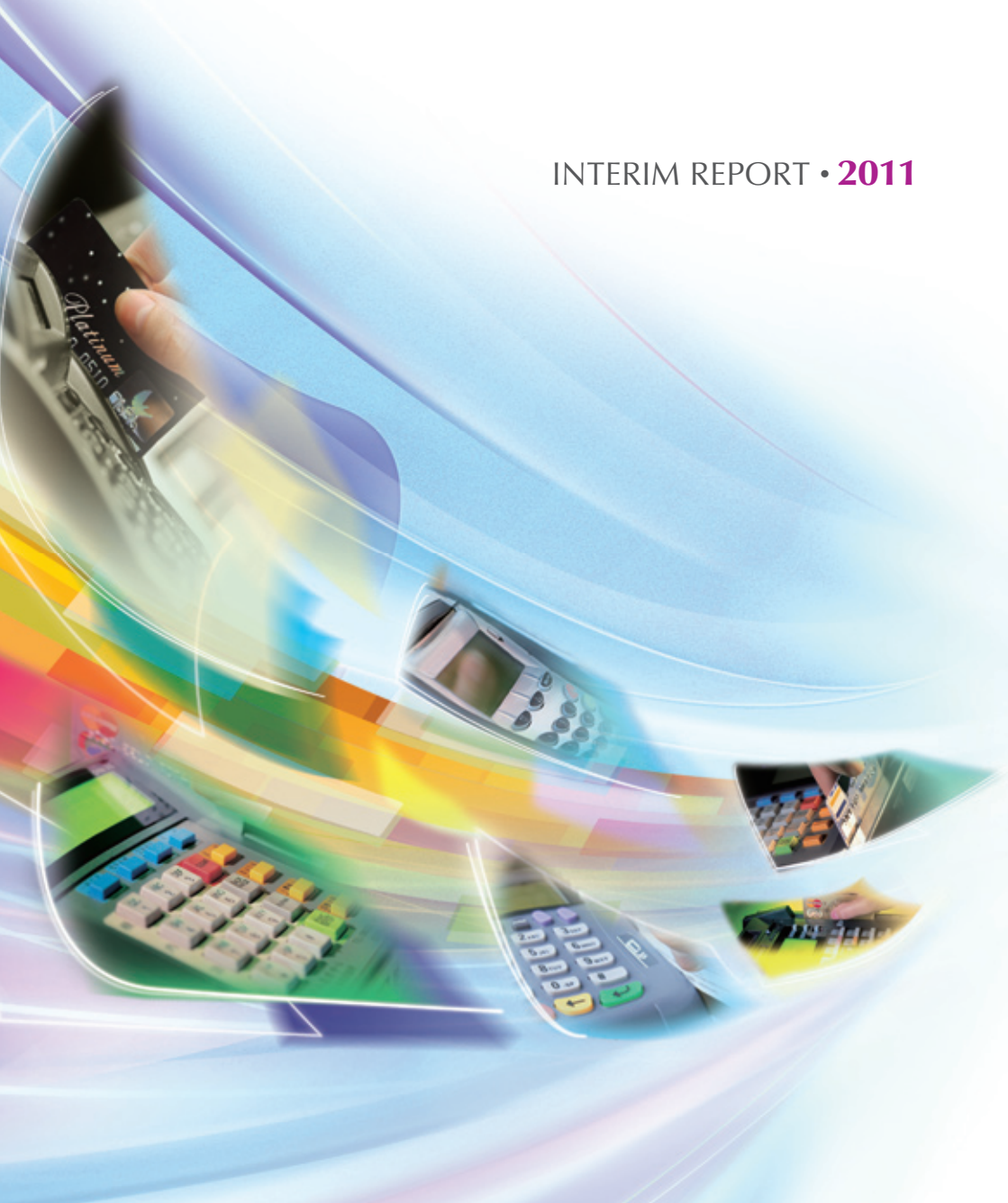




中國衛生控股有限公司
CHINA HEALTHCARE HOLDINGS LIMITED

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

INTERIM REPORT • 2011



CORPORATE INFORMATION

DIRECTORS

Executive Directors

Dr. Li Zhong Yuan (*Chairman*)
Mr. Zhou Bao Yi

Non-executive Director

Mr. Martin Treffer

Independent Non-executive Directors

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

COMPANY SECRETARY

Mr. Tsui Siu Hung Raymond

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit C, 19/F
Entertainment Building
30 Queen's Road
Central
Hong Kong

PRINCIPAL BANKER

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

AUDITORS

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

LEGAL ADVISER

KING & WOOD
9/F Hutchison House,
10 Harcourt Road,
Central, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

673

COMPANY WEBSITE

www.chinahealthcareltd.com

The Board of Directors (the "Board") of China HealthCare Holdings Limited (the "Company") would like to present the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2011. These interim financial statements have been reviewed by the Audit Committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

| | Notes | 30 September 2011 HK\$'000 (Unaudited) | 30 September 2010 HK\$'000 (Unaudited) (Restated) |
|---|-------|---|---|
| Continuing operations | | | |
| Revenue | | 32,757 | 23,892 |
| Cost of sales | | (12,842) | (15,384) |
| Gross profit | | 19,915 | 8,508 |
| Other income | | 1,232 | 1,264 |
| Distribution expenses | | (4,915) | (3,246) |
| Administrative expenses | | (26,133) | (20,370) |
| Other operating expenses | | (8) | (124) |
| Fair value gain (loss) on derivative component of redeemable convertible cumulative preference shares | | 118,456 | (28,282) |
| Fair value loss on derivative component of convertible bonds | | – | (1,583) |
| Finance costs | 5 | (44,693) | (46,922) |
| Profit (loss) before tax | | 63,854 | (90,755) |
| Income tax expense | 6 | (2,592) | (1,595) |
| Profit (loss) for the period from continuing operations | 7 | 61,262 | (92,350) |
| Discontinued operations | | | |
| (Loss) profit for the period from discontinued operations | 10 | (729) | 3,060 |
| Profit (loss) for the year | | 60,533 | (89,290) |
| Other comprehensive income (expenses) | | | |
| Exchange differences arising on translation | | 13,548 | 1,184 |
| Release of exchange differences upon disposal of subsidiaries | | (283) | (4,482) |
| Other comprehensive income (expenses) for the period | | 13,265 | (3,298) |
| Total comprehensive income (expenses) for the period | | 73,798 | (92,588) |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

| Notes | 30 September 2011 HK\$'000 (Unaudited) | 30 September 2010 HK\$'000 (Unaudited) (Restated) |
|--|---|---|
| Profit (loss) for the period attributable to: | | |
| Owners of the Company | | |
| – Profit (loss) for the period from continuing operations | 61,187 | (88,658) |
| – (Loss) profit for the period from discontinued operations | (729) | 2,808 |
| | | |
| Profit (loss) for the period attributable to owners of the Company | 60,458 | (85,850) |
| | | |
| Non-controlling interests | | |
| – Profit (loss) for the period from continuing operations | 75 | (3,692) |
| – Profit for the period from discontinued operations | – | 252 |
| | | |
| Profit (loss) for the year attributable to non-controlling interests | 75 | (3,440) |
| | | |
| | 60,533 | (89,290) |
| | | |
| Total comprehensive income (expenses) attributable to: | | |
| – Owners of the Company | 72,574 | (89,850) |
| – Non-controlling interests | 1,224 | (2,738) |
| | | |
| | 73,798 | (92,588) |
| | | |
| Basic and diluted earnings (loss) per share (HK\$) | 9 | |
| – From continuing operation | 0.12 | (0.30) |
| – From discontinued operation | – | 0.01 |
| | | |
| | 0.12 | (0.29) |
| | | |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 SEPTEMBER 2011

| | Notes | 30 September 2011 HK\$'000 (Unaudited) | 31 March 2011 HK\$'000 (Audited) |
|---|-------|---|---|
| Non-current assets | | | |
| Property, plant and equipment | | 7,210 | 5,034 |
| Other intangible assets | | 1,186 | 1,329 |
| Prepayment for acquisition of non-current assets | | – | – |
| | | 8,396 | 6,363 |
| Current assets | | | |
| Inventories | | 1,959 | 2,970 |
| Trade receivables | 11 | 21,732 | 20,447 |
| Prepayments, deposits and other receivables | | 203,374 | 87,201 |
| Loan receivables | | – | – |
| Restricted bank balances | | 113,537 | 100,173 |
| Bank balances and cash | | 11,020 | 71,998 |
| | | 351,622 | 282,789 |
| Current liabilities | | | |
| Trade payables | 12 | 92 | 92 |
| Other payables and accrued expenses | | 41,555 | 34,978 |
| Amounts due to directors | | 1,648 | 545 |
| Derivative component of redeemable convertible cumulative preference shares | 14 | 3,121 | 121,577 |
| Secured bank loans | | 61,087 | – |
| Income tax payables | | 6,073 | 3,496 |
| | | 113,576 | 160,688 |
| Net current assets | | 238,046 | 122,101 |
| Total assets less current liabilities | | 246,442 | 128,464 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

AS AT 30 SEPTEMBER 2011

| | | 30 September 2011 HK\$'000 (Unaudited) | 31 March 2011 HK\$'000 (Audited) |
|--|-------|---|---|
| | Notes | | |
| Non-current liabilities | | | |
| Liability component of convertible bonds | 13 | 45,901 | 45,188 |
| Liability component of redeemable convertible cumulative preference shares | 14 | 224,222 | 180,755 |
| Deferred tax liabilities | | 336 | 336 |
| | | 270,459 | 226,279 |
| Net liabilities | | (24,017) | (97,815) |
| Capital and reserves | | | |
| Share capital | 15 | 50,326 | 50,326 |
| Reserves | | (196,545) | (269,119) |
| Equity attributable to owners of the Company | | (146,219) | (218,793) |
| Non-controlling interests | | 122,202 | 120,978 |
| | | (24,017) | (97,815) |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

| | Attributable to owners of the Company | | | | | | | | | | |
|---|---------------------------------------|---------------|---------------------|--------------------|---------------------------|--------------------------------------|-----------------------|--------------------|-----------|---------------------------|----------|
| | Share capital | Share premium | Contributed surplus | Statutory reserves | Convertible bonds reserve | Foreign currency translation reserve | Share options reserve | Accumulated losses | Total | Non-controlling interests | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 April 2010 (audited) | 26,202 | 221,241 | 57,124 | 1,047 | 3,592 | 13,681 | 148 | (435,794) | (112,759) | 90,941 | (21,818) |
| Total comprehensive expenses for the period | - | - | - | - | - | (4,000) | - | (85,850) | (89,850) | (2,738) | (92,588) |
| Issue of convertible bonds | - | - | - | - | 65,000 | - | - | - | 65,000 | - | 65,000 |
| Conversion of convertible bonds | 13,068 | 32,219 | - | - | (34,820) | - | - | - | 10,467 | - | 10,467 |
| Share option granted | - | - | - | - | - | - | 2,898 | - | 2,898 | - | 2,898 |
| Share option exercised | 244 | 1,568 | - | - | - | - | (591) | - | 1,221 | - | 1,221 |
| At 30 September 2010 and 1 October 2010 (unaudited) | 39,514 | 255,028 | 57,124 | 1,047 | 33,772 | 9,681 | 2,455 | (521,644) | (123,023) | 88,203 | (34,820) |
| Total comprehensive income (expenses) for the period | - | - | - | - | - | 7,957 | - | (122,366) | (114,409) | 32,640 | (81,769) |
| Conversion of convertible bonds | 10,481 | 36,686 | - | - | (30,180) | - | - | - | 16,987 | - | 16,987 |
| Share option exercised | 331 | 2,120 | - | - | - | - | (799) | - | 1,652 | - | 1,652 |
| Deemed disposal of a subsidiary | - | - | - | - | - | - | - | - | - | 135 | 135 |
| At 31 March 2011 and 1 April 2011 (audited) | 50,326 | 293,834 | 57,124 | 1,047 | 3,592 | 17,638 | 1,656 | (644,010) | (218,793) | 120,978 | (97,815) |
| Total comprehensive income for the period | - | - | - | - | - | 12,116 | - | 60,458 | 72,574 | 1,224 | 73,798 |
| At 30 September 2011 | 50,326 | 293,834 | 57,124 | 1,047 | 3,592 | 29,754 | 1,656 | (583,552) | (146,219) | 122,202 | (24,017) |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

| | 30 September 2011 HK\$'000 | 30 September 2010 HK\$'000 |
|---|---|----------------------------------|
| NET CASH USED IN OPERATING ACTIVITIES | (97,061) | (25,947) |
| NET CASH USED IN INVESTING ACTIVITIES | (14,475) | (1,142) |
| NET CASH FROM FINANCING ACTIVITIES | 63,037 | 27,165 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (48,499) | 76 |
| Effect of foreign exchange rate changes | 885 | (4,143) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD | 172,171 | 174,135 |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD | 124,557 | 170,068 |
| Analysis of cash and cash equivalents: | | |
| Restricted bank balances | 113,537 | 90,229 |
| Bank balances and cash | 11,020 | 79,839 |
| | 124,557 | 170,068 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

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 of the interim report. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The condensed consolidated financial statements are presented in Hong Kong dollars ("HK\$"), which is different from the functional currency of the Company, Renminbi ("RMB"). As the Company is listed in Hong Kong, the directors of the Company consider that it is appropriate to present the condensed consolidated financial statements in HK\$. The majority of the Company's subsidiaries are operating in the People's Republic of China (the "PRC") with RMB as their functional currency.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs").

3. SIGNIFICANT ACCOUNTING POLICIES

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

Except as described below, the accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2011.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the current period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA.

| | |
|--|---|
| HKFRSs (Amendments) | Improvement to HKFRSs issued in 2010 |
| HKFRS 1 (Amendment) | Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters |
| HKAS 24 (Revised) | Related Party Disclosures |
| HKAS 32 (Amendment) | Classification of Right Issues |
| Hong Kong (International Financial Reporting Interpretations Committee) ("HK(IFRIC)") – Interpretation ("Int") 14 (Amendment) | Prepayments of a Minimum Funding Requirement |
| HK(IFRIC) – Int 19 | Extinguishing Financial Liabilities with Equity Instruments. |

The application of the new and revised HKFRSs had no material effect on the interim financial report of the Group for the current or prior accounting periods.

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

| | |
|------------------------------|--|
| HKFRS 1 (Amendments) | Severe Hyperinflation and Removal of Fixed Dates for First-time Adoption ¹ |
| HKFRS 7 (Amendments) | Disclosures – Transfer of Financial Assets ¹ |
| HKFRS 9 | Financial Instruments ⁴ |
| HKFRS 10 | Consolidated Financial Statements ⁴ |
| HKFRS 11 | Joint Arrangements ⁴ |
| HKFRS 12 | Disclosure of Interests in Other Entities ⁴ |
| HKFRS 13 | Fair Value Measurement ⁴ |
| HKAS 1 (Revised) | Presentation of Financial Statements ³ |
| HKAS 12 (Amendments) | Deferred Tax: Recovery of Underlying Assets ² |
| HKAS 19 (as revised in 2011) | Employee Benefits ⁴ |
| HKAS 27 (as revised in 2011) | Separate Financial Statements ⁴ |
| HKAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures ⁴ |

¹ Effective for annual periods beginning on or after 1 July 2011.

² Effective for annual periods beginning on or after 1 January 2012.

³ Effective for annual periods beginning on or after 1 July 2012.

⁴ Effective for annual periods beginning on or after 1 January 2013.

The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

4. SEGMENT INFORMATION

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

The Group has involved in B-to-B healthcare services and sales of medical devices and consumables, which were reported as separate operating segments. Sales of medical devices and consumables were discontinued with effect from 31 July 2011 and B-to-B healthcare services were discontinued with effect from 31 July 2010. The information reported on the following does not include any amounts for the discontinued operations which are described in more detail in Note 10.

The Group's operating and reportable segments under HKFRS 8 which are based on the nature of business are as follows:

- B-to-C consumer services
- Investment holding

(a) Segment revenues and results

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment.

Six months ended 30 September 2011

| | B-to-C consumer services HK\$'000 | Investment holding HK\$'000 | Total HK\$'000 |
|--|--|-----------------------------------|-------------------|
| REVENUE | | | |
| External sales | 32,757 | – | 32,757 |
| Segment results | 14,999 | – | 14,999 |
| Unallocated corporate expenses | | | (26,140) |
| Other income | | | 978 |
| Interest income | | | 254 |
| Fair value loss on derivative component of convertible bonds | | | – |
| Fair value loss on derivative component of redeemable convertible cumulative preference shares | | | 118,456 |
| Finance costs | | | (44,693) |
| Profit before tax | | | 63,854 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

4. SEGMENT INFORMATION (Continued)

(a) Segment revenues and results (Continued)

Six months ended 30 September 2010 (restated)

| | B-to-C consumer services HK\$'000 | Investment holding HK\$'000 | Total HK\$'000 |
|---|--|-----------------------------------|-------------------|
| REVENUE | | | |
| External sales | 23,892 | – | 23,892 |
| Segment results | (4,919) | – | (4,919) |
| Unallocated corporate expenses | | | (10,313) |
| Other income | | | 791 |
| Interest income | | | 473 |
| Fair value loss on derivative component of convertible bonds | | | (1,583) |
| Fair value loss on derivative component of redeemable convertible cumulative preference shares | | | (28,282) |
| Finance costs | | | (46,922) |
| Loss before tax | | | (90,755) |

Segment results represents the results from each segment without allocation of central administration costs, directors emoluments, other income, interest income, fair value loss on derivative component of convertible bonds, impairment loss recognised in respect of trade and other receivables, fair value gain (loss) on derivative component of redeemable convertible cumulative preference shares, finance costs, and gain on disposal of subsidiaries. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

4. SEGMENT INFORMATION (Continued)

(b) Segment assets

The following is an analysis of the Group's assets by operating segment:

At 30 September 2011

| | B-to-C consumer service HK\$'000 | Investment holding HK\$'000 | Total HK\$'000 |
|------------------------------|---|-----------------------------------|-------------------|
| ASSETS | | | |
| Segment assets | <u>142,123</u> | – | 142,123 |
| Unallocated corporate assets | | | <u>217,895</u> |
| Consolidated total assets | | | <u>360,018</u> |

At 31 March 2011

| | B-to-C consumer service HK\$'000 | Investment holding HK\$'000 | Total HK\$'000 |
|------------------------------|---|-----------------------------------|-------------------|
| ASSETS | | | |
| Segment assets | <u>81,769</u> | – | 81,769 |
| Unallocated corporate assets | | | <u>207,383</u> |
| Consolidated total assets | | | <u>289,152</u> |

For the purpose of monitoring segment performances and allocating resources between segments, all assets are allocated to operating segments other than bank balances and cash and other corporate assets.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

5. FINANCE COSTS

| | Six months ended 30 September | |
|--|--|---------------------------|
| | 2011 | 2010 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) (Restated) |
| Continuing operations | | |
| Interests on bank loans wholly repayable within five years | 588 | 393 |
| Effective interest expenses on convertible bonds wholly repayable within five years | 713 | 2,841 |
| Effective interest expenses on liability component of redeemable convertible cumulative preference shares wholly repayable within five years | 43,392 | 43,688 |
| | 44,693 | 46,922 |

6. INCOME TAX EXPENSE

| | Six months ended 30 September | |
|------------------------------|--|---------------------------|
| | 2011 | 2010 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) (Restated) |
| Continuing operations | | |
| Current tax – PRC | 2,592 | 1,595 |

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the Enterprise Income Tax rate of the Group's subsidiaries in the PRC reduced from 33% to 25% from 1 January 2008 onwards except the Enterprise Income Tax rate of certain subsidiaries of the Group was increased from 15% to 25% progressively from 1 January 2008 onwards (2008: 18%, 2009: 20%, 2010: 22%, 2011: 24%, 2012: 25%). The relevant tax rates for the Group's subsidiaries in the PRC ranged from 22% to 25% for the six months ended 30 September 2011 (for the six months ended 30 September 2010: 18% to 25%).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

7. PROFIT (LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS

| | Six months ended 30 September | |
|---|----------------------------------|---|
| | 2011 HK\$'000 (Unaudited) | 2010 HK\$'000 (Unaudited) (Restated) |
| Profit (loss) for the period had been arrived at after charging (crediting): | | |
| Continuing operations | | |
| Amortisation of other intangible assets included in administrative expenses | 171 | 286 |
| Auditor's remuneration | 180 | 131 |
| Depreciation | 752 | 1,550 |
| Loss on disposal of/written off of property, plant and equipment | 6 | 27 |
| Interest income | (254) | (473) |

8. DIVIDENDS

No dividend were paid, declared or proposed during the reporting period. The directors of the Company do not recommend the payment of an interim dividend for both periods.

9. EARNINGS (LOSS) PER SHARE

For continuing and discontinued operations

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

| | Six months ended 30 September | |
|---|----------------------------------|---|
| | 2011 HK\$'000 (Unaudited) | 2010 HK\$'000 (Unaudited) (Restated) |
| Profit (loss) | | |
| Profit (loss) for the purpose of basic earnings (loss) per share | | |
| Profit (loss) for the year attributable to the owners of the Company | 60,458 | (85,850) |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

9. EARNINGS (LOSS) PER SHARE (Continued)

For continuing and discontinued operations (Continued)

| | Six months ended 30 September | |
|---|--|-------------|
| | 2011 | 2010 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic and diluted earnings (loss) per share | 503,259,665 | 301,202,079 |

For continuing operations

The calculation of the basic and diluted earnings (loss) per share from continuing operation attributable to the owners of the Company is based on the following data:

| | Six months ended 30 September | |
|---|--|---------------------------|
| | 2011 | 2010 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) (Restated) |
| Profit (loss) figures are calculated as follows: | | |
| Profit (loss) for the purpose of basic earnings (loss) per share from continuing operations | | |
| Profit (loss) for the year from continuing operations attributable to the owners of the Company | 61,187 | (88,658) |

The denominators used are the same as those detailed above for both basic and diluted earnings (loss) per share.

For discontinued operations

For the six months ended 30 September 2011, basic and diluted earnings per share for the discontinued operations is HK\$Nil per share (for the six months ended 30 September 2010: HK\$0.01 per share), based on the loss for the year attributable to owners of the Company from discontinued operations of HK\$729,000 (for the six months ended 30 September 2010: HK\$3,060,000 profit) and the denominators detailed above for basic and diluted earnings (loss) per share.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

10. DISCONTINUED OPERATIONS

- (a) On 31 July 2011, the Company entered into a sale agreement to dispose of West Regent Property Limited, which carried out part of the Group's sales of medical devices and consumables operations, on the same day, the Company discontinued its entire sales of medical devices and consumables operation (collectively referred to as the "Sales of Medical Devices and Consumables Group"). The disposal was effected in order to focus the resources on the Group's B-to-C consumer service. The disposal was completed on 31 July 2011, on which date control of the Sales of the Medical Devices and Consumables Group passed to the acquirer.
- (b) On 31 July 2010, the Company entered into a sale agreement to dispose of Junghua Enterprises Holdings Limited, CHC (Shanghai) Medical & Healthcare Services Limited and Beijing Weichang Medical Clinic Company Limited (collectively referred to as the "B-to-B Group"), which carried out all of the Group's B-to-B healthcare services operations. The disposal was effected in order to focus the resources on the Group's other business. The disposal was completed on 31 July 2010, on which date control of the B-to-B Group passed to the acquirer.

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

| | Six months ended 30 September | |
|--|--|---|
| | 2011 HK\$'000 (Unaudited) | 2010 HK\$'000 (Unaudited) (Restated) |
| Profit of the sales of medical devices and consumables business and B-to-B healthcare services business | 25 | 1,673 |
| (Loss) gain on disposal of sales of medical devices and consumables business and B-to-B healthcare services business | (754) | 1,387 |
| (Loss) profit for the year from discontinued operations | (729) | 3,060 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

10. DISCONTINUED OPERATIONS (Continued)

The results of the sales of medical devices and consumables operations and B-to-B healthcare services operations for the period ended 30 September 2011 and 30 September 2010, which have been included in the condensed consolidated statement of comprehensive income, were as follows:

| | Period ended 30/9/2011 HK\$'000 (Unaudited) | Period ended 30/9/2010 HK\$'000 (Unaudited) (Restated) |
|-------------------------|--|--|
| Revenue | 8,621 | 15,852 |
| Cost of sales | (7,042) | (5,451) |
| Other income | 11 | 2,386 |
| Distribution expenses | (1,066) | (5,031) |
| Administrative expenses | (478) | (6,001) |
| | <hr/> | <hr/> |
| Profit before tax | 46 | 1,755 |
| Income tax expenses | (21) | (82) |
| | <hr/> | <hr/> |
| Profit for the period | 25 | 1,673 |

11. TRADE RECEIVABLES

The normal credit period granted to customers of the E-distribution of mobile pre-charge etc. is 3 to 7 days. The credit terms granted to other customers generally ranged from 10 to 90 days.

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the reporting date.

| | 30 September 2011 HK\$'000 (Unaudited) | 31 March 2011 HK\$'000 (Audited) |
|----------------|---|---|
| Within 30 days | 21,407 | 5,222 |
| 31 to 60 days | 160 | 342 |
| 61 to 90 days | – | 11,251 |
| 91 to 120 days | – | 573 |
| Over 120 days | 165 | 3,059 |
| | <hr/> | <hr/> |
| Total | 21,732 | 20,447 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

12. TRADE PAYABLES

The following is an aged analysis of trade payables presented based on the date of receipt of goods at the end of the reporting period.

| | 30 September 2011 HK\$'000 (Unaudited) | 31 March 2011 HK\$'000 (Audited) |
|----------------|---|---|
| Within 30 days | – | 84 |
| 31 to 60 days | – | – |
| 61 to 90 days | – | – |
| 91 to 120 days | – | – |
| Over 120 days | 92 | 8 |
| | <hr/> | <hr/> |
| Total | 92 | 92 |

13. CONVERTIBLE BONDS AND NOTES

| | 30 September 2011 HK\$'000 (Unaudited) | 31 March 2011 HK\$'000 (Audited) |
|--|---|---|
| Liability component of convertible bonds | | |
| Convertible bonds issued with equity component (<i>Note a</i>) | 45,901 | 45,188 |
| Convertible bonds issued with derivative component (<i>Note b</i>) | – | – |
| | <hr/> | <hr/> |
| | 45,901 | 45,188 |
| | <hr/> | <hr/> |
| Derivative component of convertible bonds (<i>Note b</i>) | – | – |

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

13. CONVERTIBLE BONDS AND NOTES (Continued)

Notes:

- (a) Unsubordinated convertible bonds contains liability and equity components

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

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

| | 30 September 2011 HK\$'000 (Unaudited) | 31 March 2011 HK\$'000 (Audited) |
|---|---|---|
| Carrying amount at the beginning of the period/year | 45,188 | 44,320 |
| Exchange realignment | – | (2) |
| Interest charged for the period/year | 713 | 1,450 |
| Interest paid for the period/year | – | – |
| Repurchase during the period/year | – | (580) |
| | <hr/> | <hr/> |
| Carrying amount at the end of period/year | 45,901 | 45,188 |

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

In June 2007, the Group agreed to repurchase CB1 with principal amount of approximately US\$820,000 (equivalent to approximately HK\$6,324,000) at a consideration of approximately US\$410,000 (equivalent to approximately HK\$3,198,000) and the settlement took place on 21 June 2007.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

13. CONVERTIBLE BONDS AND NOTES (Continued)

- (a) Unsubordinated convertible bonds contains liability and equity components (Continued)

In November 2010, the Group agreed to repurchase CB1 with principal amount of approximately US\$70,000 (equivalent to approximately HK\$580,000) at a consideration of approximately HK\$622,400 and the settlement took place on 15 November 2010.

On 18 May 2009, CB1 had matured, however, due to liquidity problem, the Group was unable to redeem CB1 at maturity. The Group's default in the redemption on the convertible bonds had triggered the Company's early redemption obligation of the convertible bonds and the redeemable convertible cumulative preference shares. Subsequent to the maturity date of CB1, the Company reached an understanding with the major holder of CB1 to conditionally postpone the payment by the Company of the outstanding debts of CB1 for three years to 17 May 2013 if the Group can fulfil the conditions requested by the major holder of CB1, which is a successful injection of substantial external resources into the Group, in short, and as long as no additional issuance of any debts by the Group that will rank *pari passu* with the CB1 upon and after successful injection of substantial external resources.

- (b) Unsubordinated convertible bonds contains liability and derivative components

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

- (i) the initial conversion price, subject to adjustment, of HK\$1.16. The conversion price was adjusted to HK\$0.3201 per share (subject to adjustment) due to new ordinary shares of the Company were issued at HK\$0.3201 per share on 7 May 2010; and
- (ii) 0.9 times the volume-weighted average price of the ordinary shares of the Company, subject to adjustment, for the twenty trading days ending on the day immediately preceding the date of a relevant conversion notice.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

13. CONVERTIBLE BONDS AND NOTES (Continued)

- (b) Unsubordinated convertible bonds contains liability and derivative components (Continued)

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

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

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

| | 30 September 2011 HK\$'000 (Unaudited) | 31 March 2011 HK\$'000 (Audited) |
|---|---|---|
| Liability component | | |
| At the beginning of the period/year | – | 7,827 |
| Interest charged for the period/year | – | 2,293 |
| Reclassify unpaid interests to other payables | – | (1,923) |
| Conversion during the period/year (Note) | – | (8,197) |
| | <hr/> | <hr/> |
| At the end of period/year | – | – |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

13. CONVERTIBLE BONDS AND NOTES (Continued)

(b) Unsubordinated convertible bonds contains liability and derivative components (Continued)

| | 30 September 2011 HK\$'000 (Unaudited) | 31 March 2011 HK\$'000 (Audited) |
|-------------------------------------|---|---|
| Derivative component | | |
| At the beginning of the period/year | – | 6,046 |
| Fair value loss | – | 13,211 |
| Conversion during the period/year | – | (19,257) |
| | – | – |
| At the end of the period/year | – | – |

Note: During the year ended 31 March 2011, the holders of CB3 have exercised the conversion right to convert the convertible bonds 32,341,552 new into ordinary shares in two conversions in August 2010 and one conversion on 24 November 2010. As the directors of the Company consider the fluctuation of the market share price of the shares of the Company during August 2010 is immaterial, therefore, valuations dated on 31 August 2010 and 24 November 2010 were adopted as basis for the purpose of calculating the conversion of ordinary shares. The fair value of the derivative component at 31 August 2010 and 24 November 2010 was revalued based on the valuations by Avista Valuation Advisory Limited, an independent qualified valuer not connected to the Group.

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

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

| | 24 November 2010 | 31 August 2010 |
|----------------------------------|-----------------------------|-------------------|
| Share price of underlying shares | HK\$0.9 | HK\$0.85 |
| Exercise price | HK\$0.3201 | HK\$0.3201 |
| Expected volatility | 69.5% | 72.4% |
| Expected life | 0.5 year | 0.75 years |
| Risk-free rate | 0.280% | 0.240% |
| Expected dividend yield | Nil | Nil |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

13. CONVERTIBLE BONDS AND NOTES (Continued)

- (c) Subordinated convertible notes classified as equity component

Subordinated convertible notes of RMB13,275,000

On 5 April 2010, the Company issued subordinated convertible notes with a nominal value of RMB13,275,000 (equivalent to HK\$15,000,000) due on 4 April 2012 ("SCN1"). SCN1 carries zero coupon rate and entitles the holder to convert the notes into 46,860,356 new ordinary shares of the Company, which fixed the conversion price at RMB0.2832885 (equivalent to HK\$0.3201) per share, during the period before the maturity date. If SCN1 remain outstanding on the maturity date, the Company will redeem the principal amount of SCN1 at 100% by issuance of new ordinary shares of the Company at RMB0.2832885 per share.

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

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

Subordinated convertible notes of RMB44,250,000

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

14. REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES

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

- (a) the initial conversion price, subject to adjustment, of HK\$1.16 per share. The conversion price was adjusted to HK\$0.3201 per share (subject to adjustment) to new ordinary shares of the Company were issued at HK\$0.3201 per share on 7 May 2010; and
- (b) 0.9 times the volume-weighted average price of the ordinary shares of the Company, subject to adjustment, for the twenty trading days ending on the day immediately preceding the date of a relevant conversion notice.

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

Special events included:

- (i) any consolidation, amalgamation or merger of the Company with any other corporation which results in the Company ceasing to exist as an independent legal entity or any sale of all or substantially all of the assets of the Company or any reorganisation or any other transaction where there is or which will result in a change in control (as defined in the Takeovers Code) of the control of the Company;
- (ii) material default by the Company or any of its subsidiaries in the performance, observance or fulfilment of any of the obligations, covenants or conditions contained in any material agreement or instrument to which any of them is a party and, if such default is capable of being remedied, fails to remedy such default within 10 days of being required in writing to do so by any of the holder to the preference shares ("Preference Shareholders");

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

14. REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES (Continued)

- (iii) the persons who are directors on the issue date or persons appointed to act as directors in their stead (the "Replacement Directors"), with the approval of all of the other persons who are acting as directors at the time of appointment of the Replacement Directors, cease to represent a majority in number of the persons acting as directors at the relevant time;
- (iv) the acceleration of the maturity of any other present or future indebtedness of the Company or any of its subsidiaries exceeding US\$1,500,000 in aggregate principal amount outstanding (or its equivalent in any other currency) by reason of an event of default (as described and specified therein) or any such indebtedness exceeding US\$1,500,000 (or its equivalent in any other currency) is not paid within any applicable grace period provided for or, if none, on the due date therefore;
- (v) a Directors' resolution is passed for the winding-up, insolvency, administration, reorganisation, reconstruction, dissolution or bankruptcy of the Company or for the appointment of a liquidator, receiver, administrator, trustee or similar officer of the Company or of all or a material part of its business or assets;
- (vi) an effective resolution is passed for the winding-up, insolvency, administration, reorganisation, reconstruction, dissolution or bankruptcy of the Company or for the appointment of a liquidator, receiver, administrator, trustee or similar officer of the Company or of all or a material part of its business or assets; a petition is presented or a proceeding is commenced for the winding-up, insolvency, administration, reorganisation, reconstruction, dissolution or bankruptcy of the Company or for the appointment of a liquidator, receiver, administrator, trustee or similar officer of the Company or of all or a substantial part of its business or assets and is not discharged within 5 days; if the Company stops or suspends payments to its creditors generally or is unable to admit its inability to pay its debts as they fall due or seeks to enter into any composition or other arrangement with its creditors or is declared or becomes bankrupt or insolvent; or if a creditor takes possession of all or a material part of the business or assets of the Company or any execution or other legal process is enforced against the business or any substantial asset of the Company and is not discharged within 5 days;
- (vii) the listing or trading of the ordinary share on the Stock Exchange (or any stock exchange other than the Hong Kong Stock Exchange on which the ordinary shares, if not then listed on the Hong Kong Stock Exchange, are listed, (the "Alternative Stock Exchange"), as the case may be) is revoked, withdrawn or suspended for a continuous period of 15 trading days;

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

14. REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES (Continued)

- (viii) material breach by the Company of any of its representations, warranties, covenants or undertakings in the agreement and, if such breach is capable of being remedied, fails to remedy such breach within 10 days of being required in writing to do so by any of the Preference Shareholders;
- (ix) material breach by the Company of any of the covenants or undertakings as set forth in Bye-law 9A(12) and, if such breach is capable of being remedied, fails to remedy such breach within 10 days of being required in writing to do so by any of the Preference Shareholders; or
- (x) the auditors of the Company issue a qualified opinion in respect of any audit report of the Company.

As mentioned in note 13 (a) above, the Group was unable to redeem CB1 which had been matured on 18 May 2009, the Company was in breach of the special event as mentioned in note (ii) above. The Company also breached the special event in note (x) above as the auditor's opinion of the Group was disclaimed since the year ended 31 March 2009. It triggered the Company's early redemption obligation of the PS. Accordingly, the PS had been reclassified to current liabilities since the year ended 31 March 2010. For the year ended 31 March 2011, the PS holder have signed a consent letter to agree a maturity extension to 17 May 2013 with all other terms and conditions of the PS being retained unchanged and to a standstill of redemption rights under the PS before the extended maturity date of PS as long as the Group is pursuing viable opportunities of asset injection; and that upon the completion of such asset injection, the PS holders agree to turn the outstanding PS to equity of the Group. Accordingly, the PS had been reclassified to non-current liabilities as at 31 March 2011.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

14. REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES (Continued)

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

| | 30 September 2011 HK\$'000 (Unaudited) | 31 March 2011 HK\$'000 (Audited) |
|---|---|---|
| Liability component | | |
| At the beginning of the period/year | 180,755 | 176,820 |
| Exchange realignment | 75 | 615 |
| Interest charged for the year | 43,392 | 98,547 |
| Gain on recalculation of liability component of redeemable convertible cumulative preference shares | – | (95,227) |
| At the end of the period/year | 224,222 | 180,755 |
| Derivative component | | |
| At the beginning of the period/year | 121,577 | 6,239 |
| Fair value (gain) loss | (118,456) | 115,338 |
| At the end of the period/year | 3,121 | 121,577 |

On 18 May 2009, due to the Group's default in the redemption on the CB1, the Company's early redemption obligation of PS was triggered. Details are set out in note 13. The liability component included the early redemption obligation at that day is approximately HK\$114,218,000 with effective interest rate of 60% per annum.

As at 30 September 2011, the effective interest rate of the liability component of PS is 60% per annum for the six months ended 30 September 2011 and year ended 31 March 2011.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

14. REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES (Continued)

The derivative component of PS were revalued at 30 September 2011 and 31 March 2011 based on valuations by Avista Valuation Advisory Limited, an independent qualified valuer not connected to the Group, determined using Binomial Model. The significant inputs to the models were as follows:

| | 30 September 2011 | 31 March 2011 |
|----------------------------------|------------------------------|------------------|
| Share price of underlying shares | HK\$0.305 | HK\$1.10 |
| Exercise price | HK\$0.3064 | HK\$0.3201 |
| Expected volatility | 69.9% | 71.90% |
| Expected life | 1.63 years | 2.13 years |
| Risk-free rate | 0.24% | 0.937% |
| Expected dividend yield | Nil | Nil |

15. SHARE CAPITAL

| | Number of shares | Share capital HK\$'000 |
|--|-----------------------------|---------------------------|
| Authorised: | | |
| At 1 April 2010, 30 September 2010, 31 March 2011, 1 April 2011 and 30 September 2011 | | |
| Ordinary shares of HK\$0.1 each | 5,000,000,000 | 500,000 |
| Issued and fully paid: | | |
| Ordinary shares of HK\$0.1 each | | |
| At 1 April 2010 | 262,021,577 | 26,202 |
| Issue of new shares through conversion of convertible bonds (Note a) | 130,678,501 | 13,068 |
| Exercise of share options (Note c) | 2,442,000 | 244 |
| At 30 September 2010 | 395,142,078 | 39,514 |
| Issue of new shares through conversion of convertible bonds (Note b) | 104,814,587 | 10,482 |
| Exercise of share options (Note c) | 3,303,000 | 330 |
| At 30 March 2011 and 30 September 2011 | 503,259,665 | 50,326 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

15. SHARE CAPITAL (Continued)

Note a:

During the six months ended 30 September 2010, the holders of CB3, SCN1 and SCN2 converted HK\$41,830,195 convertible bonds into 130,678,501 ordinary shares of HK\$0.1 each in the Company.

Note b:

During the six months ended 31 March 2011, the holders of CB3, SCN1 and SCN2 converted HK\$33,551,145 convertible bonds into 104,814,587 ordinary shares of HK\$0.1 each in the Company. The details of conversion are as follow:

| Conversion period | No. of ordinary shares of HK\$0.1 each | Price per share HK\$ | Conversion principal amount HK\$ |
|--------------------------|---|-----------------------------|---|
| <u>CB3</u> | | | |
| November 2010 | 10,531,552 | 0.3201 | 3,371,150 |
| <u>SCN1</u> | | | |
| November 2010 | 562,324 | 0.3201 | 179,995 |
| <u>SCN2</u> | | | |
| March 2011 | <u>93,720,711</u> | 0.3201 | <u>30,000,000</u> |
| Total | <u>104,814,587</u> | | <u>33,551,145</u> |

Note c:

On 14 September 2010, 28 October 2010, 5 November 2010, 24 November 2010 and 2 February 2011, a total of 5,745,000 share options were converted into 5,745,000 ordinary shares of HK\$0.1 each in the Company with exercise price of HK\$0.5 per share. Details of which have been set out in Note 17.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

16. OPERATING LEASE COMMITMENTS

The Group as lessee

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

| | 30 September 2011 HK\$'000 (Unaudited) | 31 March 2011 HK\$'000 (Audited) |
|--|---|---|
| Within one year | 1,531 | 2,300 |
| In the second to fifth years inclusive | 458 | 830 |
| | 1,989 | 3,130 |

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.

17. SHARE OPTIONS SCHEMES

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

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

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

Options granted must be taken up within 28 days from the date of grant. Upon acceptance of the options, the Eligible Person shall pay HK\$1 to the Company by way of consideration for the grant. Options may be 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

17. SHARE OPTIONS SCHEMES (Continued)

Particulars of share options granted by the Company as at 30 September 2011 and 31 March 2011 are as follows:

| Option type | Date of grant | Exercisable period | | Exercise price HK\$ |
|-------------|-----------------|--------------------|---------------|------------------------|
| | | From | To | |
| A | 31 August 2001 | 31 August 2001 | 15 May 2011 | 8.6 |
| B | 2 February 2004 | 2 February 2004 | 7 April 2012 | 3.4 |
| C | 3 March 2005 | 3 March 2005 | 7 April 2012 | 2.325 |
| D | 20 June 2005 | 20 June 2005 | 7 April 2012 | 2.33 |
| E | 13 April 2010 | 13 April 2010 | 12 April 2020 | 0.5 |

The following tables summarise the movements in the Company's share options during the period ended 30 September 2011:

Old Scheme

| Option type | Number of share options | | |
|-------------|--------------------------------|----------|--|
| | Outstanding at 1 April 2011 | Lapsed | Outstanding at 30 September 2011 |
| Directors | 25,000 | (25,000) | – |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

17. SHARE OPTIONS SCHEMES (Continued)

New Scheme

| | | Number of share options | | | |
|-----------------------------------|-------------|-----------------------------|---------|-------------------|----------------------------------|
| | Option type | Outstanding at 1 April 2011 | Granted | Lapsed/ Exercised | Outstanding at 30 September 2011 |
| Directors | B | 1,500,000 | – | – | 1,500,000 |
| | C | 3,210,000 | – | – | 3,210,000 |
| | E | 3,882,000 | – | – | 3,882,000 |
| Total of directors | | 8,592,000 | – | – | 8,592,000 |
| Employees | B | 60,000 | – | – | 60,000 |
| | C | 270,000 | – | – | 270,000 |
| | E | 2,349,000 | – | – | 2,349,000 |
| Total of employees | | 2,679,000 | – | – | 2,679,000 |
| Advisors and consultants | B | 4,144,000 | – | – | 4,144,000 |
| | C | 4,422,000 | – | – | 4,422,000 |
| | D | 99,000 | – | – | 99,000 |
| Total of advisors and consultants | | 8,665,000 | – | – | 8,665,000 |
| Total | | 19,936,000 | – | – | 19,936,000 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

17. SHARE OPTIONS SCHEMES (Continued)

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

Old Scheme

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

New Scheme

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

17. SHARE OPTIONS SCHEMES (Continued)

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

| | 30 September 2011 | | 31 March 2011 | |
|---------------------------------|---|-------------------------|---|-------------------------|
| | Weighted average exercise price in HK\$ per share | Number of share options | Weighted average exercise price in HK\$ per share | Number of share options |
| At beginning of the period/year | 1.930 | 19,961,000 | 2.783 | 13,730,000 |
| Granted | - | - | 0.5 | 11,976,000 |
| Exercised | - | - | 0.5 | (5,745,000) |
| Lapsed | 8.600 | (25,000) | - | - |
| At the end of the period/year | 2.062 | <u>19,936,000</u> | 1.930 | <u>19,961,000</u> |

The options outstanding at the end of the period/year have a weighted average remaining contractual life of 3.03 years (2011: 3.52 years).

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

13 April 2010

| | |
|---------------------------------|------------|
| Share price of underlying share | HK0.49 |
| Exercise price | HK\$0.5 |
| Expected volatility | 101% |
| Expected life | 10 years |
| Risk-free rate | 2.82% |
| Expected dividend yield | <u>Nil</u> |

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

The Group recognised the total expense of approximately HK\$Nil for the six months ended 30 September 2011 (year ended 31 March 2011: HK\$2,898,000) in relation to share options granted by the Company.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

18. EVENTS AFTER THE REPORTING PERIOD

In addition to those disclosed elsewhere in these financial statements, the Group had the following material events after 30 September 2011:

- (a) On or around 19 August 2010, the Company and Wingames Investments Limited, an indirectly wholly-owned subsidiary of the Company (“Wingames”), entered into an agreement (the “Agreement”) with Mascot Land Limited (“Procurer”), China Zhongfu Industry Co., Ltd. (“China Zhongfu”), Shanghai Zhongfu International Trading Co., Ltd. (“Shanghai Zhongfu”), Anhui Anhe Investment Consulting Co., Ltd. (“Anhui Anhe”), Mr. Wang Ji Sheng and Mr. Ge Qian Song (the “Management Guarantors”). The Agreement was for the acquisition of assets by Wingames, the details of which were set out in the Company’s announcement to the Stock Exchange on 13 October 2010 and the Company’s circular on 22 February 2011.

The Agreement was not completed by the required date. Wingames and the Company (the “Plaintiffs”) have commenced legal proceedings against the Procurer; China Zhongfu; Shanghai Zhongfu; Anhui Anhe and the Management Guarantors (the “Defendants”) in Hong Kong in respect of the failure to complete the Agreement (the “Proceedings”).

On 3 October 2011, the Plaintiffs and the Defendants came before the Court of First Instance and the Court directed that (i) the Defendants return HK\$44,000,000 (the “HK\$ Deposit”) previously advanced by the Plaintiffs to the Defendants; and (ii) the Plaintiffs return RMB37,928,000 (the “RMB Deposit”) previously advanced by the Defendants to the Plaintiffs. It is the Company’s position that, upon the Defendants’ request, the HK\$ deposit was advanced by the Plaintiffs as the cash consideration for the acquisition of assets. Reciprocally, the RMB Deposit (being at the relevant time roughly equivalent in value to the HK\$ Deposit) was intended to secure the performance of the Agreement by the Defendants. Following the Plaintiff’s Amended Statement of Claim seeking damages arising from the Defendant’s failure to complete the acquisition of assets and the resulting termination or rescission of the Agreement, the Court directed that these sums be returned. The RMB Deposit is held in an escrow account and its return will have no effect on the Company’s current financial position. Please refer to the Company’s announcements dated 3 June 2011, 12 June 2011, 15 July 2011, 26 September 2011, 4 October 2011 and 17 November 2011 for more details regarding the Proceedings.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

18. EVENTS AFTER THE REPORTING PERIOD (Continued)

- (b) Subsequent to the six months ended 30 September 2011, the Group are in the process of disposing its entire interest in Shanghai Harvest Network Technology Company Limited and its subsidiaries which includes its wholly owned subsidiary Shanghai De Yi Network Technology Company Limited, an indirectly owned subsidiary of the Company, and the Group has entered into an agreement with Shanghai Huiqu E-commerce Company Limited (“上海匯趣電子商務有限公司”) on 15 September 2011, to dispose of Shanghai Harvest Group at a consideration of approximately RMB35,911,000 (the “Transaction”). This transaction constitutes a very substantial disposal and a connected transaction for the Company under Chapter 14 of the Listing Rules.

19. COMPARATIVE AMOUNTS

During the year ended 31 March 2010, the revenue from B-to-C consumer services was recognised from the sale of mobile pre-charge. Effective from 1 April 2010, the subsidiaries of the Company entered into consignment agreements to replace the previously signed agreements. In the consignment agreements, the subsidiaries of the Company are entitled to act as agents of consignors to distribute the mobile pre-charge and receive and record the commission as the revenue in return. Moreover, the Group discontinued its entire business of sales of medical devices and consumables with effect on 31 July 2011, thus, the business was classified as discontinued operations during the six months ended 30 September 2011. Therefore, certain comparative amounts have been restated in order to conform to the current period presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

Interim Results and Dividends

During the six months ended 30 September 2011, the revenue of the Group was HK\$32.8 million, representing an increase of 37% as compared to HK\$23.9 million (restated) for the previous period and profit attributable to shareholders of HK\$60.5 million (2010: loss of HK\$85.9 million). The basic earnings per share for the period was HK0.12 (2010: loss per share of HK\$0.29).

The Directors do not recommend the payment of any interim dividend to the shareholders (2010: Nil).

BUSINESS OPERATION

During the interim period, the Group's business operation continued to be principally engaged in provision of consumer oriented services that enable the procurement of better access, better communication and better connectivity in China.

China is undergoing mega growth of underlying consumption demands arising from China's on-going grand-scale urbanization, rising per capita income, and increasing mobility. The Group is making its best effort as a consumer oriented service provider to embrace the mega trend in China.

Review of the Group's business operations

Most of the Group's revenue comes from its B-to-C consumer services operation. The operation's business model is oriented around scale; growth; cash flow and outlets of distribution and settlement. During the interim period, the Group managed to grow out a substantial B-to-C consumer service operation in Shandong Province, the 2nd largest provincial mobile top-up market in China, which has already reached #1 market share in mobile top-up distribution and developed a growing distribution network of almost 27,000 POS-enabled retail outlets as of the date there, and in taking measures to remove constraints in human resources to the initiative, such an operation has become the Group's primary revenue generating operation.

The Group's operation of Shanghai mobile top-up, nevertheless, has been facing severe adverse financial impact, successive and substantial downward adjustments of rebate by Shanghai Mobile on distribution of mobile top-up in paper form. Under the circumstance and since the beginning of the past financial year, the Group has been implementing a strategic growth initiative via its subsidiary Shanghai Harvest Group to position the business operation to move into payments sector. However, since late 2010, the PRC central bank has enacted adverse regulations that stringently regulate offshore ownership or control in payments sector, and in order to comply with such newly enacted regulations, such strategic growth initiative of expanding into payments sector would have to be aborted. As such and in order to preserve its investment value, the Group had to enter into an agreement to dispose Shanghai Harvest Group during the interim period, with details of such a very substantial disposal (the "VSD") as disclosed in the announcement dated 9 October 2011 and the circular dispatched on 25 November 2011.

Directors would like to report that the operation of the Group's consumer services business in Shandong has had an increase of about 37% in terms of revenues, based on distribution commission, as compared with the same period in 2010.

The Group's business operation of distribution of medical devices/consumables is non-core, and in order to for the Group to concentrate on its major tasks and alleviate the Group's constraints in capital and management resources, the Group disposed it during the interim period, as disclosed in the annual report dispatched on 16 September 2011.

Review of the Group's financial distress

As of the date, the Group's listing entity China HealthCare Holdings Ltd. ("CHC" or "HoldCo"), as the Group's ultimate holding company, continued to be insolvent due to its obligations of the convertible bond (the "CB") of outstanding principal of about US\$5.39 million and the redeemable convertible preference shares of outstanding principal US\$15 million (the "RCPS").

Having experimented with various ways and means to find a solution to the HoldCo's solvency problem over the previous financial year, the directors consider that a solution would necessarily require injection of substantial external resources, and in practice the Group has to bring in viable asset(s) and/or project(s) to enable a restructuring of its defaulted financial obligations. On or around 19 August 2010, Wingames Investments Limited ("Wingames"), an indirectly wholly-owned subsidiary of the Company, entered into the agreement (the "Agreement") with Mascot Land Limited ("Procurer"), China Zhongfu Industry Co., Ltd. ("China Zhongfu"), Shanghai Zhongfu International Trading Co., Ltd. ("Shanghai Zhongfu"), Anhui Anhe Investment Consulting Co., Ltd. ("Anhui Anhe"), Mr. Wang Ji Sheng and Mr. Ge Qian Song (the "Management Guarantors") (collectively known as "Guarantors"), being the independent third parties, to acquire equity interests of in Shanghai Fu Shou Yuan Industrial Development Co., Ltd. and its affiliated entities, for a total consideration of HK\$3,360 million by way of a very substantial acquisition (the "VSA"), details of which have been set out in the Company's circular dated 23 February 2011. The VSA transaction, however, has become the subject of legal proceedings with Wingames and the Company as the plaintiffs and the other sides as the defendants since 31 May 2011, with details as disposed in a series of announcements from 3 June 2011 to 17 November 2011.

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

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

FUTURE PROSPECT

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

Liquidity and Financial Resources

As at 30 September 2011, the total assets of the Group is approximately HK\$360 million and net current assets of approximately HK\$238 million, representing a current ratio of 3.10 (31 March 2011: 1.76). At the balance sheet date, the total borrowings of the Group amounted to approximately HK\$334 million (31 March 2011: HK\$348 million), represented by convertible bonds, redeemable convertible cumulative preference shares and secured bank loans. The gearing ratio of the Group as at 30 September 2011 is (2.29) (31 March 2011: (1.59)), which was calculated on an amount of shareholders' equity of approximately HK\$(146 million) (31 March 2011: HK\$(219 million)).

As at 30 September 2011, the Group had outstanding interest-bearing bank borrowings amounted to approximately HK\$61 million (equivalent to RMB50 million) (31 March 2011: nil). All were repayable within one year and were denominated in RMB. Bank loan of approximately HK\$37 million (equivalent to RMB30 million) were interest-bearing with floating interest rate and bank loan of approximately HK\$24 million (equivalent to RMB20 million) were charged at a rate of 7.015% per annum. The bank loans were secured by bank deposits and a corporate guarantee of the subsidiaries of the Company amounting to approximately RMB30 million and RMB40 million respectively.

Contingent Liabilities

As at 30 September 2011, there was no contingent liability of the Group.

Charge on Group's assets

As at 30 September 2011, save as disclosed in the section headed "Liquidity and Financial Resources", there was no other charge on the Group's assets.

Human Resources

As at 30 September 2011, the Group employed 129 (31 March 2011: 115) employees.

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 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.

ADDITIONAL INFORMATION REQUIRED BY THE LISTING RULES

Directors' and Chief Executives' Interests in Shares and Share Options

As at 30 September 2011, the interests or short positions of the directors and chief executives of the Company and their associates in the shares, underlying shares and convertible bonds of the Company or any of its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

| Name of director/chief executive | Company/Associated corporation | Capacity | Interests in shares (other than pursuant to equity derivatives) | Interests in underlying shares pursuant to equity derivatives | Total interest in shares/underlying shares | Percentage of shares and underlying shares to issued shares at 30 Sept 2011 |
|----------------------------------|--------------------------------|-----------|---|---|--|---|
| Dr. Li Zhong Yuan | The Company | Corporate | 11,147,000 (Note 1) | - | 11,147,000 | 2.21% |
| | | Personal | 13,296,000 | 6,219,000 | 19,515,000 | 3.88% |
| Mr. Zhou Bao Yi | The Company | Personal | 1,002,000 | - | 1,002,000 | 0.20% |
| Mr. Martin Treffer | The Company | Corporate | 1,295,000 (Note 2) | - | 1,295,000 | 0.26% |
| | | Personal | 250,000 | 1,902,000 | 2,152,000 | 0.43% |
| Mr. Mu Xiang Ming | The Company | Personal | 261,000 | 210,000 | 471,000 | 0.09% |
| Dr. Yan Shi Yun | The Company | Personal | - | 261,000 | 261,000 | 0.05% |
| Mr. Jiang Bo | The Company | Personal | 261,000 | - | 261,000 | 0.05% |

Notes:

1. These shares are held through Pacific Annex Capital Limited which is wholly owned by Dr. Li Zhong Yuan.
2. These shares are held by 2Trade Group Limited which is beneficially owned by Mr. Martin Treffer as to 35%.
3. The underlying shares of equity derivatives represent the shares issuable upon the exercise of share options granted to the directors/chief executives by the Company.

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

Substantial Shareholders' Interests in Shares

As at 30 September 2011, 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 of Substantial Shareholders | Capacity | Interests in shares (other than pursuant to equity derivatives) | Interests in underlying shares pursuant to equity derivatives | Total interest in shares/ underlying shares | Percentage of shares and underlying shares to issued shares at 30 Sept 2011 |
|--|-------------------------------------|---|---|---|---|
| Dragonrisecapital Advisors Inc. (Note 1) | Beneficial owner | 62,480,474 | - | 62,480,474 | 12.42% |
| Yeung Ning (Note 1) | Interests of controlled corporation | 62,480,474 | - | 62,480,474 | 12.42% |
| Capital Foresight Limited (Note 2) | Beneficial owner | - | 364,687,500 | 364,687,500 | 72.47% |
| Chen Li Bo (Note 2) | Interests of controlled corporation | - | 364,687,500 | 364,687,500 | 72.47% |
| Yu Feng (Note 2) | Interests of controlled corporation | - | 364,687,500 | 364,687,500 | 72.47% |
| ZhongXing Limited (Note 3) | Beneficial owner | 66,959,474 | - | 66,959,474 | 13.31% |
| Ho Kin (Note 3) | Interests of controlled corporation | 71,963,474 | - | 71,963,474 | 14.30% |

Notes:

- (1) Dragonrisecapital Advisors Inc. was beneficially wholly-owned by Mr. Yeung Ning. Therefore, Mr. Yeung Ning was deemed to be interested in the shares held by Dragonrisecapital Advisors Inc..
- (2) The underlying shares represent preference shares which entitle the holder thereof to convert for 364,687,500 fully paid shares at an adjusted conversion price of HK\$0.32 per share (subject to adjustments). Capital Foresight Limited was beneficially owned as to 36% by Mr. Chen Li Bo and 36% by Mr. Yu Feng. Therefore, each of Mr. Chen Li Bo and Mr. Yu Feng was deemed to be interested in the underlying shares held by Capital Foresight Limited.
- (3) ZhongXing Limited was wholly-owned by Mr. Ho Kin. Therefore, Mr. Ho Kin was deemed to be interested in the shares held by ZhongXing Limited.

Share Option Schemes

There is no change in any terms of the share option schemes of the Company during the six months ended 30 September 2011. The detailed terms of the share option schemes were disclosed in the Company's 2011 annual report.

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

| | Option type | Outstanding at 1 April 2011 | Granted | Exercised | Lapsed | Outstanding at 30 September 2011 |
|---------------------------------------|-------------|-----------------------------|----------|-----------|-----------------|----------------------------------|
| Directors | | | | | | |
| Li Zhong Yoan | A | 25,000 | - | - | (25,000) | - |
| | B | 1,500,000 | - | - | - | 1,500,000 |
| | C | 2,100,000 | - | - | - | 2,100,000 |
| | E | 2,619,000 | - | - | - | 2,619,000 |
| Martin Treffer | C | 900,000 | - | - | - | 900,000 |
| | E | 1,002,000 | - | - | - | 1,002,000 |
| Mu Xiang Ming | C | 210,000 | - | - | - | 210,000 |
| Yan Shi Yun | E | 261,000 | - | - | - | 261,000 |
| Total Directors | | 8,617,000 | - | - | (25,000) | 8,592,000 |
| Employees | | | | | | |
| | B | 60,000 | - | - | - | 60,000 |
| | C | 270,000 | - | - | - | 270,000 |
| | E | 2,349,000 | - | - | - | 2,349,000 |
| Total employees | | 2,679,000 | - | - | - | 2,679,000 |
| Advisors and consultants | | | | | | |
| | B | 4,144,000 | - | - | - | 4,144,000 |
| | C | 4,422,000 | - | - | - | 4,422,000 |
| | D | 99,000 | - | - | - | 99,000 |
| Total advisors and consultants | | 8,665,000 | - | - | - | 8,665,000 |
| Total | | 19,961,000 | - | - | (25,000) | 19,936,000 |

| Option type | Date of grant | Exercisable Period | Exercise price HK\$ | Closing price immediately before the date of grant HK\$ |
|-------------|-----------------|---------------------|------------------------|--|
| A | 31 August 2001 | 31/8/2001-15/5/2011 | 8.600* | 12.000* |
| B | 2 February 2004 | 2/2/2004-7/4/2012 | 3.400 | 3.800 |
| C | 3 March 2005 | 3/3/2005-7/4/2012 | 2.325 | 2.325 |
| D | 20 June 2005 | 20/6/2005-7/4/2012 | 2.330 | 2.300 |
| E | 13 April 2010 | 13/4/2010-12/4/2020 | 0.500 | 0.490 |

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

Purchase, Sale or Redemption of Listed Securities

During the period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Corporate Governance

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the six-month period ended 30 September 2011, except for the following:-

Under the 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.

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.

The Company has adopted the Model Code for Securities Transactions by Directors as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company (the “Model Code”). Having made specific enquiry of all directors, all directors confirmed that they had complied with the required standards as set out in the Model Code during the period.

Audit Committee

The Company’s audit committee comprises three independent non-executive directors. Its terms of reference have been modified to incorporate certain provisions with reference to the Appendix 14 of the Listing Rules. The audit committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim financial statements for the six months ended 30 September 2011.

On behalf of the Board

Zhou Bao Yi

Executive Director

Hong Kong, 30 November 2011