Jong Dae	4/4
Dr. Ni Aimin	4/4
Mr. Deng Ku Hon	4/4
Non-executive directors	
Mr. Robin Willi	1/4
Mr. Martin Treffer	2/4
Independent non-executive directors	
Mr. Li Xiao Ru	2/4
Dr. Ma Yin Ming	1/4
Mr. Mu Xiang Ming	1/4

Corporate Governance Report

The Company has received annual confirmations of independence from Independent Non-Executive Directors and the Company considers them to be independent.

Given the nature and business objective of the Company, the Board has a balance of skill and experience appropriate for the requirements of the business of the Company. The list of directors and their respective biographies are set out on pages 9 to 11 of this annual report respectively.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Dr. Li Zhong Yuan is the Chairman of the Board and Mr. Lee Jong Dae is the Chief Executive Officer ("CEO") of the Company. The roles of the Chairman and the CEO are two distinctively separate positions. The Chairman is responsible for providing leadership for the Board of Directors and ensuring that the Board of Directors works effectively. The CEO is responsible for the Group's business development and management.

The annual general meeting held on 26 August 2005 was chaired by Mr. Lee Jong Dae, one of our executive directors, instead of Dr. Li Zhong Yuan. Dr. Li Zhong Yuan did not attend the annual general meeting 2005 as he was in a unexpected urgent business trip. In accordance with the Code E.1.2, Dr. Li Zhong Yuan should attend the annual general meeting of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

REMUNERATION COMMITTEE

The Company has established its Remuneration Committee on 31 March 2006 with specific written terms of reference. The Remuneration Committee is responsible for making recommendations to the Board on, among other things, the Company's policy and structure for the remuneration of all directors and senior management of the Company and is delegated by the Board with the responsibility to determine on behalf of the Board the specific remuneration packages for all executive directors and senior management of the Company.

The Remuneration Committee comprises three independent non-executive directors, namely Mr. Mu Xiang Ming, Mr. Li Xiao Ru and Dr. Ma Yin Ming. The Remuneration Committee has not held any meeting during the year.

Corporate Governance Report

NOMINATION OF DIRECTORS

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

AUDITORS' REMUNERATION

During the year, the remuneration paid to the Company's auditors, RSM Nelson Wheeler, is set out below:

	HK$'000
Services rendered	
– audit services	666
– non-audit services	
Review on 2005 interim results	50
Preparation of accountants' report for inclusion in a circular to shareholders in respect of a very substantial acquisition	150
	866

AUDIT COMMITTEE

The Audit Committee is responsible for reviewing and supervising the financial reporting process and internal control system of the Group and providing advice and comments to the Board.

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

Directors	**Number of attendance**
Independent Non-executive Directors	
Mr. Li Xiao Ru	2/2
Mr. Mu Xiang Ming	1/2
Dr. Ma Yin Ming	2/2

Corporate Governance Report

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

– reviewed with the management and the external auditors the audited financial statements for the year ended 31 March 2005 and the unaudited interim financial statements for the six months ended 30 September 2005, with recommendations to the Board for approval;

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

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

The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and the financial statements for the year ended 31 March 2006.

The Chairman of the Audit Committee, Dr. Ma Yin Ming, possesses relevant financial management expertise and meets the requirements of rule 3.21 of the Listing Rules.

ACCOUNTABILITY

The directors are responsible for the preparation of the accounts of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give true and fair view of the state of affairs, the results of operations and cash flows of the Group. In preparing the accounts for the six months ended 30 September 2005 and for the year ended 31 March 2006, the directors have adopted suitable accounting policies and applied them consistently. The accounts for the reporting year have been prepared on a going concern basis.

INTERNAL CONTROLS

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

Auditors' Report

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

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

We have audited the financial statements on pages 25 to 93 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2006 and of the Group's results and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

14 July 2006

Consolidated Income Statement

(For the year ended 31 March 2006)

	Note	2006 HK$'000	(Restated) 2005 HK$'000
Continuing operations			
Turnover	8	**6,834**	7,446
Other operating income	8	**1,337**	92
Change in inventories of finished goods		**(659)**	659
Raw material and consumables used		**(1,665)**	(3,955)
Staff costs		**(16,319)**	(15,105)
Consultancy fees		**(5,020)**	(1,997)
Operating lease payments		**(3,748)**	(1,347)
Depreciation and amortisation		**(2,816)**	(4,680)
Impairment losses for doubtful debts		**(21,217)**	(792)
Impairment losses of available-for-sale investments		**(22,588)**	(695)
Impairment losses of goodwill		**(15,500)**	(7,192)
Other operating expenses		**(17,735)**	(13,101)
Loss from operations		**(99,096)**	(40,667)
Finance costs	11	**(2,767)**	(704)
Loss before taxation		**(101,863)**	(41,371)
Taxation	12	**–**	–
Loss for the year from continuing operations		**(101,863)**	(41,371)
Discontinued operations			
Loss for the year from discontinued operations	7	**–**	(12,390)
Loss for the year	9 & 14	**(101,863)**	(53,761)
Attributable to:			
Equity holders of the Company		**(96,773)**	(51,914)
Minority interests		**(5,090)**	(1,847)
		(101,863)	(53,761)
Loss per share (HK$)	15		
From continuing and discontinued operations:			
– Basic		**(0.42)**	(0.24)
– Diluted		**N/A**	N/A
From continuing operations:			
– Basic		**(0.42)**	(0.18)
– Diluted		**N/A**	N/A

Consolidated Balance Sheet

(At 31 March 2006)

	Note	2006 HK$'000	(Restated) 2005 HK$'000
Non-current assets			
Property, plant and equipment	16	**11,968**	6,890
Goodwill	17	**23,886**	33,673
Other intangible assets	18	**1,111**	1,274
Interest in an associate	20	**1**	4,501
Available-for-sale investments	21	**–**	22,588
		36,966	68,926
Current assets			
Inventories	22	**2,646**	3,356
Trade receivables	23	**3,289**	3,748
Prepayments, deposits and other receivables		**8,049**	3,603
Loan receivables	25	**7,806**	21,026
Bank balances and cash		**47,894**	47,318
		69,684	79,051
Current liabilities			
Trade payables	26	**1,409**	960
Other payables and accrued liabilities		**12,221**	8,769
Amounts due to directors	27	**6,942**	5,714
Convertible bonds	28	**–**	14,917
		20,572	30,360
Net current assets		**49,112**	48,691
Total assets less current liabilities		**86,078**	117,617
Non-current liabilities			
Convertible bonds	28	**48,992**	–
NET ASSETS		**37,086**	117,617

Consolidated Balance Sheet

(At 31 March 2006)

	Note	**2006** **HK$'000**	(Restated) 2005 HK$'000
Capital and reserves			
Share capital	*29*	**23,437**	21,707
Reserves	*30*	**8,036**	87,239
Equity attributable to equity holders of the Company		**31,473**	108,946
Minority interests		**5,613**	8,671
TOTAL EQUITY		**37,086**	117,617

The financial statements on pages 25 to 93 were approved and authorised for issue by the Board of Directors on 14 July 2006 and signed on its behalf by:

Dr. Li Zhong Yuan
Director

Mr. Lee Jong Dae
Director

Balance Sheet

(At 31 March 2006)

	Note	2006 HK$'000	(Restated) 2005 HK$'000
Non-current assets			
Property, plant and equipment	16	**3**	22
Investments in subsidiaries	19	**14,022**	–
Available-for-sale investments	21	**–**	1,333
		14,025	1,355
Current assets			
Prepayments, deposits and other receivables		**369**	255
Amounts due from subsidiaries	24	**68,483**	16,634
Loan receivable	25	**624**	–
Bank balances and cash		**10,985**	7,300
		80,461	24,189
Current liabilities			
Other payables and accrued liabilities		**3,281**	2,820
Amount due to a subsidiary	24	**2,955**	–
Convertible bonds	28	**–**	14,917
		6,236	17,737
Net current assets		**74,225**	6,452
Total assets less current liabilities		**88,250**	7,807
Non-current liabilities			
Convertible bonds	28	**48,992**	–
NET ASSETS		**39,258**	7,807
Capital and reserves			
Share capital	29	**23,437**	21,707
Reserves	30	**15,821**	(13,900)
TOTAL EQUITY		**39,258**	7,807

The financial statements on pages 25 to 93 were approved and authorised for issue by the Board of Directors on 14 July 2006 and signed on its behalf by:

Dr. Li Zhong Yuan
Director

Mr. Lee Jong Dae
Director

Consolidated Statement of Changes in Equity

(For the year ended 31 March 2006)

	Attributable to equity holders of the Company									
	Share capital	Share premium	Contributed surplus	Convertible bonds reserve	Translation reserve	Share option reserve	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*
At 1 April 2004, as previously reported as equity	19,977	159,786	57,124	–	–	–	(114,725)	122,162	–	122,162
At 1 April 2004, as previously separately reported as minority interests	–	–	–	–	–	–	–	–	453	453
Effect of adoption of HKAS 32 retrospectively	–	–	–	2,595	–	–	–	2,595	–	2,595
At 1 April 2004, as restated	19,977	159,786	57,124	2,595	–	–	(114,725)	124,757	453	125,210
Share issue expenses	–	(2,861)	–	–	–	–	–	(2,861)	–	(2,861)
Exchange differences arising on translation of financial statements of overseas operations	–	–	–	–	16	–	–	16	–	16
Net income/(expense) recognised directly in equity	–	(2,861)	–	–	16	–	–	(2,845)	–	(2,845)
Loss for the year	–	–	–	–	–	–	(51,914)	(51,914)	(1,847)	(53,761)
Total recognised income/ (expense) for the year	–	(2,861)	–	–	16	–	(51,914)	(54,759)	(1,847)	(56,606)
Issue of shares on conversion of convertible bonds	730	2,430	–	–	–	–	–	3,160	–	3,160
Issue of shares by private placements	1,000	35,000	–	–	–	–	–	36,000	–	36,000
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	10,065	10,065
Effect of adoption of HKAS 32 retrospectively	–	188	–	(400)	–	–	–	(212)	–	(212)
	1,730	37,618	–	(400)	–	–	–	38,948	10,065	49,013
At 31 March 2005	21,707	194,543	57,124	2,195	16	–	(166,639)	108,946	8,671	117,617

Consolidated Statement of Changes in Equity

(For the year ended 31 March 2006)

	Attributable to equity holders of the Company									
	Share capital	Share premium	Contributed surplus	Convertible bonds reserve	Translation reserve	Share option reserve	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*
At 1 April 2005, as per above	21,707	194,543	57,124	2,195	16	–	(166,639)	108,946	8,671	117,617
Effect of adoption of HKAS 39	–	–	–	–	–	–	(2,084)	(2,084)	–	(2,084)
At 1 April 2005, as restated	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	–	–	–	–	344	–	–	344	–	344
Loss for the year	–	–	–	–	–	–	(96,773)	(96,773)	(5,090)	(101,863)
Total recognised income/ (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

Consolidated Cash Flow Statement

(For the year ended 31 March 2006)

	2006 HK$'000	2005 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss from continuing operations	**(99,096)**	(40,667)
Operating loss from discontinued operations	**–**	(12,390)
Total operating loss	**(99,096)**	(53,057)
Adjustments for:		
Interest income	**(1,029)**	(92)
Recovery from impairment losses for doubtful debts	**(44)**	–
Amortisation of goodwill	**–**	3,441
Amortisation of other intangible assets	**191**	141
Depreciation	**2,625**	1,098
Impairment losses for doubtful debts	**21,217**	792
Impairment losses of goodwill	**15,500**	7,192
Impairment losses for obsolete inventories	**377**	–
Impairment losses of available-for-sale investments	**22,588**	695
Loss on disposal of property, plant and equipment	**3**	118
Share-based payment expenses	**148**	–
Operating cash flows before movements in working capital	**(37,520)**	(39,672)
Decrease in inventories	**402**	1,399
Decrease in trade receivables	**487**	14,352
(Increase)/decrease in prepayments, deposits and other receivables	**(4,243)**	34,444
Increase/(decrease) in trade payables	**421**	(4,399)
Increase/(decrease) in other payables and accrued liabilities	**2,574**	(13,905)
Increase in amounts due to directors	**1,228**	3,432
Cash used in operations	**(36,651)**	(4,349)
Interest paid	**(1,333)**	(73)
Interest on obligations under finance leases	**–**	(1)
Net cash outflow from operating activities	**(37,984)**	(4,423)

Consolidated Cash Flow Statement

(For the year ended 31 March 2006)

	Note	**2006** **HK$'000**	2005 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**722**	92
Purchase of property, plant and equipment		**(5,861)**	(5,651)
Proceeds from disposal of property, plant and equipment		**100**	307
Advances of loan receivables		**(13,893)**	(200)
Repayment of loan receivables		**6,087**	600
Acquisition of subsidiaries	31	**–**	(47,889)
Net cash used in investing activities		**(12,845)**	(52,741)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans raised		**–**	1,887
Repayment of bank loans		**–**	(1,887)
Issue of convertible bonds		**51,256**	–
Issue of shares, net of expenses		**–**	33,139
Repayment of obligations under finance leases		**–**	(67)
Net cash generated from financing activities		**51,256**	33,072
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**427**	(24,092)
Effect of foreign currency exchange rate changes		**149**	16
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**47,318**	71,394
CASH AND CASH EQUIVALENTS AT END OF YEAR, REPRESENTED BY BANK BALANCES AND CASH		**47,894**	47,318

Notes to the Financial Statements

(For the year ended 31 March 2006)

1. GENERAL INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act of Bermuda. The addresses 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 19 and 20 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 ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2005. 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 except as stated below.

(A) PRESENTATION OF FINANCIAL STATEMENTS

HKAS 1 "Presentation of Financial Statements" affects the presentation of minority interests, share of profits of associates and other disclosures. The change in accounting policy has been applied retrospectively.

(B) MINORITY INTERESTS

In previous years, minority interests were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to the equity holders of the Company.

With effect from 1 January 2005, in order to comply with HKAS 1 "Presentation of Financial Statements" and HKAS 27 "Consolidated and Separate Financial Statements", 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 equity holders of the Company. This change in accounting policy has been applied retrospectively.

Notes to the Financial Statements

(For the year ended 31 March 2006)

2. ADOPTION OF NEW AND REVISED HKFRSs *(Continued)*

(C) FINANCIAL INSTRUMENTS

The adoption of HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement" has resulted in a change in the accounting policy relating to the classification of available-for-sale investments. It has also resulted to analyse the compound financial instruments into debt and equity components based on the circumstances at the inception of the instrument. The comparative in respect of the convertible bonds has been restated whereby the equity conversion option is now presented as a component reserves. The related interest expense on the convertible bonds has been restated by applying the effective interest methods to the liability component.

HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for Investments in Securities" to investments in securities for the 2005 comparative information. The adjustments required for the accounting differences between previous SSAP 24 and HKAS 39 are determined and recognised at 1 April 2005.

The adoption of HKASs 32 and 39 resulted in an increase in accumulated losses at 1 April 2005 by HK$2,084,000 and the details of other changes in the amounts reported in the financial statements as follows:

THE GROUP	**2006**	2005
	HK$'000	*HK$'000*
Increase in available-for-sale investments	**–**	22,588
Decrease in investments in securities	**–**	22,588
Decrease in convertible bonds	**2,488**	299
Increase in convertible bonds reserve	**3,592**	2,195
Increase in finance costs	**1,063**	–
Increase in basic loss per share (cents)	**0.462**	–

THE COMPANY	**2006**	2005
	HK$'000	*HK$'000*
Increase in available-for-sale investments	**–**	1,333
Decrease in investments in securities	**–**	1,333
Decrease in convertible bonds	**2,488**	299
Increase in convertible bonds reserve	**3,592**	2,195
Increase in finance costs	**1,063**	–

Notes to the Financial Statements

(For the year ended 31 March 2006)

2. ADOPTION OF NEW AND REVISED HKFRSs *(Continued)*

(D) SHARE-BASED PAYMENT

The adoption of HKFRS 2 "Share-based Payment" has resulted in change in the accounting policy for share options granted to employee and third party. Prior to this, the grant of share options to employees and third parties did not result in a charge to the consolidated income statement. Upon the adoption of HKFRS 2, the fair value of share options at grant date is amortised over the relevant vesting periods and expensed to the consolidated income statement. This change in accounting policy has been applied retrospectively.

The adoption of HKFRS 2 resulted in changes in the amounts reported in the financial statements as follows:

	2006	2005
	HK$'000	*HK$'000*
Increase in share options reserve	**148**	–
Increase in consultancy fees	**148**	–
Increase in basic loss per share (cents)	**0.064**	–

(E) BUSINESS COMBINATIONS

The adoption of HKFRS 3 "Business Combinations" resulted in a change in the accounting policy for goodwill. Until 31 March 2005, goodwill was:

- Amortised on a straight-line basis over 5 to 19 years; and

- Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

- The Group ceased amortisation of goodwill from 1 April 2005;

- Accumulated amortisation as at 31 March 2005 has been eliminated with a corresponding decrease in the cost of goodwill; and

- From the year ended 31 March 2006 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

HKFRS 3 has been applied prospectively from 1 April 2005.

Notes to the Financial Statements

(For the year ended 31 March 2006)

2. ADOPTION OF NEW AND REVISED HKFRSs *(Continued)*

(E) BUSINESS COMBINATIONS (Continued)

The adoption of HKFRS 3 resulted in changes in the amounts reported in the financial statements as follows:

	2006	2005
	HK$'000	*HK$'000*
Decrease in amortisation of goodwill	**2,921**	–
Decrease in basic loss per share (cents)	**1.269**	–

At the date of authorisation of these financial statements, HKICPA has issued certain new and revised standards and interpretations that are not yet effective to the financial statements. The directors anticipate that the adoption of these new and revised standards and interpretations in future periods 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 issued by the HKICPA, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(A) CONSOLIDATION (Continued)

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 or capital reserve 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.

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

(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.

Notes to the Financial Statements

(For the year ended 31 March 2006)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(B) BUSINESS COMBINATION AND GOODWILL (Continued)

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.

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.

Notes to the Financial Statements

(For the year ended 31 March 2006)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(C) ASSOCIATES (Continued)

Unrealised gains 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.

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

(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 rate method, less any impairment losses.

An impairment loss is recognised in the consolidated 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 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 investments.

Notes to the Financial Statements

(For the year ended 31 March 2006)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(D) INVESTMENTS (Continued)

(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 included in the consolidated income statement for the period.

(iii) Available-for-sale investments

Available-for-sale investments are investments not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale investments 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 included in the consolidated income statement for the period.

Impairment losses recognised in the consolidated income statement for equity investments classified as available-for-sale investments are not subsequently reversed through the consolidated income statement. Impairment losses recognised in the consolidated income statement for debt instruments classified as available-for-sale investments are subsequently reversed 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 historical 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 consolidated income statement during the financial period in which they are incurred.

Notes to the Financial Statements

(For the year ended 31 March 2006)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(E) PROPERTY, PLANT AND EQUIPMENT (Continued)

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost 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 assets' residual values and useful lives 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 consolidated 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 arising from the Group's e-business development 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 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 consolidated income statement in the period in which it is incurred.

(G) PATENTS

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

Notes to the Financial Statements

(For the year ended 31 March 2006)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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 asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the consolidated income statement.

(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. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(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.

Notes to the Financial Statements

(For the year ended 31 March 2006)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(M) CONVERTIBLE BONDS

Convertible bonds that consist of a liability and an equity component are regarded as compound instruments. 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 for 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.

(N) EQUITY INSTRUMENTS

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

(O) REVENUE RECOGNITION

Revenues from the sales of manufactured goods and trading of raw materials are recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Service fee income is recognised when the service is rendered and on the basis of stage of completion of each individual project, provided that the costs involved can be measured reliably. The stage of completion of a transaction is established by reference to the costs incurred to date as compared to the estimated total costs under the transaction.

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

Dividend income is recognised when the shareholders' rights to receive payment have been established.

Notes to the Financial Statements

(For the year ended 31 March 2006)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(P) 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. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the consolidated income statement on a straight-line basis over the period of the lease.

(Q) 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 consolidated 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 investments, 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

Notes to the Financial Statements

(For the year ended 31 March 2006)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(Q) FOREIGN CURRENCY TRANSLATION (Continued)

(iii) Translation on consolidation (Continued)

– 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.

(R) 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 leave 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 consolidated 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.

Notes to the Financial Statements

(For the year ended 31 March 2006)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(S) SHARE-BASED PAYMENTS

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) 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.

(T) TAXATION

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where 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.

Notes to the Financial Statements

(For the year ended 31 March 2006)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(T) TAXATION (Continued)

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 consolidated 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.

(U) 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, results, 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 taxation and corporate borrowings.

Segment revenue, expenses, results, 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.

Notes to the Financial Statements

(For the year ended 31 March 2006)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(V) 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 jointly 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.

(W) IMPAIRMENT OF ASSETS

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 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, if any. 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.

Notes to the Financial Statements

(For the year ended 31 March 2006)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(W) IMPAIRMENT OF ASSETS (Continued)

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 consolidated 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 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 consolidated 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.

(X) 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.

(Y) 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.

Notes to the Financial Statements

(For the year ended 31 March 2006)

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 judgment 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 numerous jurisdictions. Significant estimates are required in determining the worldwide 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 units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of 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 in the cash flow projections, could significantly affect the Group's reported financial condition and results of operation.

Impairment of goodwill of HK$15,500,000 was charged to the consolidated income statements, further details of which are set out in notes 17 and 20 to the financial statements.

Notes to the Financial Statements

(For the year ended 31 March 2006)

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: interest rate risk, foreign currency 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 rate of the convertible bonds is fixed and is disclosed in note 28 to the financial statements. The Group believes its exposure to interest rate risk is minimal.

(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) 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.

(D) 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 longer term.

6. SEGMENTAL INFORMATION

For management purposes, the Group is currently organised into three operating divisions – producing and trading of biotechnology products, provision for healthcare services and investment holding.

In prior years, the Group was also involved in sourcing and distribution of electronic parts and components. This operation was discontinued with effect from 31 October 2004.

These divisions are the basis on which the Group reports its primary segment information.

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

Notes to the Financial Statements

(For the year ended 31 March 2006)

6. SEGMENTAL INFORMATION *(Continued)*

BUSINESS SEGMENTS

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

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2006

	Producing and trading of biotechnology products *HK$'000*	Provision for healthcare services *HK$'000*	Investment holding *HK$'000*	Total for continuing operations *HK$'000*
Segment revenue	3,683	3,151	–	6,834
Segment results	(9,220)	(18,623)	(48,806)	(76,649)
Other operating income				1,337
Unallocated corporate expenses				(23,784)
Loss from operations				(99,096)
Finance costs				(2,767)
Loss before taxation				(101,863)
Taxation				–
Loss for the year				(101,863)

Notes to the Financial Statements

(For the year ended 31 March 2006)

6. SEGMENTAL INFORMATION *(Continued)*

BUSINESS SEGMENTS (Continued)

CONSOLIDATED INCOME STATEMENT (Continued)

For the year ended 31 March 2005

	Producing and trading of biotechnology products *HK$'000*	Provision for healthcare services *HK$'000*	Investment holding *HK$'000*	Total for continuing operations *HK$'000*
Segment revenue	7,081	365	–	7,446
Segment results	(2,650)	(5,595)	(9,482)	(17,727)
Other operating income				92
Unallocated corporate expenses				(23,032)
Loss from operations				(40,667)
Finance costs				(704)
Loss before taxation				(41,371)
Taxation				–
Loss for the year				(41,371)

Notes to the Financial Statements

(For the year ended 31 March 2006)

6. SEGMENTAL INFORMATION *(Continued)*

BUSINESS SEGMENTS (Continued)

CONSOLIDATED BALANCE SHEET

For the year ended 31 March 2006

	Producing and trading of biotechnology products HK$'000	Provision for healthcare services HK$'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**

For the year ended 31 March 2005

	Producing and trading of biotechnology products HK$'000	Provision for healthcare services HK$'000	Investment holding HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	26,729	21,746	27,892	76,367
Unallocated corporate assets				71,610
Consolidated total assets				147,977
LIABILITIES				
Segment liabilities	1,328	896	–	2,224
Unallocated corporate liabilities				28,136
Consolidated total liabilities				30,360

Notes to the Financial Statements

(For the year ended 31 March 2006)

6. SEGMENTAL INFORMATION *(Continued)*

BUSINESS SEGMENTS (Continued)

OTHER INFORMATION

For the year ended 31 March 2006

	Producing and trading of biotechnology products *HK$'000*	Provision for healthcare services *HK$'000*	Investment holding *HK$'000*	Unallocated corporate assets *HK$'000*	Total for continuing operations *HK$'000*
Additions to:					
– 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 investments	**–**	**–**	**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 expenses	**–**	**–**	**–**	**148**	**148**

For the year ended 31 March 2005

	Producing and trading of biotechnology products *HK$'000*	Provision for healthcare services *HK$'000*	Investment holding *HK$'000*	Unallocated corporate assets *HK$'000*	Total for continuing operations *HK$'000*
Additions to:					
– Property, plant and equipment	1,495	5,807	–	477	7,779
– Goodwill	18,218	17,299	–	–	35,517
– Other intangible assets	1,415	–	–	–	1,415
Impairment losses for doubtful debts	792	–	–	–	792
Impairment losses of available-for-sale investments	–	–	695	–	695
Impairment losses of goodwill	–	–	7,192	–	7,192
Amortisation of:					
– Goodwill	1,086	759	1,596	–	3,441
– Other intangible assets	141	–	–	–	141
Depreciation	386	188	–	523	1,097

Notes to the Financial Statements

(For the year ended 31 March 2006)

6. SEGMENTAL INFORMATION *(Continued)*

GEOGRAPHICAL SEGMENTS

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

	Revenue					
	Continuing operations		**Discontinued operations**		**Total**	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong and PRC	**6,834**	7,446	**–**	26,737	**6,834**	34,183
Other Asian countries	**–**	–	**–**	580	**–**	580
	6,834	7,446	**–**	27,317	**6,834**	34,763

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

	Carrying amount of segment assets		**Additions to property, plant and equipment, goodwill and other intangible assets**	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong and PRC	**106,650**	146,415	**8,852**	44,711
Other Asian countries	**–**	229	**–**	–
United States of America	**–**	1,333	**–**	–
	106,650	147,977	**8,852**	44,711

Notes to the Financial Statements

(For the year ended 31 March 2006)

7. DISCONTINUED OPERATIONS

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

The results of the Group's sourcing and distribution electronic parts and components business for the period from 1 April 2004 to 31 October 2004 and the loss for 2005 from the discontinued operations are as follows:

	Period ended 31/10/2004 *HK$'000*
Turnover	27,317
Change in inventories of finished goods	(2,205)
Raw material and consumables used	(33,851)
Depreciation	(1)
Other operating expenses	(3,650)
Loss before taxation	(12,390)
Taxation	–
Loss for the year	(12,390)

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

	Year ended 31/03/2005 ***HK$'000***	Period ended 31/10/2004 *HK$'000*
Operating activities	**–**	1,207
Investing activities	**–**	8
Net cash inflows	**–**	1,215

Notes to the Financial Statements

(For the year ended 31 March 2006)

8. REVENUE AND TURNOVER

	2006	2005
	HK$'000	*HK$'000*
Continuing operations		
Turnover		
Sales of goods	**3,683**	7,081
Service income	**3,151**	365
	6,834	7,446
Other operating income		
Interest income on bank deposits	**687**	92
Other interest income	**342**	–
Sundry income	**308**	–
	1,337	92
	8,171	7,538
Discontinued operations		
Turnover – Sales of goods	**–**	27,317
Total revenue	**8,171**	34,855

Notes to the Financial Statements

(For the year ended 31 March 2006)

9. LOSS FOR THE YEAR

Loss for the year is stated after charging the following:

	Continuing operations		Discontinued operations		Total	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Amortisation of goodwill	**–**	3,441	**–**	–	**–**	3,441
Amortisation of other intangible assets	**191**	141	**–**	–	**191**	141
Auditors' remuneration						
Current year	**831**	630	**–**	–	**831**	630
Underprovision in prior years	**35**	180	**–**	–	**35**	180
	866	810	**–**	–	**866**	810
Cost of inventories recognised as expenses *(Note)*	**3,218**	3,941	**–**	36,056	**3,218**	39,997
Depreciation	**2,625**	1,097	**–**	1	**2,625**	1,098
Exchange losses	**233**	18	**–**	–	**233**	18
Impairment losses for doubtful debts	**21,217**	792	**–**	–	**21,217**	792
Impairment losses of goodwill	**15,500**	7,192	**–**	–	**15,500**	7,192
Impairment losses for obsolete inventories	**377**	–	**–**	–	**377**	–
Impairment losses of available-for-sale investments	**22,588**	695	**–**	–	**22,588**	695
Loss on disposal of property, plant and equipment	**3**	118	**–**	–	**3**	118
Operating lease payments in respect of land and buildings	**3,748**	1,347	**–**	–	**3,748**	1,347
Research and development expenditure	**384**	112	**–**	–	**384**	112
Staff costs:						
Staff costs (including directors' emoluments)	**16,202**	14,964	**–**	–	**16,202**	14,964
Retirement benefit scheme contributions	**117**	141	**–**	–	**117**	141
	16,319	15,105	**–**	–	**16,319**	15,105

Note: Other than the purchase cost of finished goods, raw material and consumables, cost of inventories recognised included staff costs, depreciation, operating lease payments and etc. with total of HK$894,000 (2005: HK$645,000).

Notes to the Financial Statements

(For the year ended 31 March 2006)

10. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES

DIRECTORS' REMUNERATION

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

Name	Salaries and other benefit	Retirement benefit scheme contributions	Total
	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 Willi	–	–	–
Mr. Martin Treffer	–	–	–
Independent non-executive directors			
Mr. Li Xiao Ru	–	–	–
Dr. Ma Yin Ming	–	–	–
Mr. Mu Xiang Ming	–	–	–
Total	7,827	48	7,875

Notes to the Financial Statements

(For the year ended 31 March 2006)

10. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES *(Continued)*

DIRECTORS' REMUNERATION (Continued)

The remuneration of every director for the year ended 31 March 2005 is set out below:

Name	Salaries and other benefit	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*
Executive directors			
Dr. Li Zhong Yuan	4,073	12	4,085
Dr. Ni Aimin	1,800	12	1,812
Mr. Lee Jong Dae	1,492	9	1,501
Mr. Deng Ku Hon	877	9	886
Non-executive directors			
Mr. Robin Willi	–	–	–
Mr. Martin Treffer	–	–	–
Independent non-executive directors			
Mr. Li Xiao Ru	–	–	–
Dr. Ma Yin Ming	–	–	–
Mr. Mu Xiang Ming	–	–	–
Total	8,242	42	8,284

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

The under-provided directors' emoluments paid during the year ended 31 March 2005 in respect of the year ended 31 March 2004 and before amounting to HK$1,350,000 had not been considered in the above disclosure of the directors' emoluments for the year ended 31 March 2005.

Details of share options granted to the executive and independent non-executive directors are set out in note 36 to the financial statements. None of the directors has waived any emoluments during the both years.

Notes to the Financial Statements

(For the year ended 31 March 2006)

10. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES *(Continued)*

HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group included four (2005: four) directors, details of whose emoluments are set out above. The emoluments of the remaining highest paid employee of the Group, other than directors, were as follows:

	2006	2005
	HK$'000	*HK$'000*
Salaries and other benefits	**410**	880
Retirement benefit scheme contributions	**12**	12
	422	892

During both years, 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.

11. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Interest on		
Bank loans and overdrafts	**–**	73
Convertible bonds wholly repayable within five years	**2,767**	630
Obligations under finance leases	**–**	1
	2,767	704

Notes to the Financial Statements

(For the year ended 31 March 2006)

12. TAXATION

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

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

	2006	2005
	HK$'000	*HK$'000*
Loss before taxation	**(101,863)**	(53,761)
Tax at the Hong Kong Profits Tax rate of 17.5%	**(17,826)**	(9,408)
Tax effect of income that is not taxable in determining taxable profit	**(193)**	(12)
Tax effect of expenses that are not deductible in determining taxable profit	**15,193**	6,369
Tax effect of tax losses not recognised due to uncertainty on future profit streams	**4,606**	3,688
Tax effect of difference on depreciation between tax and accounting purposes	**129**	66
Effect of different tax rates operating in other jurisdiction	**(1,909)**	(703)
Taxation charge	**–**	–

13. DIVIDEND

No dividend has been paid or declared by the Company during the year (2005: HK$Nil).

14. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company includes a profit of HK$12,495,000 (2005: loss of HK$112,780,000) which has been dealt with in the financial statements of the Company.

Notes to the Financial Statements

(For the year ended 31 March 2006)

15. LOSS PER SHARE

FROM CONTINUING AND DISCONTINUED OPERATIONS

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

	2006	2005
	HK$'000	*HK$'000*
Loss for the purposes of basic loss per share (loss for the year attributable to equity holders of the Company)	**(96,773)**	(51,914)
Weighted average number of ordinary shares for the purpose of basic loss per share	**230,244,015**	215,523,741

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

FROM CONTINUING OPERATIONS

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

	2006	2005
	HK$'000	*HK$'000*
Loss for the year attributable to equity holders of the Company	**(96,773)**	(51,914)
Less:		
Loss for the year from discontinued operations	**–**	(12,390)
Loss for the purposes of basic loss per share from continuing operations	**(96,773)**	(39,524)

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

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

Notes to the Financial Statements

(For the year ended 31 March 2006)

15. LOSS PER SHARE *(Continued)*

FROM DISCONTINUED OPERATIONS

No basic loss per share for the discontinued operations was presented for the year (2005: HK$0.06 per share) as there was no loss for the year from the discontinued operations (2005: HK$12,390,000 based on the denominator detailed above for basic loss per share).

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

IMPACT OF CHANGES IN ACCOUNTING POLICES

Changes in the Group's accounting policies during the year are described in detail in note 2. To the extent that those changes have had an impact on results reported for 2006 and 2005, they have had an impact on the amounts reported for loss per share. The following table summarises that impact on basic loss per share:

	2006	2005
	HK$	*HK$*
Figures before adjustments	**(0.43)**	(0.24)
Adjustments arising from changes in accounting policies	**0.01**	–
As reported/restated	**(0.42)**	(0.24)

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

Notes to the Financial Statements

(For the year ended 31 March 2006)

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP					
Cost					
At 1 April 2004	–	–	592	1,888	2,480
Additions	3,950	394	1,307	–	5,651
Disposals/write off	–	(147)	(643)	(458)	(1,248)
Acquired on acquisition of subsidiaries	55	853	1,060	160	2,128
At 31 March 2005	4,005	1,100	2,316	1,590	9,011
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
Accumulated depreciation					
At 1 April 2004	–	–	280	1,558	1,838
Provided for the year	106	244	368	380	1,098
Elimination on disposals/ write off	-	(107)	(250)	(458)	(815)
At 31 March 2005	106	137	398	1,480	2,121
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
Net book value					
At 31 March 2006	4,897	694	4,821	1,556	11,968
At 31 March 2005	3,899	963	1,918	110	6,890

Notes to the Financial Statements

(For the year ended 31 March 2006)

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
THE COMPANY			
Cost			
At 1 April 2004, 31 March 2005 and 31 March 2006	93	1,430	1,523
Accumulated depreciation			
At 1 April 2004	52	1,180	1,232
Provided for the year	19	250	269
At 31 March 2005	71	1,430	1,501
Provided for the year	19	–	19
At 31 March 2006	90	1,430	1,520
Net book value			
At 31 March 2006	3	–	3
At 31 March 2005	22	–	22

Notes to the Financial Statements

(For the year ended 31 March 2006)

17. GOODWILL

	THE GROUP
	HK$'000
Cost	
At 1 April 2004	1,030
Arising on acquisition of subsidiaries	35,517
At 31 March 2005	36,547
Arising on acquisition of a subsidiary	1,213
Elimination of accumulated amortisation upon the adoption of HKFRS 3 *(note 2)*	(2,262)
At 31 March 2006	35,498
Amortisation	
At 1 April 2004	206
Charge for the year	2,056
At 31 March 2005	2,262
Elimination of accumulated amortisation upon the adoption of HKFRS 3 *(note 2)*	(2,262)
At 31 March 2006	–
Impairment	
Impairment loss recognised in the year ended 31 March 2005 and balance at 31 March 2005	612
Impairment loss recognised in the current year	11,000
At 31 March 2006	11,612
Net book value	
At 31 March 2006	23,886
At 31 March 2005	33,673

In previous year, goodwill was amortised on a straight-line basis over 5 to 19 years. The amortisation of goodwill for the year ended 31 March 2005 was included in "depreciation and amortisation" in the consolidation income statement.

As explained in note 2(e), with effect from 1 April 2005, the Group no longer amortises goodwill. In accordance with the transitional provisions set out in HKFRS 3, the accumulated amortisation of goodwill as at 1 April 2005 had been eliminated against the cost of goodwill as at that date.

Notes to the Financial Statements

(For the year ended 31 March 2006)

17. GOODWILL *(Continued)*

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

	2006	2005
	HK$'000	*HK$'000*
Producing and trading of biotechnology products:		
Shanghai Haoyuan Biotechnology Co., Ltd. ("SHB")	**17,133**	17,133
Provision of healthcare services:		
Beijing Universal Medical Assistance Co., Ltd. ("BUMA")	**16,540**	16,540
CHC (Shanghai) Medical & Healthcare Services Limited	**1,213**	–
Investment holding:		
Fullway Technology Limited	**–**	612
	34,886	34,285

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 five years with the residual period using the growth rate of 2.5%. 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 producing and trading of biotechnology products activities is 12.6%, and from the Group's provision of healthcare services activities is 11.5%.

At 31 March 2006, before impairment testing, goodwill of HK$17.1 million and HK$16.5 million were allocated to SHB within the producing and trading of biotechnology products segment and BUMA of the provision of healthcare services segment respectively. Due to changes in market condition, the Group has revised its cash flow forecasts for these CGUs. The goodwill allocated to SHB and BUMA have therefore been reduced to its recoverable amount through recognition of an impairment loss against goodwill of HK$5.6 million and HK$5.4 million respectively during the year.

Notes to the Financial Statements

(For the year ended 31 March 2006)

18. OTHER INTANGIBLE ASSETS

	THE GROUP HK$'000
Patent	
Cost	
Arising on acquisition of subsidiaries and balance at 31 March 2005	1,415
Exchange realignment	34
At 31 March 2006	1,449
Amortisation	
Charge for the year ended 31 March 2005 and balance at 31 March 2005	141
Exchange realignment	6
Charge for the year	191
At 31 March 2006	338
Net book value	
At 31 March 2006	1,111
At 31 March 2005	1,274

Patent is amortised over 8 years.

19. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2006	2005
	HK$'000	*HK$'000*
Unlisted investments, at cost	**15,619**	19
Impairment losses	**(1,597)**	(19)
	14,022	–

Notes to the Financial Statements

(For the year ended 31 March 2006)

19. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries of the Company as at 31 March 2006 are as follows:

Name of company	Place of incorporation/ registration and operations	Issued/ registered capital	Percentage of interest in ownership			Principal activities
			Group's effective interest	Held by the Company	Held by subsidiaries	
Beijing Universal Medical Assistance Co., Ltd. ("BUMA")	PRC	RMB3,000,000	62.36%	–	70%	Providing exclusive nationwide medical assistance services
Card Symbols Limited	British Virgin Islands/ Hong Kong	US$1	100%	–	100%	Investment holding
CHC Investment Holdings Limited	British Virgin Islands/ Hong Kong	US$100	100%	100%	–	Investment holding
CHC (Shanghai) Medical & Healthcare Services Ltd. ("SMHS")	PRC	RMB6,820,000	56%	–	56%	Provision of healthcare services
China Clinical Trials Centre Limited	British Virgin Islands/ Hong Kong	US$100	100%	–	100%	Clinical trials of drugs and devices
China Healthcare Holdings (Hong Kong) Limited (Formerly known as TechCap Holdings (Hong Kong) Limited)	Hong Kong	HK$10,000	100%	100%	–	Investment holding
China Healthcare Services Investment Limited	British Virgin Islands/ Hong Kong	US$137,500	89.09%	–	89.09%	Investment holding
China Medicare Limited	Hong Kong	HK$1,000,000	89.09%	–	100%	Investment holding
Fullway Technology Limited	British Virgin Islands/ Hong Kong	US$1,000	51%	–	51%	Investment holding
Junghua Enterprises Holdings Limited	British Virgin Islands/ Hong Kong	US$1	100%	–	100%	Investment holding
Power Ability Limited	British Virgin Islands/ Hong Kong	US$10,000	51%	–	51%	Investment holding and trading of medical equipments

Notes to the Financial Statements

(For the year ended 31 March 2006)

19. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries of the Company as at 31 March 2006 are as follows: *(Continued)*

Name of company	Place of incorporation/ registration and operations	Issued/ registered capital	Percentage of interest in ownership			Principal activities
			Group's effective interest	Held by the Company	Held by subsidiaries	
Shanghai Haoyuan Biotechnology Co., Ltd. ("SHB")	PRC	RMB8,090,970	51%	–	100%	Developing, producing and marketing NAT clinical reagents and medical equipments
Shanghai Weichang Investment and Management Consulting Co., Ltd. ("SWI")	PRC	US$3,350,000	100%	100%	–	Investment management and consultancy services
Success Gateway Investments Limited	British Virgin Islands/ Hong Kong	US$100	100%	–	100%	Investment holdings
TechCap BioTech Holdings Limited	British Virgin Islands/ Hong Kong	US$1,000	100%	100%	–	Investment holding
West Regent Property Limited	British Virgin Islands/ Hong Kong	US$1	100%	–	100%	Investment holding
Wisdom Profit Investment Limited	Hong Kong	HK$10,000	100%	–	100%	Investment holding and money lending

SHB and SWI are wholly owned foreign enterprises in PRC. BUMA is a sino-foreign equity joint venture in PRC. SMHS is a domestic company in PRC. Through the relevant contractual arrangement, the Group's 56% equity interest in SMHS is held by a PRC resident as individual nominee for and on behalf of the Group.

Notes to the Financial Statements

(For the year ended 31 March 2006)

20. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Share of net assets	**1**	1
Carrying value of goodwill on acquisition	**–**	4,500
Amount due from an associate	**151**	–
	152	4,501
Less: Impairment loss for amount due from an associate	**(151)**	-
	1	4,501

Note:

In 2004, goodwill amounted to HK$13,850,000 arising on the acquisition of 40% interest in Moment Touch Management Limited ("MTM"), was recognised in the consolidated balance sheet and the amount is to be amortised to the consolidated income statement on a straight-line basis over 10 years. Goodwill amortisation of HK$1,385,000 and impairment loss of goodwill of HK$6,580,000 were recognised for the year ended 31 March 2005 and the accumulated amortisation at 31 March 2005 was HK$2,770,000.

As explained further in note 2(e), with effect from 1 April 2005 the Group no longer amortises goodwill. In accordance with the transition provision set out in HKFRS 3, the Group ceased amortisation of goodwill from 1 April 2005 and from the year ended 31 March 2006 onwards, goodwill is tested annually for impairment as well as when there is indication of impairment.

As the business of MTM could not be started during the year, the directors evaluated the business activity and future performance of MTM and considered that the goodwill arising from the acquisition of MTM was impaired. Accordingly, the Group has recognised in the consolidated income statement an impairment loss of HK$4,500,000 for goodwill attributable to the Group's equity interest in MTM during the year.

Particulars of the associate of the Group as at 31 March 2006 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%	Cosmetic products marketing/sales

Notes to the Financial Statements

(For the year ended 31 March 2006)

20. INTEREST IN AN ASSOCIATE *(Continued)*

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

	2006	2005
	HK$'000	*HK$'000*
Total assets	**1**	1
Total liabilities	**(160)**	(5)
Net liabilities	**(159)**	(4)
Revenue	**–**	–
Loss for the year	**(156)**	(4)

21. AVAILABLE-FOR-SALE INVESTMENTS

	THE GROUP		**THE COMPANY**	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Equity securities				
Unlisted investments	**31,336**	31,336	**9,000**	9,000
Impairment losses	**(31,336)**	(8,748)	**(9,000)**	(7,667)
	–	22,588	**–**	1,333

As mentioned in note 2(c), from 1 April 2005 onwards, "investments in securities" have been reclassified to "available-for-sale investments", in accordance with the requirements of HKAS 39. At 31 March 2005, investment in securities of the Group and of the Company amounted to HK$22,588,000 and HK$1,333,000 respectively.

The financial assets included above offer the Group and the Company the opportunity for return through dividend income and fair value gains. They have no fixed maturity or coupon rate.

Notes to the Financial Statements

(For the year ended 31 March 2006)

21. AVAILABLE-FOR-SALE INVESTMENTS *(Continued)*

Included in the Group's unlisted investments as at 31 March 2006 is an investment in Hamilton Apex Technology Ventures, L.P. (the "Partnership"), a Delaware Limited Partnership formed in California, amounting to US$2.7 million (approximately HK$21,026,000) (2005: HK$21,026,000). The Partnership is licensed under the Small Business Investment Act of 1958, as amended, as a Small Business Investment Company for the purpose of investing in debt or equity securities of companies in United States of America. The Group committed to contribute additional capital of US$12.3 million (approximately HK$95,940,000) to the Partnership upon the request by the general partners of the Partnership. However, the Group failed to meet capital calls and the general partners declared that the Group was in default. Under the Partnership Agreement, the general partners have the right to seek replacement investors until the Group's investments are fully replaced and forfeited. The general partners had taken action to transfer a portion of the Group's investment in the Partnership of HK$639,000 (approximately US$82,000) to other investors without paying any consideration to the Group and another portion of investment in the Partnership of HK$7,371,000 (approximately US$945,000) to another investor procured by the Group at a consideration to be received upon the liquidation of the Partnership, which is determined by the lesser of (i) the attributable portion of proceeds generated from the transferred portion of its investment in the Partnership upon liquidation; and (ii) HK$7,371,000 (approximately US$945,000) plus an annual interest of 8% accruing from date of transfer. The directors consider that the Group's investment position in the Partnership will not generate positive return in the near future and will not compensate for the dilution of the Group's interest in the Partnership in the near future as mentioned above although the directors consider the carrying amount of the investment in Partnership may be recoverable upon the liquidation of the Partnership in consideration of the performance of the Partnership. Accordingly, the directors have determined that full impairment loss for the investment in the Partnership be made during the year.

22. INVENTORIES

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Raw materials	**1,205**	1,311
Finished goods	**1,441**	2,045
	2,646	3,356

Notes to the Financial Statements

(For the year ended 31 March 2006)

23. TRADE RECEIVABLES

The Group allows a credit period of 10 to 90 days to its customers. The ageing analysis of the trade receivables is as follows:

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Within 30 days	**280**	1,595
31 to 60 days	**273**	392
61 to 90 days	**156**	638
91 to 120 days	**165**	167
Over 120 days	**2,415**	956
Total	**3,289**	3,748

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

24. AMOUNTS DUE FROM/TO SUBSIDIARIES

The amounts due from/to subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

The directors consider that the carrying amounts due from/to subsidiaries approximate their fair value.

25. LOAN RECEIVABLES

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Secured term loans	**27,828**	21,026	**–**	–
Unsecured term loans	**1,004**	–	**624**	–
	28,832	21,026	**624**	–
Less: Impairment losses	**(21,026)**	–	**–**	–
	7,806	21,026	**624**	–

Notes to the Financial Statements

(For the year ended 31 March 2006)

25. LOAN RECEIVABLES *(Continued)*

Included in the Group's secured term loan as at 31 March 2006 is a loan of HK$21,026,000 (2005: HK$21,026,000) bears interest at 2% over Hong Kong prime rate and is repayable on 29 September 2005. The loan is secured by the borrower's investments in the Partnership (see note 21 above). However, the borrower had failed to meet the capital calls and the general partners also declared that the borrower was in default. Under the Partnership Agreement, the general partners have the right to seek replacement investors until the borrower's investments are fully replaced and forfeited. The general partners had taken action to transfer a portion of the borrower's investment in the Partnership of HK$639,000 (approximately US$82,000) to other investors without paying any consideration to the borrower and another portion of investment in the Partnership of HK$7,371,000 (approximately US$945,000) to another investor procured by the borrower at a consideration to be received upon the liquidation of the Partnership, which determined by the lesser of (i) the attributable portion of proceeds generated from the transferred portion of its investment in the Partnership upon liquidation; and (ii) HK$7,371,000 (approximately US$945,000) plus an annual interest of 8% accruing from date of transfer. The directors consider that the loan is overdue and the security may not be realised with value in the near future although the directors consider the carrying amount of the loan may be recoverable upon the liquidation of the Partnership in consideration of the performance of the Partnership. Accordingly, the directors have determined that full impairment loss for the loan receivable be made during the year.

The Group's other secured term loans bear interest at 5.57% – 8% and the Group's and Company's unsecured term loans bear interest at 7.75% – 8%.

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

26. TRADE PAYABLES

The ageing analysis of the trade payables is as follows:

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Within 30 days	**42**	555
31 – 60 days	**–**	13
61 – 90 days	**4**	7
91 – 120 days	**494**	385
Over 120 days	**869**	–
Total	**1,409**	960

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

Notes to the Financial Statements

(For the year ended 31 March 2006)

27. AMOUNTS DUE TO DIRECTORS

The amounts due to directors are unsecured, interest-free and have no fixed terms of repayment. Partial amount of HK$693,000 shall be settled in cash or, at the option of the directors, by the issue of the Company's new shares at market price.

The directors consider that the carrying amounts due to directors approximate their fair value.

28. CONVERTIBLE BONDS

The net proceeds received for the issue of the convertible bonds have been split between the liability element and an equity component, representing the fair value of the embedded option to convert the liability into equity of the Group, as follows:

	THE GROUP AND THE COMPANY	
	2006	2005
	HK$'000	*HK$'000*
Nominal value of convertible bonds due on 27 June 2005 and issued on 27 June 2003 ("CB1")	**–**	17,300
Nominal value of convertible bonds due on 18 May 2009 and issued on 19 May 2005 ("CB2")	**51,256**	–
Equity component	**(3,592)**	(2,195)
Liability component at date of issue	**47,664**	15,105
Interest charged	**2,100**	2,804
Interest paid	**(772)**	(908)
Effect of adoption of HKAS 39 in respect of the balance of accumulated losses at 1 April 2005 not yet recognised	**–**	(2,084)
Liability component/Restated balance at 31 March	**48,992**	14,917

Notes to the Financial Statements

(For the year ended 31 March 2006)

28. CONVERTIBLE BONDS *(Continued)*

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

	THE GROUP AND THE COMPANY	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**–**	14,917
In the second to fifth years inclusive	**48,992**	–
	48,992	14,917

CB1 carry interest at 3% per annum payable monthly in arrears with the first interest payment due on 31 July 2003 and the last interest payment due on 27 June 2006. Each CB1 entitles the holder to convert the bonds into new shares of the Company at a conversion price, subject to adjustment, of HK$1 per share during the period from 27 June 2003 to 27 June 2006. 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 effective interest rate on the liability component of CB1 is 10.5% per annum. During the year, HK$17,300,000 of the principal of CB1 had been converted into 17,300,000 shares of HK$0.1 per share in the Company.

CB2 carry interest at 3% per annum payable semi-annually in arrears with the first interest payment due on 18 November 2005 and the last interest payment due on 18 May 2009. Each CB2 entitles the holder to convert the bonds into new shares of the Company at a conversion price, subject to adjustment, of HK$2.525 per share during the period from 19 May 2005 to 18 May 2009. In addition, if CB2 remain outstanding on the maturity date, the Company will redeem the principal of CB2 at 100% of their face value. The effective interest rate on the liability component of CB2 is 5.135% per annum.

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

Notes to the Financial Statements

(For the year ended 31 March 2006)

29. SHARE CAPITAL

ORDINARY SHARES OF HK$0.1 EACH

	THE GROUP AND THE COMPANY Number of shares	Amount
		HK$'000
Authorised:		
Balance at 1 April 2004, 31 March 2005 and 31 March 2006	5,000,000,000	500,000
Issued and fully paid:		
At 1 April 2004	199,767,577	19,977
Issue of shares by private placements	10,000,000	1,000
Issue of shares upon conversion of convertible bonds	7,300,000	730
At 31 March 2005	217,067,577	21,707
Issue of shares upon conversion of convertible bonds	17,300,000	1,730
At 31 March 2006	234,367,577	23,437

NON-VOTING PREFERENCE SHARES OF HK$10 EACH

	THE GROUP AND THE COMPANY Number of shares	Amount
		HK$'000
Authorised:		
At 1 April 2004, 31 March 2005 and 31 March 2006	100,000,000	1,000,000
Issued and fully paid:		
At 1 April 2004, 31 March 2005 and 31 March 2006	–	–

Notes to the Financial Statements

(For the year ended 31 March 2006)

29. SHARE CAPITAL *(Continued)*

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

(a) On 18 February 2004, an arrangement was made for a private placement of 10,000,000 ordinary shares of HK$0.1 each in the Company held by a corporate shareholder of the Company, at a price of HK$3.6 per share.

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

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

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

(c) 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	Shares issued upon conversion	Share capital increased upon conversion
	HK$'000		*HK$'000*
HK$1.0	17,300	17,300,000	1,730

Notes to the Financial Statements

(For the year ended 31 March 2006)

30. RESERVES

Details of the movements in the reserves of the Group are set out in Consolidated Statement of Changes in Equity on pages 29 and 30.

	Share premium HK$'000	Contributed surplus HK$'000	Convertible bonds reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
THE COMPANY						
At 1 April 2004	159,786	57,124	–	–	(154,982)	61,928
Effect of adoption of HKAS 32 retrospectively	–	–	2,595	–	–	2,595
At 1 April 2004, as restated	159,786	57,124	2,595	–	(154,982)	64,523
Issue of shares on conversion of convertible bonds and by private placements	37,430	–	–	–	–	37,430
Share issue expenses	(2,861)	–	–	–	–	(2,861)
Loss for the year	–	–	–	–	(112,780)	(112,780)
Effect of adoption of HKAS 32 retrospectively	188	–	(400)	–	–	(212)
At 31 March 2005	194,543	57,124	2,195	–	(267,762)	(13,900)
At 1 April 2005	194,543	57,124	2,195	–	(267,762)	(13,900)
Effect of adoption of HKAS 39	–	–	–	–	(2,084)	(2,084)
At 1 April 2005, as restated	194,543	57,124	2,195	–	(269,846)	(15,984)
Recognition of equity component of conversion of convertible bonds	–	–	3,592	–	–	3,592
Issued 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

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

Notes to the Financial Statements

(For the year ended 31 March 2006)

30. RESERVES *(Continued)*

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

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

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

In the opinion of the directors, as at 31 March 2006, the Company did not have any reserve available for distribution to shareholders.

31. ACQUISITION OF SUBSIDIARIES

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. Details of the net assets of the subsidiary acquired were as follows:

	Acquiree's carrying amount and fair value
	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)
Net assets	4,619
Minority interests	(2,032)
Net assets acquired	2,587
Goodwill on acquisition	1,213
Total consideration	3,800
Net cash outflow arising on acquisition:	
Cash consideration	(3,800)
Bank balances and cash acquired	3,800
	–

Notes to the Financial Statements

(For the year ended 31 March 2006)

31. ACQUISITION OF SUBSIDIARIES *(Continued)*

FOR THE YEAR ENDED 31 MARCH 2006 (Continued)

The goodwill arising on the acquisition of SMHS is 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 subsidiary acquired during the year contributed HK$1,177,000 of revenue and HK$4,657,000 of loss before tax for the period between the dates of acquisition and the balance sheet date.

The acquired subsidiary had not commenced any business before the date of acquisition and no revenue and profit were generated for the period from 1 April 2005 to 21 April 2005.

Notes to the Financial Statements

(For the year ended 31 March 2006)

31. ACQUISITION OF SUBSIDIARIES *(Continued)*

FOR THE YEAR ENDED 31 MARCH 2005

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

	Acquiree's carrying amount and fair value
	HK$'000
Net assets acquired:	
Property, plant and equipment	2,128
Intangible assets	1,415
Inventories	2,549
Bank balances and cash	2,111
Trade receivables	3,486
Prepayments, deposits and other receivables	33,866
Trade payables	(1,251)
Other payables and accrued liabilities	(13,256)
Net assets	31,048
Minority interests	(10,065)
Net assets acquired	20,983
Goodwill on acquisition	35,517
Total consideration	56,500
Satisfied by:	
Cash consideration	50,000
Available-for-sale investments *(see note 32(b))*	6,500
	56,500
Net cash outflow arising on acquisition:	
Cash consideration	(50,000)
Bank balances and cash acquired	2,111
	(47,889)

Notes to the Financial Statements

(For the year ended 31 March 2006)

32. MAJOR NON-CASH TRANSACTIONS

During the years ended 31 March 2005 and 2006, the Group had the following major non-cash transactions:

(a) Conversion of the convertible bonds into the Company's shares is set out in note 29 above.

(b) During the year ended 31 March 2005, the Group acquired 100% equity interest in West Regent Property Limited from Jung-I Development Limited ("Jung-I") at the consideration of HK$26,500,000 which was partially settled by the transfer of 35% equity interest in Global United Holdings Limited ("GUH") at a consideration of HK$6,500,000 and the remaining balance of HK$20,000,000 was settled by cash payment. At the 2004's balance sheet date, the 35% equity interest in GUH had been transferred to Jung-I and HK$6,500,000 was recorded as deposit for acquisition in 2004's consolidated balance sheet.

33. DEFERRED TAXATION

At the balance sheet date the Group has unused tax losses arising of approximately HK$23,847,000 (2005: HK$29,028,000) that are available for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses due to unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$23,522,000 (2005: HK$6,196,000) that will be expired from 2006 to 2011. Other losses may be carried forward indefinitely.

34. CAPITAL COMMITMENTS

At the balance sheet date, the Company had capital commitment so far as not provided for in the accounts in respect of investment in a subsidiary as follows:

	2006	2005
	HK$'000	*HK$'000*
Total investment cost	**26,130**	2,730
Less: Amount contributed during the year	**(15,600)**	–
	10,530	2,730

Notes to the Financial Statements

(For the year ended 31 March 2006)

35. OPERATING LEASE COMMITMENTS

(a) At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**2,103**	1,194	**–**	53
In the second to fifth year inclusive	**3,557**	48	**–**	-
	5,660	1,242	**–**	53

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.

(b) At the balance sheet date, the Group had commitments for future minimum lease receipts contracted with tenants under non-cancellable operating lease in respect of rented premises amounted to HK$177,000 (2005: HK$Nil) which fall due within one year.

36. SHARE OPTION SCHEMES

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

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

Notes to the Financial Statements

(For the year ended 31 March 2006)

36. SHARE OPTION SCHEMES *(Continued)*

The maximum number of shares in respect of which options may be granted under the New Scheme and any other schemes of the Company is not permitted to exceed 10% of the shares of the Company in issue at the adoption date ("Scheme Mandate Limit"), without prior approval from the Company's shareholders. The Scheme Mandate Limit may be refreshed by approval of the Company's shareholders in general meeting. However, the total number of the shares of the Company which may be issued upon exercise of all options to be granted under the New Scheme and any other schemes of the Company as refreshed must not exceed 10% of the shares of the Company in issue as at the date of approval of the limit ("Refreshed Limit"). Options previously granted under the New Scheme and any other schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the New Scheme and other schemes of the Company or exercised options) will not be counted for the purposes of calculating the limit as refreshed. The Company may seek separate approval by the Company's shareholders in general meeting for granting options beyond the 10% limit under Scheme Mandate Limit and Refreshed Limit provided that the options in excess of the limit are granted only to eligible persons mentioned in New Scheme ("Eligible Persons") specifically identified by the Company before such approval is sought. Notwithstanding the aforesaid, the limit on the number of the shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time. No options may be granted under any schemes of the Company if this will result in the limit being exceeded.

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

Options granted must be taken up within 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 exercised at any time from the date of grant to the expiry date of the New Scheme. The exercise price is determined by the directors of the Company, and shall be the highest of the closing price of the Company's shares on the date of grant, the average closing price of the shares for the five trading days immediately preceding the date of grant and the nominal value of the Company's shares.

In accordance with the rules of the New Scheme with the approval from the Company's shareholders on the special general meeting held on 17 February 2005, the maximum number of options that can be granted by the Company to the Eligible Persons is increased by 21,706,757 to 38,223,757.

Notes to the Financial Statements

(For the year ended 31 March 2006)

36. SHARE OPTION SCHEMES *(Continued)*

Particulars of share options granted by the Company as at 31 March 2005 and 2006 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 2006:

OLD SCHEME

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

At 31 March 2006, the number of shares in respect of which options had been granted and remained outstanding under the Old Scheme was 25,000 representing 0.01% of the shares of the Company in issue at that date.

Notes to the Financial Statements

(For the year ended 31 March 2006)

36. SHARE OPTION SCHEMES *(Continued)*

NEW SCHEME

	Option type	Number of options			
		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

At 31 March 2006, the number of shares in respect of which options had been granted and remained outstanding under the New Scheme was 33,679,000 representing 14.37% of the shares of the Company in issue at that date.

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

OLD SCHEME

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

At 31 March 2005, the number of shares in respect of which options had been granted and remained outstanding under the Old Scheme was 25,000 representing 0.1% of the shares of the Company in issue at that date.

Notes to the Financial Statements

(For the year ended 31 March 2006)

36. SHARE OPTION SCHEMES *(Continued)*

NEW SCHEME

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

At 31 March 2005, the number of shares in respect of which options had been granted and remained outstanding under the New Scheme was 34,349,000 representing 15.82% of the shares of the Company in issue at that date.

Notes to the Financial Statements

(For the year ended 31 March 2006)

36. SHARE OPTION SCHEMES *(Continued)*

NEW SCHEME (Continued)

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

	2006		2005	
	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**	**34,374,000**	3.725	17,617,000
Granted	**2.330**	**99,000**	2.325	17,832,000
Lapsed	**2.771**	**(769,000)**	8.600	(1,075,000)
At 31 March	**2.846**	**33,704,000**	2.846	34,374,000

The options outstanding at the end of the year have a weighted average remaining contractual life of 6.02 years (2005: 7.02 years).

The fair values of the 99,000 share options granted by the Company to the consultants during the year ended 31 March 2006 amounted to HK$148,000. An amount of HK$148,000 (2005: HK$ Nil) was credited to the option reserve of the Company and the Group during the year had been charged to the consolidated income statement for the year.

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 prices	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 (2005: 1.55 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.

Total consideration received during the year from Eligible Persons for taking up the options granted was HK$1 (2005: HK$21).

Notes to the Financial Statements

(For the year ended 31 March 2006)

37. POST BALANCE SHEET EVENTS

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

(a) The Group entered into an agreement with two third parties to acquire 70% equity interest in Shanghai Harvest Network Technology Co. Limited ("Shanghai Harvest") at a total consideration of HK$36.4 million, of which HK$18 million shall be satisfied in cash and HK$18.4 million shall be satisfied by the issue of convertible notes from the Company. Shanghai Harvest is a domestic company incorporated in PRC and is principally engaged in sales of mobile phone usage fees by e-commerce in PRC and investment holding. Details are disclosed in the Company's circular dated 16 June 2006.

(b) The Group entered into a subscription agreement with third parties in relation to the subscription of 15,000 redeemable convertible cumulative preference shares to be issued by the Company at a total subscription price of US$15 million (approximately HK$117 million). Details are disclosed in the Company's circular dated 16 June 2006.

(c) The Group acquired 100% equity interest in Shanghai New Everstep Investment Management & Consultancy Limited ("SNEI"), a company providing maternal and fetal care services in PRC from a third party, for a cash consideration of HK$4,680,000. Details of the net assets of the subsidiary acquired were as follows:

	Acquiree's carrying amount and fair value
	HK$'000
Net assets acquired:	
Property, plant and equipment	898
Bank balances and cash	2,968
Prepayments, deposits and other receivables	532
Other payables and accrued liabilities	(1,460)
Net assets acquired	2,938
Goodwill on acquisition	1,742
Total consideration, satisfied by offsetting amount advanced to the third party during the year	4,680

The goodwill is attributable to SNEI's position and profitability in providing maternal and fetal care services in PRC.

38. PRESENTATION OF FINANCIAL STATEMENTS

The expenses presented in the consolidated income statement have been changed from by function to by nature as the directors consider that the new presentation is more appropriate to the financial statements.

Financial Summary

	Year ended 31 March				
	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)			
RESULTS					
Turnover	**6,834**	7,446	222,797	245,373	189,644
(Loss)/profit before taxation	**(101,863)**	(41,371)	(52,236)	(63,380)	109,632
Taxation	**–**	–	–	–	1,007
(Loss)/profit from continuing operations	**(101,863)**	(41,371)	(52,236)	(63,380)	110,639
Loss from discontinued operations	**–**	(12,390)	–	–	–
(Loss)/profit for the year	**(101,863)**	(53,761)	(52,236)	(63,380)	110,639
Attributable to:					
Equity holders of the company	**(96,773)**	(51,914)	(52,047)	(63,380)	110,639
Minority interest	**(5,090)**	(1,847)	(189)	–	–
	(101,863)	(53,761)	(52,236)	(63,380)	110,639

	As at 31 March				
	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)			
ASSETS AND LIABILITIES					
Total assets	**106,650**	147,977	158,328	191,104	167,168
Total liabilities	**(69,564)**	(30,360)	(35,713)	(131,104)	(125,576)
Total equity	**37,086**	117,617	122,615	60,000	41,592

Comparative figures for the year ended 31 March 2005 have been restated to reflect the adoption of the new/revised HKFRSs (note 2 to the financial statements) which is effective for accounting periods commencing on or after 1 April 2005. The comparative figures for the three years ended 31 March 2002, 2003 and 2004 have not been restated as the directors consider that it is impracticable to do so.