THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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

(incorporated in Bermuda with limited liability)

(Stock Code: 673)

VERY SUBSTANTIAL DISPOSAL
AND
CONNECTED TRANSACTION

Financial Adviser to the Company

Hercules

Hercules Capital Limited

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

South China Capital Limited

A notice convening a special general meeting of China HealthCare Holdings Limited to be held at 9th Floor, Shun Ho Tower, No. 24-30 Ice House Street, Central, Hong Kong, on 15 October 2008 at 10:30 a.m. is set out on pages 144 to 145 of this circular. A form of proxy for use at the special general meeting is also enclosed. Whether or not you are able to attend the special general meeting, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting if you so wish.

30 September 2008

* *For identification purpose only*

CONTENTS

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

"Announcement"	the announcement of the Company dated 5 September 2008 in respect of the Subscription and the Redemption
"associate"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Company"	China HealthCare Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
"connected persons"	has the meaning ascribed to it under the Listing Rules
"Conversion Price"	the price per Conversion Share at which the Convertible Preference Shares are to be converted into Conversion Shares
"Conversion Shares"	the SG Common Shares to be issued by Success Gateway upon the conversion of the Convertible Preference Shares
"Convertible Preference Shares"	the unlisted convertible preference shares of US$1.00 each in the capital of Success Gateway
"Directors"	the directors of the Company
"DLB Harvest"	DLB Harvest LLC, one of the Subscribers
"Dr. Li"	Dr. Li Zhong Yuan, being a Director and substantial Shareholder and one of the Subscribers
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee of the Company, comprising all the independent non-executive Directors, established to advise the Independent Shareholders on whether the terms of the Subscription Agreement are fair and reasonable and in the interests of the Company and its Shareholders as a whole

"Independent Financial Adviser" or "South China Capital"	South China Capital Limited, being a licensed corporation to carry out type 6 (advising on corporate finance) regulated activities as set out in the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription and the Redemption
"Independent Shareholders"	Shareholders, except Dr. Li and his associates, who are not interested or involved in the transactions contemplated under the Subscription Agreement
"Initial Conversion Price"	US$1.00 per Conversion Share, subject to adjustment, if any
"Jade Capital"	Jade Capital LLC, one of the Subscribers
"Last Trading Day"	1 September 2008, being the last whole trading day on which the Shares were traded on the Stock Exchange before the publication of the Announcement
"Latest Practicable Date"	26 September 2008, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	the People's Republic of China, and for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Redemption"	redemption of the Redemption Shares by Success Gateway
"Redemption Share(s)"	3,000,000 SG Common Shares to be held by the Company after the Share Split
"Remaining Group"	the Group after completion of the Subscription and the Redemption
"Remaining Success Gateway Group"	Success Gateway Group after disposal of two of its subsidiaries, namely Shanghai Epay Information Technology Company Limited and Artel Limited
"RSM"	RSM Nelson Wheeler, Certified Public Accountants, Hong Kong, being the reporting accountants of the Group
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
"SG Common Shares"	common shares of Success Gateway after the Share Split

"SGM"	the special general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving, among other things, the Subscription, the Redemption and issue of the Conversion Shares upon conversion of the Convertible Preference Shares
"Share(s)"	ordinary share(s) of HK$0.1 each in the issued share capital of the Company
"Shareholder(s)"	the holder(s) of the Share(s)
"Share Split"	subdivision of the existing and unissued common shares of Success Gateway on the basis of 205,000 SG Common Shares for one existing common share
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscribers"	Dr. Li, DLB Harvest and Jade Capital
"Subscription"	the subscription of the Subscription Shares by the Subscribers upon and subject to the terms and conditions of the Subscription Agreement
"Subscription Agreement"	the subscription agreement dated 2 September 2008 entered into between, inter alia, the Company, Success Gateway and the Subscribers in relation to the Subscription
"Subscription Shares"	Convertible Preference Shares to be issued by Success Gateway to the Subscribers in accordance with the terms and conditions of the Subscription Agreement
"Success Gateway"	Success Gateway Investments Limited, a wholly-owned subsidiary of the Company
"Success Gateway Group"	Success Gateway and its subsidiaries
"US$"	United States dollars, the lawful currency of the United States of America
"Warrant(s)"	the warrant(s) of Success Gateway, each of which carries the right to subscribe for one Convertible Preference Share at a consideration of US$1.00 per Convertible Preference Share
"%"	per cent.

In this circular, US$ is converted into HK$ on the basis of US$1.0 = HK$7.8 (unless otherwise stated) for illustrative purpose.

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

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

Executive Directors:
Dr. Li Zhong Yuan
Mr. Lee Jong Dae
Mr. Zhou Bao Yi

Non-executive Director:
Mr. Martin Treffer

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

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

Head office and principal place of business in Hong Kong:
9th Floor, Shun Ho Tower
No. 24-30 Ice House Street
Central
Hong Kong

30 September 2008

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

Dear Sirs,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION

INTRODUCTION

After the trading hours in the morning of 2 September 2008, Success Gateway entered into the Subscription Agreement with the Subscribers to issue in aggregate 23,000,000 Convertible Preference Shares and 4,600,000 Warrants to the Subscribers for a total consideration of US$23.23 million (approximately HK$181.2 million). Furthermore, the Company has agreed to sell, and Success Gateway has agreed to redeem, the Redemption Shares at a cash consideration of US$1.00 per Redemption Share upon completion of the Subscription.

The Subscription and the Redemption constitute a very substantial disposal and connected transaction for the Company under the Listing Rules and are subject to the approval of the Independent Shareholders, by way of poll, at the SGM. Dr. Li and his associates are required to abstain from

* *For identification purpose only*

voting on the resolution to be proposed at the SGM. The purpose of this circular is to provide you with, inter alia, (i) further details relating to the Subscription and the Redemption; (ii) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders on the Subscription and the Redemption; (iii) the recommendation of the Independent Board Committee to the Independent Shareholders regarding the Subscription and the Redemption; and (iv) the notice of the SGM.

THE SUBSCRIPTION AGREEMENT

Date:	2 September 2008
Issuer:	Success Gateway
Subscribers:	the Subscribers

The Subscription

Pursuant to the Subscription Agreement, Success Gateway has agreed to issue and sell to DLB Harvest and Dr. Li 18,000,000 Subscription Shares and 1,500,000 Subscription Shares respectively at a cash consideration of US$1.00 per Subscription Share. Furthermore, Dr. Li and Jade Capital shall subscribe additional 1,500,000 Subscription Shares and 2,000,000 Subscription Shares respectively at the consideration of US$1.00 per Subscription Share no later than 31 December 2008. The Subscription Shares can be converted at any time during the conversion period into Conversion Shares at the Conversion Price.

According to the Subscription Agreement, Jade Capital and Dr. Li shall also subscribe for 4,000,000 Warrants and 600,000 Warrants at the consideration of US$200,000 (approximately HK$1,560,000) and US$30,000 (approximately HK$234,000) respectively. The consideration of the Warrants was arrived at after arm's length negotiation between the parties by reference to the net asset value and dividend yields of Success Gateway and non-exercisable period and time to expiry of the Warrants. The Warrants rank pari passu in all respects among themselves and each Warrant carries the right to subscribe for one Convertible Preference Share at a subscription price of US$1.00 each at any time during the exercise period, which commences on 31 March 2012 up until 10 years from the date of issue of the Warrants. The exercise in full of the Warrants would result in the issue of additional 4,600,000 Convertible Preference Shares.

If the Subscription Shares and the Convertible Preference Shares to be issued upon exercise of the Warrants are fully converted into Conversion Shares at the Initial Conversion Price of US$1.00, 27,600,000 Conversion Shares, representing approximately 134.6% of the issued share capital of Success Gateway after Share Split and approximately 61.2% of the total issued share capital of Success Gateway as enlarged by the issue of the Conversion Shares and reduced by the Redemption, will be issued.

Principal terms of the Convertible Preference Shares

Issue Price:	US$1.00 per Convertible Preference Share
Dividend:	8% per annum on the issue price of each Convertible Preference Share, cumulative dividend

Conversion Right:	The holders of the Convertible Preference Shares shall have the right to convert any Convertible Preference Share into Conversion Shares at any time during the conversion period at the Conversion Price
Conversion Period:	Any time after the issue of the Convertible Preference Shares
Conversion Price:	The Initial Conversion Price of US$1.00 (equivalent to approximately HK$7.8), subject to anti-dilution provisions, including subdivision or consolidation of the SG Common Shares, capitalization issue, capital distribution and rights issue, which represents all the scenarios requiring adjustment for the Initial Conversion Price. The Initial Conversion Price is 19.5 times of the audited consolidated net asset value per SG Common Share of approximately HK$0.4, as calculated based on the audited consolidated net asset value attributable to the equity holders of Success Gateway as at 31 March 2008 of approximately HK$8,339,000 and 20,500,000 SG Common Shares in issue after the Share Split. The Initial Conversion Price was arrived at after arm's length negotiation between the parties by reference to the audited net asset value of Success Gateway as at 31 March 2008. The Board, excluding the independent non-executive Directors whose opinion on the terms of the Subscription Agreement is set out in the Letter from the Independent Board Committee contained in this circular, considers the Initial Conversion Price is fair and reasonable and in the interests of the Shareholders and the Company as a whole in light of the substantial premium over the net asset value of Success Gateway.
Automatic conversion:	The Convertible Preference Shares will be automatically converted into SG Common Shares or into common equity of a successor corporation, at the then applicable conversion price, in the event of an underwritten public offering equity on any of the New York Stock Exchange, the London Stock Exchange, NASDAQ or the Stock Exchange with gross proceeds to Success Gateway and/or the selling equity holders of no less than US$50 million at a per share price that implies a valuation of Success Gateway that would result in a return on the investment in the Convertible Preference Shares (assuming sale at the initial public offering price) at least equal to five times the highest purchase price paid for the Convertible Preference Shares, or the election by holders of a majority of the Convertible Preference Shares.

Voting:	The holder(s) of the Convertible Preference Shares will not be entitled to attend or vote at any general meeting of Success Gateway by reason only of his/her being the holder(s) of the Convertible Preference Shares, unless a resolution is to be proposed at a general meeting for winding-up Success Gateway or a resolution is to be proposed which if passed would vary or abrogate the rights or privileges of the holder(s) of the Convertible Preference Shares.
Distributions:	Upon a liquidity event of Success Gateway, including a merger of Success Gateway, sale of substantially all of its assets, or the sale of control of more than 50% of its equity, the proceeds of such liquidity event will be distributed in the following priority: (i) 100% to the holders of the Convertible Preference Shares in an amount per share equal to (a) the original purchase price of the Convertible Preference Shares; (b) plus any accrued cumulative dividend of 8% per annum thereon; and (c) reduced by all amounts previously distributed to the holders of the Convertible Preference Shares; and (ii) pro rata to the holders of the Convertible Preference Shares and SG Common Shares on an "as converted" basis, subject to appropriate accounting for any amount due by the holder(s) of, or to be deducted from, the Incentive Shares (as defined in the sub-section "Employee Incentive Shares"). For avoidance of doubt, the holders of the Warrants will be entitled to exercise the Warrants in connection with a liquidity event, and to make such exercise effective immediately prior to and conditioned on the consummation of the liquidity event. Any distribution made prior to a liquidity event will be made in the following priority: (i) 100% to the holders of the Convertible Preference Shares in an amount equal to their unpaid cumulative dividend of 8% per annum; and (ii) pro rata to the holders of the Convertible Preference Shares and the Warrants on an "as converted basis", or such Warrant's purchase price will be reduced by the amount of the distribution, and SG Common Shares, but excluding unvested or unexercised Incentive Shares, on an "as converted" basis. The holders of the Convertible Preference Shares are entitled and responsible to share the profit or loss of Success Gateway in addition to the preferential dividend.
Transferability:	The Convertible Preference Shares are freely transferable, subject to compliance with applicable securities laws, except that no holder of Convertible Preference Shares will transfer such shares to a competitor of Success Gateway.
Pre-emptive Rights:	If Success Gateway proposes to offer any share for the purpose of financing its business, Success Gateway will first offer to the holders of the Convertible Preference Shares and Warrants on an "as converted basis" the right to invest in these shares the higher of (i) 50% of the offering; and (ii) pro rata based on their fully-diluted ownership percentage. If any holder of the Convertible Preference Shares fails to elect to purchase its pro rata portion of the offered shares, the other holders of the Convertible Preference Shares including the Warrants on an "as converted basis" will have the right to purchase up to the balance of such shares not so purchased.

Given that Dr. Li is a connected person of the Company under the Listing Rules and the other holders of the Convertible Preference Shares may become substantial shareholders of Success Gateway and thus connected persons of the Company after exercising the conversion right attached to the Convertible Preference Shares, the issue of SG Common Shares under the pre-emptive rights to the holders of the Convertible Preference Shares may constitute connected transactions for the Company and will be subject to Shareholders' approval in accordance with the Listing Rules. The Company will comply with the relevant requirements of the Listing Rules as and when securities of Success Gateway are issued under the pre-emptive rights.

Other Rights: The holders of the Convertible Preference Shares on an as-if-converted basis have: (a) rights of first refusal on transfers by all holders of SG Common Shares; (b) tag-along rights on transfers by all holders of SG Common Shares on a pro rata basis, except in each case in respect of transfers to affiliates, family members, trusts created for the benefit of family members of other estate planning purpose, so that the holders of the Convertible Preference Shares have the right to join the transaction and sell their minority stake in Success Gateway if the holders of SG Common Shares sell their stake in Success Gateway; and (c) drag along rights, which enable a majority shareholder to force a minority shareholder to join in the sale of a company at the same price, terms, and conditions as any other seller after five years so long as the net internal rate of return to the holders of the Convertible Preference Shares would be 50% or more.

Given that pre-emptive rights and the aforementioned other rights are commonly offered to minority shareholders for private equity investment deals and the subscription price of the Convertible Preference Shares represents a substantial premium over the net asset value of Success Gateway, the Directors consider that such terms are commercially justifiable and fair and reasonable to the Company and its Shareholders as a whole.

Employee Incentive Shares

The Subscribers and Success Gateway have agreed to reserve 4,500,000 SG Common Shares (the "Incentive Shares"), representing about 10% of the outstanding SG Common Shares (with the Convertible Preference Shares treated as converted) as at the completion of the Subscription and the Redemption, for issuance as equity incentives (including share grants, options, restricted shares, restricted share units and other equity incentives) to management, employees, consultants, board members and advisors. Subject to the approval of DLB Harvest, Success Gateway will reserve another up to 5% of the outstanding SG Common Shares (with the Convertible Preference Shares treated as converted and the Incentive Shares treated as issued) as at the completion of the Subscription and the Redemption, for issuance as further equity incentives. The adoption of any share option scheme will be subject to Shareholders' approval in accordance with the Listing Rules. An announcement will be published if and when a share option scheme is proposed by Success Gateway.

Redemption of SG Common Shares by Success Gateway

Pursuant to the Subscription Agreement, the Company has agreed to sell, and Success Gateway has agreed to redeem, the Redemption Shares at a cash consideration of US$1.00 per Redemption Share upon completion of the Subscription.

Board of Directors of Success Gateway

Upon completion of the Subscription, the board of directors of Success Gateway will comprise eight directors, four of whom shall be nominated by the Company, which intends to appoint Dr. Li and the current chief executive officer of Success Gateway to fill up two of the vacancies. Each of DLB Harvest and Jade Capital shall have the right to nominate two directors to the board. All decisions or actions taken by the board of directors of Success Gateway will require the affirmative vote or consent of more than 50% of the directors, and in the case of 50%:50% tie, the vote cast by Dr. Li carries the weight of tie-breaker so long as there has not been a leadership change. Dr. Li has signed a declaration to proclaim that his effective voting control in the board of directors of Success Gateway will be transferred to the Company and he will cast his vote in all decisions of the board of directors of Success Gateway in the way as directed by the Company.

Conditions Precedent

The Subscription and the Redemption are inter-conditional with each other and completion of the Subscription Agreement is conditional upon, inter alia, the following conditions being fulfilled:

a) the passing by the Independent Shareholders at the SGM of the resolution(s) to approve, amongst other things, the Subscription, the allotment and issue of any Conversion Share which may fall to be issued upon exercise of the conversion rights attaching to the Convertible Preference Shares and the Redemption; and

b) amendments to the bye-laws of Success Gateway for the creation of the Convertible Preference Shares.

In the event that any of the conditions is not fulfilled by 31 December 2008, the Subscription Agreement shall cease and determine and the parties shall be released from all obligations and liabilities under it, save for any antecedent breaches of the provisions under the Subscription Agreement.

Completion

Completion of the Subscription Agreement shall take place on or before the seventh day following the date on which the above conditions are fulfilled or waived, as the case may be, or such other time and date as may be mutually agreed by the Company and the Subscribers. As at the Latest Practicable Date, none of the conditions has been fulfilled.

INFORMATION OF THE SUBSCRIBERS

The Subscribers comprise Dr. Li, who is a Director and substantial Shareholder holding 10.43% of the existing issued share capital of the Company, DLB Harvest and Jade Capital. DLB Harvest is a member company of DLB Capital LLC, which is a United States-based firm focusing primarily on the financial services sector and the industries that serve it. The group was formed by Mr. Douglas L. Brown, who was a Vice Chairman of Morgan Stanley before forming DLB Capital LLC a few years ago, to provide expertise, capital and on-site management to the financial services sector. DLB Capital LLC's focus is global, with an emphasis on the United States and the PRC. Jade Capital is a United States-based limited liability company focusing on early and growth stage financial service companies in the PRC.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, save for Dr. Li, each of the Subscribers and their respective ultimate beneficial owners is third party independent of the Company and its connected persons.

REASONS FOR THE SUBSCRIPTION AND THE REDEMPTION

The Group is principally engaged in production and trading of biotechnology products, procurement of healthcare services and e-commerce distribution of mobile pre-charge.

Success Gateway is in need of additional funding and international expertise for fueling its strategic growth initiative which involves (a) the national expansion of the prepaid card business outside Shanghai and Guangdong; and (b) creation and distribution of other prepaid card products and stored value cards beyond mobile pre-charge. The Directors consider that the Subscription not only provide additional funding to the Group for the business development of Success Gateway Group but also bring in value added strategic partners and world class management team to help provide technology and management expertise from global perspective in stored value cards. Furthermore, the Redemption shall provide additional working capital for the development of the Group.

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

USE OF PROCEEDS OF THE SUBSCRIPTION AND THE REDEMPTION

The net proceeds from the Subscription is estimated to be approximately US$23 million, of which approximately US$2 million shall be used to repay current liabilities of Success Gateway Group, approximately US$3 million shall be applied for the redemption of the Redemption Shares. The remaining balance of the proceeds is planned for general working capital purposes.

The net proceeds of approximately US$3 million to be received by the Group from the Redemption will be applied for general working capital of the Group.

INFORMATION OF SUCCESS GATEWAY GROUP

Success Gateway was incorporated in the British Virgin Islands with an issued share capital of US$100, comprising 100 common shares of US$1.00 each. Before completion of the Subscription, Success Gateway shall subdivide its 100 common shares in issue into 20,500,000 SG Common Shares on the basis of 205,000 SG Common Shares for one existing common share.

Success Gateway is an investment company and its subsidiaries are mainly engaged in B-to-C e-payment services and distributions. The Success Gateway Group has developed and been continuously improving its proprietary platform of comprehensive e-commerce services and proprietary multi-functional Point of Sale (POS) systems. As its initial focus, Success Gateway Group has been successfully conducting its B-to-C business in mobile phone pre-payment field through its POS systems, where the two exclusive wireless operators in the PRC, China Mobile and China Unicom, are its strategic partners. Furthermore, almost 4,700 proprietary e-charge POS systems have been placed in all major convenience store chains and other retail spots throughout the city of Shanghai and it has achieved a dominant market share of about 25% in the China Mobile Shanghai's mobile prepayment market.

The audited consolidated financial results of Success Gateway Group for each of the two years ended 31 March 2008 are summarized as follows:

	For the year ended 31 March	
	2007	**2008**
	(HK$'000)	*(HK$'000)*
Revenue	1,627,076	2,857,505
Profit before taxation and extraordinary items	5,105	7,628
Net profit attributable to shareholders of Success Gateway	2,778	2,423

As at 31 March 2008, Success Gateway had an audited consolidated net asset value attributable to the equity holders of Success Gateway of approximately HK$8,339,000.

The total purchase costs of Success Gateway Group paid by the Group amounted to approximately HK$77.9 million.

FINANCIAL EFFECTS OF THE SUBSCRIPTION AND THE REDEMPTION

Based on the unaudited pro forma consolidated income statement of the Remaining Group, which has been prepared based on the assumptions that no Warrants are exercised and no Convertible Preference Shares are converted into SG Common Shares, as set out in Appendix III to this circular, had the Subscription and the Redemption been taken place on 1 April 2007, the net loss attributable to the equity holders of the Company for the year ended 31 March 2008 would increase from HK$25.2 million to HK$32.7 million and the net profit attributable to the minority interests for the year ended 31 March 2008 would increase from HK$1.2 million to HK$8.7 million. The gains on disposal resulted from the Redemption and conversion of the Subscription Shares as shown in the Announcement are for illustrative purpose only and they were calculated based on the assumptions that the Warrants were fully exercised and the Convertible Preference Shares were fully converted into SG Common Shares.

As set out in the unaudited pro forma consolidated cash flow statement of the Remaining Group in Appendix III to this circular, the Subscription and the Redemption would result in a net cash inflow of approximately HK$166.8 million had the Subscription and the Redemption been taken place on 1 April 2007.

As at 31 March 2008, the Group recorded an audited consolidated net liabilities of approximately HK$44.6 million. As set out in the unaudited pro forma consolidated balance sheet of the Remaining Group in Appendix III to this circular, had the Subscription and the Redemption been taken place on 31 March 2008, the unaudited pro forma total assets of the Remaining Group would increase by approximately HK$181.2 million, while the unaudited pro forma total liabilities of the Remaining Group would remain unchanged. Accordingly, the net liabilities attributable to the equity holders of the Company would decrease from approximately HK$57.6 million to net assets of approximately HK$29.2 million, while the net assets attributable to the minority interests would increase from approximately HK$13.0 million to approximately HK$107.4 million. The gearing ratio of the Group, as expressed in the ratio of total liabilities to total assets, was 1.23 as at 31 March 2008 and would have been decreased to 0.64 had the Subscription and the Redemption been completed on 31 March 2008.

CHANGE IN THE SHAREHOLDING STRUCTURE OF SUCCESS GATEWAY

Assuming that there is no change in the issued share capital of Success Gateway prior to the completion of the Subscription Agreement, the effects on the shareholding structure of Success Gateway upon issue of the Conversion Shares and the Redemption will be as follows:

	Shareholding structure as at the Latest Practicable Date		**Shareholding structure after Share Split but before conversion of the Convertible Preference Shares**		**Shareholding structure after Share Split and Redemption but before conversion of the Convertible Preference Shares**		**Shareholding structure after Share Split, exercise of Warrants, Redemption and full conversion of the Convertible Preference Shares**	
	No. of Common Shares	*%*	*No. of SG Common Shares*	*%*	*No. of SG Common Shares*	*%*	*No. of SG Common Shares*	*%*
The Company	100	100.0	20,500,000	100.0	17,500,000	100.0	17,500,000	38.8
Dr. Li	–	–	–	–	–	–	3,600,000	8.0
DLB Harvest	–	–	–	–	–	–	18,000,000	39.9
Jade Capital	–	–	–	–	–	–	6,000,000	13.3
Total	100	100.0	20,500,000	100.0	17,500,000	100.0	45,100,000	100.0

As shown in the above table, in the event that the Warrants are fully exercised and the Convertible Preference Shares are fully converted into Conversion Shares, the Company's equity interest in Success Gateway would decrease from 100% to 38.8%. However, given that the Company has control in 4 out of 8 of the board seats in Success Gateway and Dr. Li has agreed to transfer his effective voting control in the board of directors of Success Gateway to the Company in case of tie vote, after seeking the advices from the Company's auditors, the Directors are of the opinion that the Company would have absolute control in the board of directors of Success Gateway and thus, its financial and operating policies, and Success Gateway would remain as a subsidiary of the Company and the accounts of Success Gateway would continue to be consolidated into the Group's accounts even if its equity interests in Success Gateway falls below 50%.

TRADING PROSPECTS OF THE GROUP

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

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

SGM

The issue and allotment of Conversion Shares under the Subscription Agreement and the Redemption will result in a material dilution of the Group's equity interest in Success Gateway under Rule 13.36(1) and give rise to a deemed disposal under Rule 14.29 of the Listing Rules. As the applicable percentage ratios (as defined under the Listing Rules) for the Subscription and the Redemption are more than 75%, the transactions contemplated under the Subscription Agreement constitute a very substantial disposal for the Company under the Listing Rules.

Dr. Li, one of the Subscribers, a Director and a substantial Shareholder beneficially holding approximately 10.43% of the existing issued share capital of the Company as at the Latest Practicable Date, is a connected person of the Company under the Listing Rules and has interest in the Subscription. Therefore, the Subscription constitutes a connected transaction for the Company pursuant to Chapter 14A of the Listing Rules. Accordingly, the Subscription Agreement and transactions contemplated thereunder are subject to Independent Shareholders' approval, by way of poll, at the SGM. Dr. Li and his associates, who are beneficially interested in and entitled to exercise control over the voting right in respect of 24,443,000 Shares, representing approximately 10.43% of the shareholding of the Company as at the Latest Practicable Date, are required to abstain from voting on the resolution(s) to be proposed at the SGM.

Set out on pages 144 to 145 of this circular is a notice of the SGM, at which a resolution will be proposed and, if consider appropriate, passed to approve the Subscription Agreement and transactions contemplated thereunder.

RECOMMENDATION

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

ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 15 of this circular and the letter of advice received from the Independent Financial Adviser on pages 16 to 36 of this circular. Your attention is also drawn to the additional information set out in the appendices to this circular.

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

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

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

30 September 2008

To the Independent Shareholders

Dear Sirs,

VERY SUBSTANTIAL DISPOSAL
AND
CONNECTED TRANSACTION

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

Having considered the terms of the Subscription Agreement and the advice of the Independent Financial Adviser in relation thereto as set out on pages 16 to 36 of this circular, we are of the opinion that the entering into of the Subscription Agreement is in the interest of the Company and the Shareholders as a whole and the terms of the Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. We therefore recommend you to vote in favor of the resolution to be proposed at the SGM to approve the Subscription Agreement and transactions contemplated thereunder.

Yours faithfully,
Mr. Mu Xiangming **Mr. Jiang Bo** **Dr. Yan Shi Yun**
Independent Board Committee

* *For identification purpose only*

Set out below is the text of a letter received from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding the Subscription and the Redemption prepared for the purpose of inclusion in this circular.

SouthChina Capital Limited
28/F., Bank of China Tower
No. 1 Garden Road
Central
Hong Kong

30 September 2008

To: The independent board committee and the independent shareholders of China HealthCare Holdings Limited

Dear Sirs,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Subscription and the Redemption, details of which are set out in the Letter from the Board contained in the circular dated 30 September 2008 issued by the Company to the Shareholders (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless otherwise defined.

On 2 September 2008, Success Gateway, a wholly-owned subsidiary of the Company, entered into the Subscription Agreement, pursuant to which, (i) Success Gateway has agreed to issue and sell to the DLB Harvest, Jade Capital and Dr. Li the Subscription Shares and the Warrants, representing approximately 134.6% of the issued share capital of Success Gateway after share split upon full conversion of the Subscription Shares and Convertible Preference Shares to be issued upon full exercise of the Warrants, and (ii) the Company has agreed to sell, and Success Gateway has agreed to redeem, the Redemption Shares upon completion of the Subscription. The Subscription and the Redemption constitute a very substantial disposal for the Company under the Listing Rules. In addition, Dr. Li, one of the Subscribers, is a connected person of the Company under the Listing Rules and has interest in the Subscription. Therefore, the Subscription also constitutes a connected transaction for the Company pursuant to Chapter 14A of the Listing Rules. The Subscription Agreement and transactions contemplated thereunder are therefore subject to the approval of the Independent Shareholders at the SGM by way of poll. Dr. Li and his associates are required to abstain from voting on the resolution(s) to be proposed at the SGM.

An Independent Board Committee, comprising all the three independent non-executive Directors, namely Dr. Yan Shi Yun, Mr. Mu Xiang Ming and Mr. Jiang Bo has been established to advise the Independent Shareholders on (i) whether the Subscription Agreement is on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Subscription and Redemption is in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the relevant resolutions to approve the Subscription Agreement and the transactions contemplated thereunder at the SGM. We, South China Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our advice and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true, complete and accurate in all material respects at the time when they were made and continue to be so as at the date of the dispatch of the Circular. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiries and careful considerations. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our recommendation in compliance with Rule 13.80 of the Listing Rules.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquires, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading. We consider that we have been provided sufficient information to reach an informed view and to provide a reasonable basis for our recommendation. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Subscription. In addition, we have no obligation to update this opinion to take into account events occurring after the issue of this letter. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Subscription Agreement and the transactions contemplated thereunder, we have taken into consideration the following principal factors and reasons:

1 The Subscription

1.1 Information of the Group

The Group is principally engaged in production and trading of bio technology products, procurement of health care services and e-commerce distribution of mobile pre-charge. As stated in the annual report of the Company for the financial year ended 31 March 2008 (the "Annual Report 2008") and the circular of the Company dated 30 April 2008, the Group has established and been expanding its customer access channels by successfully conducting its B-to-C business in e-distribution of mobile phone pre-payment, where two exclusive mobile operators in the PRC, namely China Mobile and

China Unicom, are its strategic partners and vendors. The Group had achieved the status of number one distributor for China Mobile in Shanghai with a dominant market share of over 24% in the Shanghai mobile prepayment market. In the second half of 2007, in addition to the Shanghai market, the Group had expanded its business operation into Guangdong region, the largest provincial mobile prepayment market in the PRC.

To capture the momentum of the growth of the B-to-C services operation, the Group decided to launch a strategic growth initiative which entails (i) the expansion of the distribution network of the pre-paid card operation outside Shanghai and Guangdong area; (ii) the expansion of product line to other pre-paid card products and store value cards beyond mobile pre-charge; and (iii) further expansion of the existing distribution channel in Shanghai to independent store operations and small retail outlets.

Set out below is a summary of the financial highlights of the Group for the three years ended 31 March 2008 as extracted from the Annual Report 2007 and 2008:

	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Turnover			
Production and trading of biotechnology products	5,884	2,852	3,683
Procurement of healthcare services	4,181	3,033	3,151
E-commerce distribution of mobile pre-charge*	2,857,505	1,627,076	–
Total Turnover	2,867,570	1,632,961	6,834
Cost of sales and services	(2,841,100)	(1,620,215)	(5,287)
Gross profit	26,470	12,746	1,547
Loss from operations	(19,594)	(64,605)	(99,096)
Loss before tax	(21,909)	(73,372)	(101,863)
Loss for the year	(24,000)	(74,255)	(101,863)

*Note**: Turnover Generated from e-commerce distribution of mobile pre-charge was solely contributed by Success Gateway Group

As illustrated in the table above, the Group recorded an audited total turnover of approximately HK$1,633 million and HK$2,868 million for the year ended 31 March 2007 and 2008 respectively. Over 99.6% of the Group's turnover had been derived from its business of E-commerce distribution of mobile pre-charge, which is solely contributed by Success Gateway Group. In addition, the turnover of E-commerce distribution of mobile pre-charge has shown a growth in 2008 up to 175.6% compared with the result in 2007. According to the Annual Report 2008, the Directors expect that there will be a continuous growth on the B-to-C consumer service operation, as the Group continue its expansion, from Shanghai and Guangdong to other viable coastal regions in geography, from mobile prepaid cards to other prepaid and store-value ones in products, and from existing chains in Shanghai and Guangdong to other ones of convenience stores and supermarkets in channels.

1.2 Information of Success Gateway

As stated in the Letter from the Board, Success Gateway is an investment holding company incorporated in 21 February 2006 under British Virgin Islands laws with its registered and issued share capital of US$100, comprising 100 common shares of US$1.00 each. Success Gateway and its operating subsidiaries are mainly engaged in B-to-C e-payment services and distributions, and through itself have developed a proprietary platform of comprehensive e-commerce services and proprietary multi-functional Point of Sale (POS) systems. Success Gateway Group has been successfully conducting its B-to-C business in mobile phone pre-payment field through its POS systems, where the two exclusive wireless operators in the PRC, China Mobile and China Unicom, are its strategic partners.

With reference to the circular issued on 30 April 2008 and the Annual Report 2008, in the first half of 2008, the Group via Success Gateway, completed the acquisition of the remaining 30% equity interest in Shanghai Harvest Network Technology Co., Ltd ("Shanghai Harvest"). Shanghai Harvest is the major operational arm of Success Gateway and is built into the flagship B-to-C consumer services platform in Shanghai. Furthermore, via Shanghai Harvest, Success Gateway has secured an exclusive contractual right to distribute mobile prepaid and others on such channels of Fixed Line Terminals, substantially augmenting an existing network of over 6,200 retail outlets of distribution/settlement with over 3,500 POS terminals in Shanghai.

Currently almost 4,700 proprietary e-charge POS systems have been placed in all major convenience store chains and other retail spots throughout the city of Shanghai and Success Gateway Group has achieved dominant market share of about 24% in the China Mobile Shanghai's mobile prepayment market.

Set out below is a summary of the financial highlights for the two years ended 31 March 2007 and 2008 as extracted from the audited consolidated financial results of Success Gateway Group, which have been prepared in accordance with accounting principles generally accepted in Hong Kong:

	2008	**2007**
	HK$'000	*HK$'000*
Turnover	2,857,505	1,627,076
Gross profit	21,864	11,766
Profit before tax	7,628	5,105
Net profit for the year	5,557	4,222
Gross margin	0.77%	0.72%
Net assets	21,348	13,159

Turnover of Success Gateway Group during the years stated above was mainly generated from the sale of mobile phone prepaid card through the provision of e-payment platform and other related services. For the year ended 31 March 2008, Success Gateway Group recorded turnover of approximately HK$2,858 million, representing an increase of approximately 75.6% compared with that of 2007. Gross profit margin maintained stable at approximately 0.72% to 0.77% at the year end of the years presented in the above table. Net Profit for the year ended 31 March 2008 was approximately HK$5.56 million, representing an increase of 31.62% compared with approximately HK$4.22 million of 2007. As advised by the Management and the Directors of the Group, the continuous increase of Success Gateway Group's turnover was mainly attributable to the increase in demand and rapid growth of the e-payment service market in Shanghai and the expansion of Success Gateway Group's POS system channels, in terms of a network covering over 6,200 retail outlets of distribution/settlement with over 3,500 POS terminals in Shanghai.

Furthermore, as informed by the Directors, in order to concentrate its resources on B-to-C e-payment services and distributions, Success Gateway has disposed two of the loss-making subsidiaries other than Shanghai Harvest before the Subscription in 2008. Had the disposal been completed on 1 April 2007, the unaudited profit after taxation of Remaining Success Gateway Group for the year ended 31 March 2008 shall be approximately HK$10.07 million, and the unaudited consolidated net asset value of Remaining Success Gateway Group as at 31 March 2008 shall be approximately HK$26.05 million.

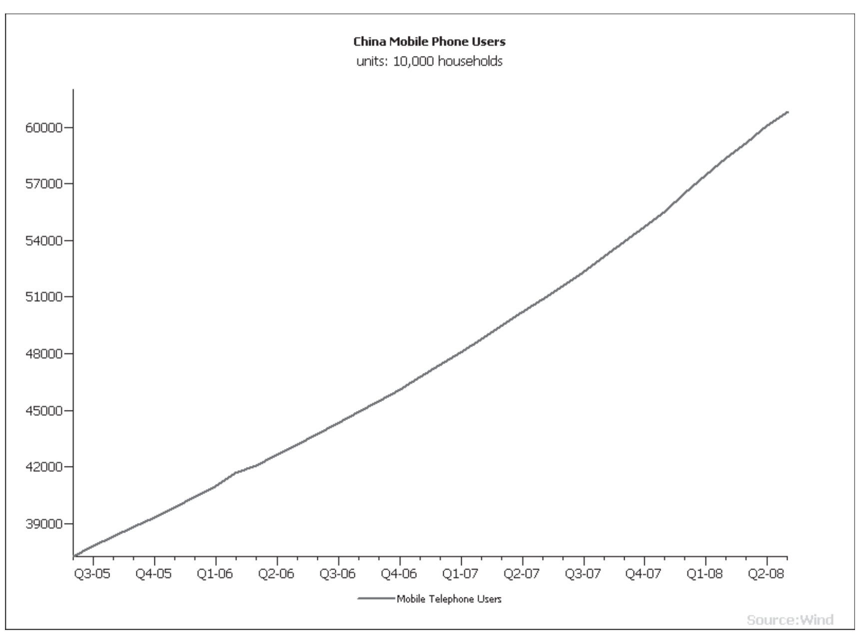
We note that Success Gateway Group has demonstrated a growing trend of earnings during the above years and has contributed significantly to the Group's turnover. As stated in the Annual Report for the financial year ended 31 March 2008, turnover generated from Success Gateway Group accounted for approximately 99.6% of the Group's total turnover.

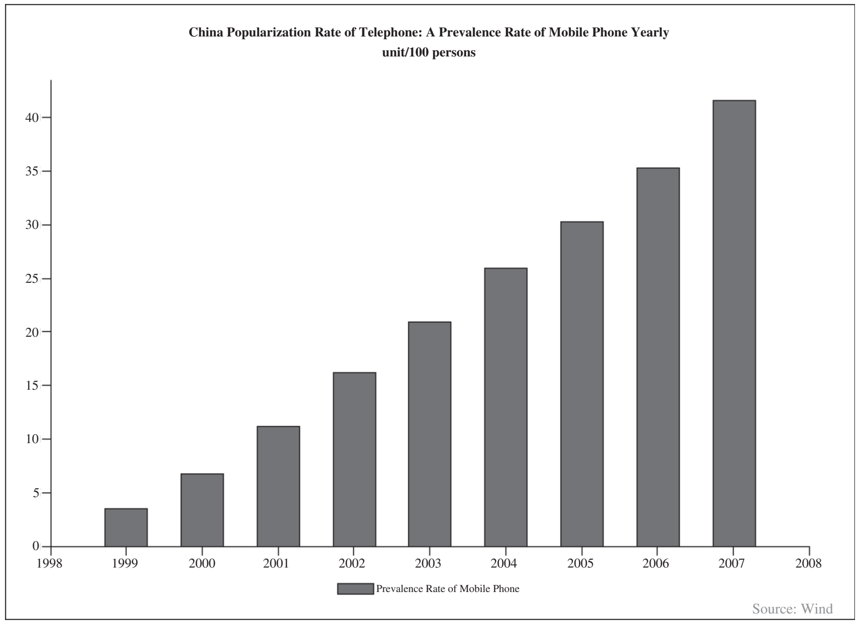
The Directors and the Management of the Group are of opinion that Success Gateway Group has been progressing satisfactorily with promising results over the past few years. Upon the completion of the acquisition of Shanghai Harvest, Success Gateway Group has positioned itself to develop into the leading distributor of prepaid and stored value cards in China. The Directors are looking forward to further expanding its e-commerce payment business with the subsidiary arm of Success Gateway Group by enlarging the geographical coverage of its network and channels and by enhancing the products and services.

1.3 Industry analysis and business prospects of Success Gateway

According to the research of National Bureau of Statistic of China, the PRC economy continues to grow with a gross domestic product ("GDP") of approximately RMB24,953 billion for 2007, representing an increase of approximately 11.9% over that of 2006 and a compound annual growth rate of approximately 16.4% from 2003 to 2007. The disposable income of urban residents amounted 13,786 per capita for 2007 with a growth rate of 17.2%.

The following charts demonstrate the number of mobile phone users from August 2005 to July 2008 and the prevalence rate of mobile phone from 1999 to 2007 in the PRC.





Source: Ministry of Industry and Information Technology of the PRC

As shown by the above charts, since the third quarter of 2005 till the second quarter of 2008, the growth of the number of users of mobile phone is considerably fast and stable. According to the Ministry of Information Industry of the PRC, the number of mobile phone users increased from 372.8 million as at 31 August 2005 to 608.4 million as at 31 July 2008, representing an average annual growth of 21.1%. We also perceive the popularity of mobile phone to the China consumers from the prevalence rate. According to the above chat, the mobile phone owner out of every 100 person in China grew from 3.5 persons in 1999 to 41.6 persons in 2007. It is expected that the number of mobile users will continue to be driven by the rapid economic growth in the PRC. The Directors expect that the demand of e-payment services for the telecommunication sector will continue to grow in line with the increase in mobile phone users in the coming years.

Having considered (i) the proven track record of Success Gateway demonstrating the profitability of the e-commerce payment business; (ii) the continuous growing mobile communication industry in the PRC; (iii) the extensive experience of the management of the Group in mobile pre-charge business operation; and (iv) the proven business track record of the Group in the mobile pre-charge operation, we concur with the Directors that Success Gateway is well positioned for continuing its business expansion in the coming future and the development potentials and the prospects of the Success Gateway Group are optimistic.

1.4 Information of the Subscribers

As stated in the Letter from the Board, the Subscribers comprise Dr. Li, DLB Harvest and Jade Capital.

Dr. Li is a Director and substantial Shareholder holding 10.4% of the existing issued share capital of the Company. DLB Harvest is a member company of DLB Capital LLC, which is a United States-based firm focusing primarily on the financial services sector and the industries that serve it. DLB Capital LLC's focus is global, with an emphasis on the United States and the PRC. Jade Capital is a United States-based limited liability company focusing on early and growth stage financial service companies in the PRC.

As advised by the Directors, the Subscribers, with extinct world class management expertise will bring synergy into Success Gateway and the Group. To the best knowledge, information and belief of the Directors, save for Dr. Li, each of the Subscribers and their respective ultimate beneficial owners is third party independent of the Company and its connected persons.

1.5 Reasons for the Subscription

As stated in the Annual Report 2008, the Group's vision is to achieve a dominant position in China as a consumer oriented service provider, and to realize such a vision, the Group's strategy is to build and scale up its proprietary consumer base via its head-count based and IT enabled services and products. To implement such a strategy, the Group's business model is to develop a network based connectivity platform focusing on customer value, i.e. better access, better communication and better connectivity by leveraging its access to healthcare resources, communications infrastructures and distribution channels for consumer reach and services. In early of 2008, the Group launched its strategic growth initiatives in both B-to-C consumer service operation and B-to-B healthcare service operation aiming to capture the right timing for accelerated expansion and growth. With augmented and strengthened resources in management, expertise and capital, the Group's highly scalable business model and rich operating experience are in a position to enable rapid growth and quick scalability operationally. The Group is also creating synergy in consumer and healthcare services via prepaid and stored value cards in health. With the focus in consumer and healthcare services operations and in addition to the organic growth of its business, the Group is actively looking for right partnerships and merger and acquisition opportunities of business that are in alignment and in synergy with its vision; strategy and business model.

As stated in the Letter from the Board, the proceeds of the Subscription is estimated to be approximately US$23 million and US$0.23 million from the subscription of the Subscription Shares and the Warrants respectively. The aggregate amount is US$23.23 million, representing approximately HK$181.19 million, of which (i) approximately US$2 million shall be used to repay current liabilities of Success Gateway Group; (ii) approximately US$3 million shall be applied for the redemption of the Redemption Shares; and (iii) approximately US$18.23 million, the remaining balance of the proceeds, is planned for general working capital purposes for Success Gateway.

According to the Directors, the Subscription is under arm's length negotiation and agreed on normal commercial terms between the parties involved. Apart from the funding received upon completion of the Subscription and the Redemption, the Subscribers also bring in value added strategic partners and world class management team to help Success Gateway provide technology and management expertise from global perspective in stored value cards.

As the Group is looking forward to further expanding its e-commerce payment business with the subsidiary arm of Success Gateway by enlarging the geographical coverage of its network and channels and by enhancing the products and services. Therefore the Subscription provide additional funding as well as international expertise for fueling its strategic growth initiative in (i) the national expansion of the prepaid card business outside Shanghai and Guangdong; and (ii) creation and distribution of other prepaid card products and stored value cards beyond mobile pre-charge. Based on the above information, we are aware that the step-in of the Subscribers as the strategic investment partners will in due course satisfy Company's needs of funding in further expansion of its e-commerce payment business. Moreover, the world class management expertise and skills brought in by the Subscribers, will further strengthen and facilitate Success Gateway's position to develop into the leading distributor of prepaid and stored value cards in China. We consider the Subscription is in line with the business expansion strategy of the Group and is of help in the future growth of the Group's major business and hence in the interests of the Company and the Shareholders as a whole.

2 Principal terms of the Subscription and the Redemption

2.1 Consideration

The consideration for the Subscription is US$23 million and US$0.23 million from the subscription of the Subscription Shares and the Warrants respectively, with an aggregate amount of US$23.23 million, representing approximately HK$181.19 million (the "Consideration"), which was arrived at after arm's length negotiations between the Subscribers and the Company and was determined on the basis of normal commercial terms.

In order to assess the Consideration, we have conducted a comparable company analysis using price to earning ratio ("PER") and the price to book ratio ("PBR").

Given that Success Gateway carried out the disposal of two other subsidiaries before the Subscription and the Redemption, we consider it more appropriate to exclude the financial contribution made by the aforesaid the subsidiaries that has been no longer under Success Gateway Group in the analysis of the PER and PBR. Set out below is a summary of the financial highlights of Remaining Success Gateway Group as after the disposal of two other subsidiaries as at the year ended 31 March 2008 based on the unaudited consolidated financial accounts provided by the Company.

	2008
	HK$'000
Revenue	2,750,279
Gross profit	21,412
Profit before taxation	12,074
Profit after taxation	10,065
Net assets	26,045
Total assets	88,835

As Success Gateway is a private company and we are unable to research the PER of the private company in similar business, we extend our search in listed companies in Hong Kong and the PRC which are principally engaged in e-commerce (including provision of electronic payment system services). However, we are not able to identify any comparable listed companies in the PRC with business nature which is directly comparable to Success Gateway Group. Therefore, we have further extended our research in the US for relevant comparables in the circumstances given the potential market size of mobile phone users in the US is comparable to that in China. For this purpose, we have identified all the companies which are (i) listed in the Stock Exchange or the NSADAQ of the US; (ii) principally engaged in the provision of electronic payment system or related services. For avoidance of doubt, we have exclude all the loss-making companies unable to generate a positive in PER and PBR.

Set out below is the analysis of the searched listed companies based on the above criteria and in similar lines of business to Success Gateway Group (the "Market Comparables"). To the best of our knowledge and as far as we are aware of, there are 7 companies meeting the criteria. Set out below are the analysis of PERs and PBRs of the Market Comparables:

Company (ticker)	**Country listed**	**Market capitalization (million in local currency)**	**Closing price as at the Latest Practicable Date (in local currency)**	**Historical price to earnings multiples (TTM) (Times)**	**Price to Book (Most Recent Quarter)**
Tradelink Electronic Commerce Limited (0536)	Hong Kong	568	0.7	7.45	1.82
Universal Technologies Holdings Limited (8091)	Hong Kong	271	0.18	16.22	1.21
Euronet Worldwide Inc (EEFT)	US	891	18.14	17.61	1.18
Verifone Holdings Inc (PAY)	US	1,571	19.28	58.42	3.09
Total System Services Inc (TSS)	US	3,740	18.92	14.78	4.04
Fidelity National Information Services Inc (FIS)	US	4,096	21.59	12.55	1.07
Global Payments Inc (GPN)	US	3,746	46.95	23.71	3.28
Average				21.54	2.24
Median				16.22	1.82
Maximum				58.42	4.04
Minimum				7.45	1.07
Share Subscription of Success Gateway *before* exercise of Warrants*				31.39	12.13
Share Subscription of Success Gateway *after* exercise of Warrants**				34.95	13.50

*Note * and **:* the PER is calculated on pro forma basis as if the disposal of two other subsidiaries of Success Gateway had completed on 1 April 2007.

The Latest Practicable Date: 12 Sep 2008
TTM: Trailing Twelve Months
Source: Bloomberg

From the above table, we note that the average PER as represented by the Market Comparables is approximately 21.54 times with a range of approximately 7.45 times to 58.42 times. Given that Remaining Success Gateway Group's unaudited consolidated net profit for the year ended 31 March 2008 is HK$10.07 million, the Consideration represents a historical PER of approximately 31.39 times calculated based on the Consideration for the 56.8% equity interest of Success Gateway before full exercise of Warrants, and approximately 34.95 times for the 61.2% equity interests after full exercise of Warrants, both of which fall in the range of the Market Comparables and are higher than the average PER.

From the above table, we note that the average PBR as represented by the Market Comparables is approximately 2.24 times with a range of approximately 1.07 times to 4.04 times. Given that Remaining Success Gateway Group's unaudited consolidated net asset value for the year ended 31 March 2008 is HK$26.05 million, the Consideration represents a historical PBR of approximately 12.13 times calculated based on the Consideration for the 56.8% equity interest of Success Gateway before full exercise of Warrants, and approximately 13.50 times for the 61.2% equity interest after full exercise of Warrants, both of which are higher than those of the Market Comparables.

It should be noted that the Market Comparables are of differences from Success Gateway Group in principal business and market. Companies with different geographical coverage may not be directly comparable to Success Gateway Group and different stock markets may have different ratings for companies engaged in the same industry. We also note that save for Universal Technologies Holdings Limited, none of the Market Comparables has a significant existing presence in China comparable to that of Success Gateway Group. This competitive advantage of Success Gateway Group over the Market Comparables in the China market may, in our view explain the relatively higher PER and PBR for the Subscription Share. Nevertheless, we believe that the above illustrated companies serve as reasonable benchmark in assessing the fairness of the Subscription Share's Consideration.

Apart from Market Comparable, we believe the historical transaction record of the Group of its previous acquisition transactions of Shanghai Harvest provides an important comparable reference to the Consideration of the Subscription. We have compared the PER of the Share Subscription of Remaining Success Gateway Group to that of Shanghai Harvest during the two previous acquisitions. Set out below is the table of analysis of the PERs.

	Historical PER (Times)
The First Acquisition of Shanghai Harvest	8.0
The Second Acquisition of Shanghai Harvest	13.9
The First and the Second acquisition as a whole	7.8
PER of the Share Subscription of Success Gateway *before* exercise of Warrants*	31.39
PER of the Share Subscription of Success Gateway *after* exercise of Warrants**	34.95

*Note * and **:* the PER is calculated on pro forma basis as of the disposal of two other subsidiaries of Success Gateway had completed on 1 April 2007.

On 5th April 2006, the Group acquired 70% of Shanghai Harvest (the "First Acquisition"), the major operational arm of Success Gateway Group, and on 28 February 2008, the Group acquired the remaining 30% equity interest (the "Second Acquisition") of Shanghai Harvest, and the First and Second acquisition was completed in June of 2006 and first half of 2008 respectively.

As stated in the circular issued by the Company on 30 April 2008, the PER of the First Acquisition is approximately 8 times and that of the Second Acquisition is approximately 13.9 times. Taking the two acquisitions as a whole, the aggregate consideration for the entire equity interest of Shanghai Harvest represents a historical PER of approximately 7.8 times. The PER of 31.39 and 34.95 times applied to Remaining Success Gateway Group based on the pro forma as at 31 March 2008 in relation to the Subscription are higher than those applied to the First and Second Acquisition for Shanghai Harvest.

We have discussed with the Directors about the reasons for different valuation for the First and Second Acquisitions and the Subscription. We have been advised that at the time of negotiating of the Subscription in August 2008, Success Gateway demonstrated a solid track record with a two years continuous substantial growth in its turnover and profitability that proves Success Gateway have huge upside potential. As discussed in section in relation to the "Industry analysis and business prospects of Success Gateway" above, the telecommunication sector in China has been experiencing rapid growth. With the expansion strategy and proven track record, the Directors expect that Success Gateway can further expand its business and generate higher returns for its shareholders. Based on the above reasons, we consider it is fair for the Group to be in the position with a better bargaining power and to demand a better price regarding the Subscription.

In addition, as confirmed in the Letter from the Board, we note that the financial results of Success Gateway will be continuously consolidated to the Group's accounts as the Group remains the control of the board of Success Gateway even the Group's equity interests in Success Gateway fall below 50%.

After taking into account (i) the PER and PBR represented by the Subscription is over the Market Comparables, and the PER of the Subscription of over the First and Second Acquisition of Shanghai Harvest; (ii) the financial results of Success Gateway will be continuously consolidated to the Group's accounts; and (iii) the world class management expertise and skills brought in by the Subscribers will further strengthen and facilitate Success Gateway's position to develop into the leading distributor of prepaid and stored value cards in China, we concur with the Directors that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

2.2 Settlement method of the Consideration

The Consideration shall be satisfied on cash basis by the Subscribers in the following manner upon completion of the Subscription (i) the first payment of US$18 million and US$1.5 million for Subscription Shares will be payable by DLB Harvest and Dr. Li respectively upon Completion; (ii) a second payment of US$2 million and US$1.5 million for Subscription Shares will be payable by Jade Capital and Dr. Li respectively no later than 31 December 2008; and (iii) a third payment of US$200,000 and US$30,000 for Warrants will be payable by Jade Capital and Dr. Li respectively upon completion of the Subscription.

2.3 Convertible Preference Shares

Pursuant to the Subscription Agreement, the Convertible Preference Shares of a principal amount of HK$23 million is to be issued by Success Gateway to the Subscribers upon completion of the Subscription. The Convertible Preference Shares are non-redeemable shares with a return on the amount of the Subscription Share computed at a rate of 8% per annum, non-compounding, determined on a cumulative basis from the day the Company receives the Consideration. The holders of the Convertible Preference Shares shall have the right to convert any Convertible Preference Share into Conversion Shares at any time during the Conversion Period at the Conversion Price.

2.4 Warrants

We note that, according to the Subscription Agreement, further to the subscription of Subscription Shares, Dr. Li and Jade Capital, two of the Subscribers shall also subscribe for 4,000,000 Warrants and 600,000 Warrants at the consideration of US$200,000 and US$30,000 respectively. Given that (i) the consideration of the Warrants was arrived at after arm's length negotiation between the parties as confirmed by the Directors, and (ii) the subscription price for Convertible Preference Shares of the Warrants is US$1.00 per unit, the same as the subscription price of the Subscription Shares pursuant to the Subscription Agreement, we are of the view that the Warrant subscription is a normal commercial decision and the relevant terms are fair and reasonable so far as the Independence Shareholder are concerned.

2.5 Comparison with other issuers of non-redeemable convertible preference shares

In order to evaluate the terms of the Convertible Preference Shares, we have carried out a research for other issued convertible preference shares, since the information for private companies is very limited in the public domain, we consider that it would be more appropriate to look into the convertible preference shares (i) issued by public companies listed in Hong Kong; (ii) on non-redeemable basis; and (iii) during the period from September 2007 to September 2008. As far as we are aware of, 5 companies meet the above requirement. We have looked into the key terms of these convertible preference shares, which are set out in the following table:

Convertible preference shares

Date of Announcement	Company (Stock code)	Principal Amount (HK$ million)	Interest	Premium/ (discount) of conversion price over/ to the last trading day
20 Sep 2007	Linefan Technology Holdings Limited (8166)	20	3%	15.00%
02 Nov 2007	North Asia Strategic Holdings Limited (8080)	2,868	N/A	-86.40%
09 Jul 2008	Ocean Grand Chemicals Holdings Limited (2882)	149	5%	-77.40%
09 Sep 2008	China Railway Logistics Limited (8089)	20	N/A	-44.50%
10 Sep 2008	Enric Energy Equipment Holdings Limited (3899)	5,343	N/A	36.10%
High			5.00%	36.10%
Low			3.00%	-86.40%
Average			0.89%	-17.47%
Company	(673)		8.00%	

The last trading day: 12 Sep 2008
Source: www.hkex.com.hk

Conversion Price

Pursuant to the Subscription Agreement, as of any Conversion Date, the Initial Conversion Price of the Convertible Preference Shares will be US$1.00 (equivalent to approximately HK$7.8), subject to anti-dilution provisions, which is equivalent to the subscription price of the Subscription Shares. As stated in the Letter from the Board, the Initial Conversion Price is 19.5 times of the audited consolidated net asset value per Success Gateway Common Share of approximately HK$0.4, as calculated based on the audited consolidated net asset value attributable to equity holders of Success Gateway as at 31 March 2008 of approximately HK$8,339,000 and 20,500,000 Success Gateway Common Shares in issue after the Share Split.

Given that (i) the Initial Conversion Price carries a substantial premium over the net assets value per Success Gateway Common Share of approximately HK$0.4, and (ii) the Initial Conversion Price is the same as the subscription price of the Subscription Share, we concur with the Directors that the Initial Conversion Price is fair and reasonable and in the interests of the Shareholders and the Company as a whole.

Automatic Conversion

We note that, according to the Subscription Agreement, the Convertible Preference Shares will be automatically converted into SG Common Shares or into common equity of a successor corporation, at the then applicable conversion price, in the event of an underwritten public offering equity on any of the New York Stock Exchange, the London Stock Exchange, NSADAQ or the Stock Exchange with gross proceeds to Success Gateway and/or the selling equity holder of no less than US$50 million at a per share price that implies a valuation of Success Gateway would result in a return on the investment in the Convertible Preference Share at least equal to five time of the Consideration paid for the Convertible Preference Shares, or the election by holders of a majority of the Convertible Preference Shares. Having considered that (i) the high PER of the Convertible Preference Shares to be paid by the Subscriber, and (ii) Success Gateway being a private company and its Shares not available to be traded in any stock exchange, we are of the view that the automatic conversion right is fair and reasonable so far as the Independence Shareholder are concerned.

Dividend Rate

The rate of Dividend of the Subscription Shares of Success Gateway is 8% per annum on Subscription Price on cumulative basis, which is higher than those of the above illustrated companies' ranging from nil to 5%. It should be noted that all the above illustrated companies' principal business is different from Success Gateway, and companies in different business and industries may not be directly comparable to Success Gateway. Besides, listed public companies may have different expectation in the dividend yield from the private company. Nevertheless, we believe that the above illustrate companies serve as reasonable benchmark in assessing the fairness of the Dividend rate. We have taken the factors into consideration that (i) all the above illustrated non-redeemable convertible preference shares are issued by Hong Kong listed companies, and they are able to be converted into shares of listed companies and will be available to be traded in the Stock Exchange; (ii) the average conversion price over the subscription price of the above companies shows a discount of 17.47% and the conversion price of the Subscription Share is equal to its subscription price; and (iii) the Group's cost of finance on unsecured term loan is up to a range of 5% to 9.3% according to the Directors; and (iv) the current global economic environment is tough with credit liquidity shrink. In light of the above factors, we are in the view that the Dividend rate of the Subscription Shares is based on normal commercial term basis, and is fair and reasonable so far as the Independent Shareholders are concerned.

Other terms of the Convertible Preference Share

Pursuant to the Subscription Agreement, the holders of the Convertible Preference Shares shall have the right to convert any Convertible Preference Share into Conversion Shares at any time after the issuance of the Convertible Preference Shares. The Convertible Preference Shares are freely transferable, subject to compliance with applicable securities laws, except being transferred to any competitor of Success Gateway. The holders of The Convertible Preference Shares will not be entitled to attend or to vote at any general meeting of Success Gateway, unless a resolution is (i) to be proposed for winding-up Success Gateway or (ii) passing such resolution would vary or abrogate the right or privileges of the holders of the Convertible Preference Shares. If Success Gateway purposes any share offering for the purpose of financing its operation, the holders of the Convertible Preference Shares and Warrants will be offered on an "as converted basis" right to invest in such offering with the higher of (i) 50% of such offering; or (ii) pro rata based on their fully diluted ownership percentage. If any holder of the Convertible Preference Shares fails to elect to purchase its pro rata portion of the offered shares, the other holders of the Convertible Preference Shares including the Warrants holders on an "as converted basis" will have the right to purchase up to the balance of such shares not so purchased.

We have reviewed the above terms of the Subscription Agreement and are not aware of any terms which are uncommon to normal market practice. In light of this, we concur with the Directors that the above terms of the Convertible Preference Shares in relation to the conversion period, transferability, voting, and pre-emptive rights are normal for convertible preference equity securities of similar kind. We have also reviewed other terms of the Subscription Agreement and we do not notice any abnormal commercial terms and we consider those terms are fair and reasonable so far as the Independent Shareholders are concerned.

We have taken into account that (i) the Consideration of the Subscription carries a substantial premium by comparing PER and PBR with the Market Comparables and the First and Second Acquisition of Shanghai Harvest; (ii) the Initial Conversion Price of the Convertible Preference Shares carries a substantial premium over the net asset value of the Success Gateway; (iii) the subscription price of the Convertible Preference Share is equal to its Conversion Price; and (iv) other terms of the Convertible Preference Shares in relation to the conversion period, transferability, voting, and pre-emptive rights are normal for convertible preference equity securities of similar kind, we are of the view that the terms of the Convertible Preference Shares are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

3 Financial effects of the Subscription

As stated in the Letter from the Board, the Company would have absolute control in the board of directors of Success Gateway, and Success Gateway would remain as a subsidiary of the Company and the accounts of Success Gateway would continue to be consolidated into the Group's accounts even if its equity interests in Success Gateway falls below 50%.

3.1 Earnings

As set out in the section headed "Information of the Group" above, the Group has been recording an increasing turnover since the financial year 2006 and Success gateway had been contributed over 99.6% and 99.7% to the total turnover of the Group for the year ended 31 March 2007 and 31 March 2008 respectively. Success Gateway's net profit for the financial year ended 31 March 2007 and financial year ended 31 March 2008 was approximately HK$4.22 million and HK$5.56 million respectively. As aforementioned in the Letter from the Board, the Directors expected that the Company would enjoy proceeds from the Redemption of approximately HK$23.4 million. Besides, upon completion of the Subscription and Redemption, the Company will only hold no more than 50% of Success Gateway Group, its major profit earner. Given that the accounts of Success Gateway would continue to be consolidated into the Group's accounts, based on the pro forma basis, assuming the Subscription had completed on 1 April 2007, Success Gateway would pay an 8% preferential dividend to the Subscriber based on the Subscription Price. At the year ended 31 March 2008, the Group's net loss before minority interests may remain unchanged as HK$25 million while the net loss after minority interests would increase to HK$33 million as a result of the preferential Dividends payable to the Subscribers.

Pursuant to the Subscription Agreement, the Subscribers are entitled to a preferential Dividend at 8% per annum on the Subscription Price on cumulative basis. As confirmed by the directors, in addition to the preferential Dividend, the Subscribers are entitled or responsible to share the profit or loss of Success Gateway along with other shareholders. Therefore if the dividend yield of Success Gateway is less than 8%, Subscribers will have the preferential treatment in sharing the profit by enjoying an 8% preferential Dividend prior to the other shareholders of Success Gateway. Hence the Company may suffer a negative impact on the earnings from Success Gateway.

Based on the audited consolidated financial results, the return on shareholder's equity (the "ROE") of Success Gateway for year ended 2008 and 2007 are 26% and 32.1% respectively, both of which are higher than the preferential Dividends rate of 8% on Convertible Preference Shares. We cannot assure that the ROEs of Success Gateway in the coming years can remain on the same level. However having considered that (i) the proceeds from the Subscription will provide additional working capital on the expansion of Success Gateway's business; (ii) the world class management expertise brought in by the Subscribers will help raise the returns in the long run; and (iii) the prospects of Success Gateway's business are optimistic, we concur with the Directors that the potential negative effect of the preferential dividend arrangement of the Subscription Agreement imposed on the other shareholder of Success Gateway, hence on the Company's earnings after minority interest, is acceptable, and the Company's earnings will benefit from the business expansion and the growth in returns of Success Gateway in the long term.

3.2 Net liabilities

According to the Annual Report 2008 of the Group, the audited consolidated net liabilities of the Group were approximately HK$44.6 million as at 31 March 2008. As confirmed by the Directors, the Group's net asset value will be HK$136.6 million upon completion of the Subscription and the Redemption due to the proceeds from the Subscription which approximated to be US$23.23, representing approximately HK$181.19 million. In addition, pursuant to Subscription Agreement, it is expected that in the coming financial year, there would also be an out flow of dividends of approximately HK$14.35 million payable to the Subscribers.

3.3 Cashflow position and gearing ratio

As at 31 March 2008, the Group's gearing ratio (being calculated as total liabilities to total assets of the Company) was approximately 1.23. The Directors confirmed that the Subscription would lead to a more favorable financial position for the Group by reducing the gearing ratio to 0.64 due to the increase in the asset value and the decrease in the Success Gateway's liabilities.

3.4 Working capital

We understand from the Letter from the Board that the Company will apply the proceeds from the Redemption of approximately US$3 million, representing HK$23.4 million as general working capital of the Group, and the net proceeds of Success Gateway from the Subscription of US$20.23 million, representing approximately HK$142.19 million as that of Success Gateway. Therefore, the Group's working capital would be increased by an aggregate amount of approximately HK$165.59 million.

Given the aforementioned financial effects of the Subscription to the Group, namely (i) proceeds of approximately HK$23.4 million from the Redemption; (ii) increase in the current asset and hence increase in the total assets of the Group; (iii) reduce in the gearing level of the Group; and (iv) increase in the Group's working capital, we are of the opinion that the Subscription is in the interests of the Company and the Shareholders as a whole.

4 Dilution of shareholding on Success Gateway

Set out below is a summary of the shareholding in Success Gateway in the sequence of the Subscription:

	Shareholding structure before Share Split		Shareholding structure after Share Split but before conversion of the Convertible Preference Shares		Shareholding structure after Share Split and Redemption but before conversion of the Convertible Preference Shares		Shareholding structure after Share Split, Redemption and conversion of the Convertible Preference Shares but before exercise of Warrants		Shareholding structure after Share Split, Redemption, exercise of Warrants and full conversion of the Convertible Preference Shares	
	No. of SG Common Shares	*%*	*No. of SG Common Shares*	*%*	*No. of SG Common Shares*	*%*	*No. of SG Common Shares*	*%*	*No. of SG Common Shares*	*%*
The Company	100	100.0	20,500,000	100.0	17,500,000	100.0	17,500,000	43.2	17,500,000	38.8
Dr. Li	–	–	–	–	–	–	3,000,000	7.4	3,600,000	8.0
DLB Harvest	–	–	–	–	–	–	18,000,000	44.4	18,000,000	39.9
Jade Capital	–	–	–	–	–	–	2,000,000	4.9	6,000,000	13.3
Total	100	100.0	20,500,000	100.0	17,500,000	100.0	40,500,000	100.0	45,100,000	100.0

As shown in the above table, upon completion of the Subscription and the Redemption, the Company's shareholding in the Success Gateway will fall from 100% to 43.2%, as after the Share Split, Redemption and conversion of the Convertible Preference Shares but before exercise of Warrants, and that will further fall to 38.8% as after the exercise of Warrants and full conversion of the Convertible Preference Shares. As confirmed by the Directors, upon completion of the Subscription and the Redemption, the board of Success Gateway will comprise eight directors, four of whom nominated by the Company and Dr. Li granted the casting vote carrying the weight of tie-breaker in the case of 50%:50% tie. Dr. Li has signed a declaration to proclaim that his effective voting control in the board of directors of Success Gateway will be transferred to the Company and he will cast his vote in all decisions of the board of directors of Success Gateway in the way as directed by the Company. In spite that the Group's equity interests in Success Gateway fall below 50%, the Company still keeps absolute control in the board of directors of Success Gateway.

Having considered that (i) the Consideration of the Subscription carries a substantial premium; (ii) the proceeds of the Subscription will help in strengthening the Success Gateway's cash position and its further growth; (iii) the proceeds of the Redemption will assist the Group to generate additional working capital; and (iv) the Company still keeps absolute control in the board of directors of Success Gateway, we consider the potential benefits from the Subscription outweigh the disadvantages on dilution. Based on the above, we are of the view that the potential dilution on the shareholding of the Group in Success Gateway is acceptable, and is in the interests of the Company and the Shareholders as a whole.

5 Recommendation

Having taken into account the above factors and reasons, we are of the view that (i) the terms of the Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Subscription is in the line of the business strategy of the Company and is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the SGM to approve the Subscription Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution in the regard.

Yours faithfully,
For and on behalf of
South China Capital Limited
Manfred Shiu
Director

1. SUMMARY OF FINANCIAL INFORMATION

A summary of the audited results and assets and liabilities of the Group for the three years ended 31 March 2008, as extracted from the annual reports of the Company, is set out below.

Results

	Year ended 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	2,867,570	1,632,961	6,834
Loss before taxation	21,909	73,372	101,863
Taxation	2,091	883	–
Net loss attributable to Shareholders	25,152	73,210	96,773
Basic loss per Share	HK$0.11	HK$0.31	HK$0.42
Diluted loss per Share	N/A	N/A	N/A
Dividend per Share	–	–	–

Assets and liabilities

	As at 31 March		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	196,441	198,807	106,650
Total liabilities	(241,040)	(225,137)	(69,564)
Net (liabilities)/assets attributable to the Shareholders	(57,607)	(39,059)	31,473

Note: There was no qualification in the auditors' reports issued by RSM for each of the three years ended 31 March 2008.

2. INDEBTEDNESS

As at the close of business on 31 July 2008, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings of approximately HK$4,199,340, comprising unsecured and un-guaranteed amounts due to directors of approximately HK$2,825,806 and unsecured and un-guaranteed amounts due to third parties of approximately HK$1,373,534.

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

(a) 3% convertible bonds with a principal amount of approximately HK$45,084,000 (equivalent to US$5,780,000) issued by the Company on 19 May 2005 ("CB 1"). The CB1 carries interest at 3% per annum payable semi-annually in arrears with the first interest payment due on 18 November 2005 and the last interest payment due on 18 May 2009;

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

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

(d) 2% convertible bonds with a principal amount of HK$20,000,000 issued by the Company on 1 June 2008 ("CB 3"). The CB 3 carries interest at 2% per annum payable semi-annually in arrears with the first interest payment due on 30 November 2008 and the last interest payment due on 31 May 2011.

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

For the purpose of the above statement of indebtedness, foreign currency amounts have been translated into Hong Kong dollars at the approximate rates of exchange prevailing at the close of business on 31 July 2008.

3. WORKING CAPITAL

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

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm that there was no material adverse change in the financial or trading position of the Group since 31 March 2008 (being the date to which the latest published audited financial statements of the Company were made up).

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, receive from the independent reporting accountants, RSM.

RSM Nelson Wheeler
中瑞岳華(香港)會計師事務所
Certified Public Accountants

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

30 September 2008

The Board of Directors
China HealthCare Holdings Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of China HealthCare Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 March 2006, 2007 and 2008 (the "Relevant Periods") for inclusion in the circular dated 30 September 2008 issued by the Company (the "Circular") in connection with the proposed issuance of convertible cumulative preference shares and warrants of Success Gateway Investments Limited ("Success Gateway"), a wholly-owned subsidiary of the Company.

The Company was incorporated on 16 November 2000 in Bermuda as an exempted company with limited liability under the Company Act of Bermuda. As at the date of this report, the Company has direct and indirect interests in the subsidiaries and an associate as set out in notes 19 and 20 to the Financial Information respectively.

All the companies of the Group have adopted 31 March as their financial year end date, except for its subsidiaries established in the People's Republic of China (the "PRC") which have adopted 31 December as their financial year end date as required by the relevant laws in the PRC. We acted as auditors of the Company and its subsidiaries for the Relevant Periods except as disclosed below.

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

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

Name of company	Financial year	Name of auditors
Beijing Joyzone Network Technologic Co., Ltd.	For the year ended 31 December 2007	Beijing Tortrusting CPA Ltd. (北京中會信誠會計師事務所有限責任公司)
Beijing Universal Medical Assistance Co., Ltd.	For each of the two years ended 31 December 2006	Hua-Ander Certified Public Accountants (華安德會計師事務所)
	For the year ended 31 December 2007	Beijing Tortrusting CPA Ltd. (北京中會信誠會計師事務所有限責任公司)
Beijing Weichang Medical Clinic Co., Ltd.	For the year ended 31 December 2007	Beijing Tortrusting CPA Ltd. (北京中會信誠會計師事務所有限責任公司)
CHC (Shanghai) Medical & Healthcare Services Ltd	For each of the two years ended 31 December 2006	Shanghai Zhaoxin Certified Public Accountants Co., Ltd (上海兆信會計師事務所)
Shanghai New Everstep Investment Management and Consulting Limited	For each of the three years ended 31 December 2007	Shanghai Zhaoxin Certified Public Accountants Co., Ltd. (上海兆信會計師事務所)
Shanghai Weichang Investment and Management Consulting Co., Ltd.	For each of the two years ended 31 December 2007	Shanghai Zhaoxin Certified Public Accountants Co., Ltd. (上海兆信會計師事務所)

No audited financial statements of CHC (Shanghai) Medical & Healthcare Services Ltd have been prepared for the year ended 31 December 2007.

No audited financial statements of Success Gateway, CHC Investment Holdings Limited and China Healthcare Services Investment Limited have been prepared for the Relevant Periods as there is no statutory audit requirement in the country of their incorporation.

The above listed subsidiaries which, in the opinion of the directors of the Company, principally affected the results for the Relevant Periods or formed a substantial portion of the net assets/liabilities of the Group as at 31 March 2006, 2007 and 2008. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

The directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "HKFRS Financial Statements").

We have performed our independent audit on the HKFRS Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have examined the HKFRS Financial Statements in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The Financial Information has been prepared from the HKFRS Financial Statements in accordance with HKFRSs. No adjustments were considered necessary for the purpose of preparing our report for inclusion in the Circular.

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

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2006, 2007 and 2008 and of the Group's results and cash flows for the Relevant Periods.

FINANCIAL INFORMATION

A. CONSOLIDATED INCOME STATEMENTS

		Year ended 31 March		
		2006	**2007**	**2008**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	*6*	6,834	1,632,961	2,867,570
Cost of sales and services		(5,287)	(1,620,215)	(2,841,100)
Gross profit		1,547	12,746	26,470
Other income	*7*	1,337	6,721	11,411
Distribution costs		(4,743)	(5,091)	(7,480)
Administrative expenses		(37,428)	(41,673)	(40,645)
Impairment losses for doubtful debts		(21,217)	(2,307)	(407)
Impairment losses of available-for-sale financial assets		(22,588)	–	–
Impairment losses of goodwill		(15,500)	(14,462)	(493)
Other operating expenses		(504)	(20,539)	(8,450)
Loss from operations		(99,096)	(64,605)	(19,594)
Finance costs	*9*	(2,767)	(9,011)	(12,648)
Gain on disposal of subsidiaries	*34(b)*	–	–	10,333
Gain on disposal of an associate		–	236	–
Share of profits of an associate		–	8	–
Loss before tax		(101,863)	(73,372)	(21,909)
Income tax expense	*10*	–	(883)	(2,091)
Loss for the year	*11*	(101,863)	(74,255)	(24,000)
Attributable to:				
Equity holders of the Company	*12*	(96,773)	(73,210)	(25,152)
Minority interests		(5,090)	(1,045)	1,152
		(101,863)	(74,255)	(24,000)
Loss per share (HK$)	*15*			
– Basic		(0.42)	(0.31)	(0.11)
– Diluted		N/A	N/A	N/A

B. CONSOLIDATED BALANCE SHEETS

	Notes	2006 HK$'000	2007 HK$'000	2008 HK$'000
		As at 31 March		
Non-current assets				
Property, plant and equipment	*16*	11,968	15,894	11,988
Goodwill	*17*	23,886	30,877	27,152
Other intangible assets	*18*	1,111	1,917	830
Prepayment for acquisition of non-current assets		–	5,253	6,889
Interest in an associate	*20*	1	1	1
		36,966	53,942	46,860
Current assets				
Inventories	*21*	2,646	23,255	14,513
Trade receivables	*22*	3,289	18,638	33,563
Prepayments, deposits and other receivables		8,049	8,171	14,147
Loan receivables	*23*	7,806	20,434	27,656
Financial assets at fair value through profit or loss	*24*	–	345	123
Bank balances and cash	*25*	47,894	74,022	59,579
		69,684	144,865	149,581
Current liabilities				
Trade payables	*26*	1,409	552	2,180
Other payables and accrued liabilities		12,221	20,647	30,450
Due to directors	*27*	6,942	5,311	1,972
Derivative component of convertible bonds	*28*	–	7,947	4,237
Derivative component of redeemable convertible cumulative preference shares	*29*	–	42,569	48,559
Current tax liabilities		–	330	829
		20,572	77,356	88,227
Net current assets		49,112	67,509	61,354
Total assets less current liabilities		86,078	121,451	108,214
Non-current liabilities				
Convertible bonds	*28*	48,992	66,643	62,206
Redeemable convertible cumulative preference shares	*29*	–	81,138	90,607
		48,992	147,781	152,813
NET ASSETS/(LIABILITIES)		37,086	(26,330)	(44,599)
Capital and reserves				
Share capital	*31*	23,437	23,437	23,437
Reserves	*32*	8,036	(62,496)	(81,044)
Equity attributable to equity holders of the Company		31,473	(39,059)	(57,607)
Minority interests		5,613	12,729	13,008
TOTAL EQUITY		37,086	(26,330)	(44,599)

C. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company										
	Share Capital *HK$'000*	Share premium *HK$'000*	Contributed surplus *HK$'000*	Statutory reserves *HK$'000*	Convertible bonds reserve *HK$'000*	Foreign currency translation reserve *HK$'000*	Share option reserve *HK$'000*	Accumu-lated losses *HK$'000*	Sub-total *HK$'000*	Minority interests *HK$'000*	Total equity *HK$'000*
At 1 April 2005	21,707	194,543	57,124	–	2,195	16	–	(168,723)	106,862	8,671	115,533
Exchange differences arising on translation of financial statements of overseas operations and net income recognised directly in equity	–	–	–	–	–	344	–	–	344	–	344
Loss for the year	–	–	–	–	–	–	–	(96,773)	(96,773)	(5,090)	(101,863)
Total recognised income and expense for the year	–	–	–	–	–	344	–	(96,773)	(96,429)	(5,090)	(101,519)
Recognition of equity component of convertible bonds	–	–	–	–	3,592	–	–	–	3,592	–	3,592
Issue of shares on conversion of convertible bonds	1,730	17,765	–	–	(2,195)	–	–	–	17,300	–	17,300
Recognition of share-based payments	–	–	–	–	–	–	148	–	148	–	148
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	2,032	2,032
	1,730	17,765	–	–	1,397	–	148	–	21,040	2,032	23,072
At 31 March 2006 and 1 April 2006	23,437	212,308	57,124	–	3,592	360	148	(265,496)	31,473	5,613	37,086
Exchange differences arising on translation of financial statements of overseas operations and net income recognised directly in equity	–	–	–	–	–	2,678	–	–	2,678	360	3,038
Loss for the year	–	–	–	–	–	–	–	(73,210)	(73,210)	(1,045)	(74,255)
Total recognised income and expense for the year	–	–	–	–	–	2,678	–	(73,210)	(70,532)	(685)	(71,217)
Transfer to statutory reserve	–	–	–	179	–	–	–	(179)	–	–	–
Dividend paid to minority equity holder	–	–	–	–	–	–	–	–	–	(597)	(597)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	8,398	8,398
	–	–	–	179	–	–	–	(179)	–	7,801	7,801
At 31 March 2007 and 1 April 2007	23,437	212,308	57,124	179	3,592	3,038	148	(338,885)	(39,059)	12,729	(26,330)
Exchange differences arising on translation of financial statements of overseas operations and net income recognised directly in equity	–	–	–	–	–	6,947	–	–	6,947	1,127	8,074
Loss for the year	–	–	–	–	–	–	–	(25,152)	(25,152)	1,152	(24,000)
Total recognised income and expense for the year	–	–	–	–	–	6,947	–	(25,152)	(18,205)	2,279	(15,926)
Transfer to statutory reserves	–	–	–	868	–	–	–	(868)	–	–	–
Capital contribution by minority equity holders	–	–	–	–	–	–	–	–	–	4,462	4,462
Disposal of subsidiaries	–	–	–	–	–	(343)	–	–	(343)	(6,462)	(6,805)
	–	–	–	868	–	(343)	–	(868)	(343)	(2,000)	(2,343)
At 31 March 2008	23,437	212,308	57,124	1,047	3,592	9,642	148	(364,905)	(57,607)	13,008	(44,599)

D. CONSOLIDATED CASH FLOW STATEMENTS

	Notes	2006 HK$'000	2007 HK$'000	2008 HK$'000
		For the year ended 31 March		
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before tax		(101,863)	(73,372)	(21,909)
Adjustments for:				
Finance costs		2,767	9,011	12,648
Share of profits of an associate		–	(8)	–
Interest income		(1,029)	(3,678)	(2,594)
Reversal of impairment losses for doubtful debts		(44)	(531)	–
Amortisation of other intangible assets		191	330	385
Depreciation		2,625	4,851	5,391
Impairment losses for doubtful debts		21,217	2,307	407
Impairment losses of goodwill		15,500	14,462	493
Impairment losses for obsolete inventories		377	700	25
Impairment losses of available-for-sale financial assets		22,588	–	–
Fair value (gain)/loss (realised and unrealised) on financial assets at fair value through profit or loss		–	(595)	222
Gain on repurchase of convertible bonds		–	–	(2,959)
Fair value loss/(gain) on derivative component of convertible bonds		–	5,720	(3,710)
Fair value loss on derivative component of redeemable convertible cumulative preference shares		–	10,311	5,990
Issue cost of derivative component of redeemable convertible cumulative preference shares		–	3,640	–
Gain on disposal of subsidiaries		–	–	(10,333)
Gain on disposal of an associate		–	(236)	–
Loss on disposal of property, plant and equipment		3	869	2,460
Share-based payment expenses		148	–	–
Operating cash flows before working capital changes		(37,520)	(26,219)	(13,484)
Decrease/(increase) in inventories		402	(12,755)	7,166
Decrease/(increase) in trade receivables		487	(5,583)	(16,272)
Increase in prepayments, deposits and other receivables		(4,243)	(2,322)	(10,035)
Increase/(decrease) in trade payables		421	(856)	3,080
Increase/(decrease) in other payables and accrued liabilities		2,574	(11,142)	13,836
Increase/(decrease) in amounts due to directors		1,228	(4)	(3,339)
Cash used in operations		(36,651)	(58,881)	(19,048)
Income tax paid		–	(1,036)	(1,722)
Interest paid		(1,333)	(1,545)	(1,459)
Net cash used in operating activities		(37,984)	(61,462)	(22,229)

	Notes	2006 HK$'000	2007 HK$'000	2008 HK$'000
		For the year ended 31 March		
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of subsidiaries	34(a)	–	(3,477)	–
Disposal of subsidiaries	34(b)	–	–	13,946
Interest received		722	2,840	1,866
Prepayment for acquisition of non-current assets		–	(5,253)	(1,111)
Purchase of property, plant and equipment		(5,861)	(1,622)	(8,267)
Proceeds from disposal of property, plant and equipment		100	259	815
Proceeds from disposal of an associate		–	1,980	–
Purchase of financial assets at fair value through profit or loss		–	(3,715)	–
Proceeds from disposal of financial assets at fair value through profit or loss		–	3,965	–
Advances of loan receivables		(13,893)	(19,559)	(7,222)
Repayment of loan receivables		6,087	1,900	–
Net cash (used in)/generated from investing activities		(12,845)	(22,682)	27
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of convertible bonds		51,256	–	–
Proceeds from issue of redeemable convertible cumulative preference shares		–	117,000	–
Issue cost of redeemable convertible cumulative preference shares paid		–	(8,358)	–
Dividend paid to minority equity holders		–	(597)	–
Repurchase of convertible bonds		–	–	(3,198)
Capital contribution by minority equity holders		–	–	4,462
Net cash generated from financing activities		51,256	108,045	1,264
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		427	23,901	(20,938)
Effect of foreign currency exchange rate changes		149	2,227	6,495
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		47,318	47,894	74,022
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH		47,894	74,022	59,579

E. BALANCE SHEETS

		As at 31 March		
		2006	2007	2008
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	*16*	3	–	–
Investments in subsidiaries	*19*	14,022	24,552	24,552
		14,025	24,552	24,552
Current assets				
Prepayments, deposits and other receivables		370	900	900
Loan receivables	*23*	624	624	624
Due from directors	*27*	–	180	180
Due from subsidiaries	*19*	68,483	141,070	147,354
Bank balances and cash		10,984	550	309
		80,461	143,324	149,367
Current liabilities				
Other payables and accrued liabilities		3,281	7,216	8,627
Derivative component of convertible bonds	*28*	–	7,947	4,237
Derivative component of redeemable convertible cumulative preference shares	*29*	–	42,569	48,559
Due to subsidiaries	*19*	2,955	942	17,224
		6,236	58,674	78,647
Net current assets		74,225	84,650	70,720
Total assets less current liabilities		88,250	109,202	95,272
Non-current liabilities				
Convertible bonds	*28*	48,992	66,643	62,206
Redeemable convertible cumulative preference shares	*29*	–	81,138	90,607
		48,992	147,781	152,813
NET ASSETS/(LIABILITIES)		39,258	(38,579)	(57,541)
Capital and reserves				
Share capital	*31*	23,437	23,437	23,437
Reserves	*32*	15,821	(62,016)	(80,978)
TOTAL EQUITY		39,258	(38,579)	(57,541)

F. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act of Bermuda. The address of the registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and the principal place of business of the Company is 9th Floor, Shun Ho Tower, No. 24-30 Ice House Street, Central, Hong Kong. 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 associate are set out in notes 19 and 20 to the Financial Information respectively.

2. BASIS OF PREPARATION

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

For the purpose of preparing and presenting the Financial Information, the Group has adopted all the new and revised HKFRSs that are relevant to its operations and effective for the Relevant Periods. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. 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 financial impact on the Financial Information.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The preparation of the Financial Information 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 involving critical judgements and areas where assumptions and estimates are significant to the Financial Information, are disclosed in note 4 below.

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

(a) Consolidation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Consolidation *(Continued)*

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

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

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

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.

Goodwill is reviewed 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Associates *(Continued)*

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

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

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

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

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the Financial Information 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 Financial Information is presented in Hong Kong dollars, which is the Company's functional and presentation currency.

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

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

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

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(d) **Foreign currency translation** *(Continued)*

(iii) Translation on consolidation

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

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

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

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

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

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

(e) **Property, plant and equipment**

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Operating leases

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

(g) Research and development expenditure

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

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

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

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

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

(h) Patents and computer software

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

(i) 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.

(j) Recognition and derecognition of financial instruments

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) 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.

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

(l) Trade and other receivables

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

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

(m) 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.

(n) 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.

(o) Borrowings

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Convertible bonds

(i) Convertible bonds issued with equity components

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

Transaction 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.

(ii) Convertible bonds issued with derivative components

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

Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components on initial recognition.

(q) Redeemable convertible cumulative preference shares

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

Transaction costs are apportioned between the liability and derivative components of the redeemable convertible cumulative preference shares based on the allocation of proceeds to the liability and derivative components when the instruments on initial recognition.

(r) 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Equity instruments

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

(t) Revenue recognition

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

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

Revenue from E-commerce distribution of mobile pre-charge are recognised on delivery of relevant data to the customers.

Service fee income is recognised when the service is rendered.

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

(u) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

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

(iii) Termination benefits

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

(v) Share-based payments

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Borrowing costs

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

(x) Government grants

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

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

(y) Taxation

Income tax expense represents the sum of the current tax and deferred tax.

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) Related parties

A party is related to the Group if:

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

(ii) the party is an associate;

(iii) the party is a joint venture;

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

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

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

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

(aa) Segment reporting

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(bb) Impairment of assets

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

(cc) 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.

(dd) 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 Information. Events after the balance sheet date that are not adjusting events are disclosed in the notes to the Financial Information when material.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

(a) Impairment loss for bad and doubtful debts

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

(b) Income taxes

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

(c) Impairment of goodwill

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

(d) Fair value of embedded derivatives

As disclosed in notes 28 and 29 to the Financial Information, the fair values of the derivative components of convertible bonds and redeemable convertible cumulative preference shares at the dates of issue and the balance sheet dates were determined using option pricing models with reference to the valuations performed by an independent valuer. Application of option pricing models requires the Group to choose an appropriate option model and to estimate the prominent factors affecting the fair value, including but not limited to, the expected life of the derivative components, the expected volatility of the share price of the Company and the potential dilution in the share price of the Company. Where the estimation on these factors is different from those previously estimated, such differences will impact the fair value gain or loss of the derivative components of convertible bonds and redeemable convertible cumulative preference shares in the period in which such determination is made.

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, price risk, credit risk, liquidity risk and interest rate 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) 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 ("HK$"), United States dollars and Renminbi ("RMB") and the functional currencies of the principle operating entities of the Group are HK$ and RMB. 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.

(b) Price risk

The Group's derivative components of convertible bonds and redeemable cumulative preference shares are measured at fair value at each balance sheet dates. Therefore, the Group is exposed to equity security price risk.

At 31 March 2007 and 2008, if the share price of the Company and its volatility had increased by 10% with all other variables held constant and all the derivative components moved according to the historical correlation with the share price of the Company, the consolidated loss after tax for the year would have been increased by HK$19,125,000 and HK$4,016,000 respectively, arising from changes in fair value of the derivative components of convertible bonds and redeemable convertible cumulative preference shares.

At 31 March 2007 and 2008, if the share price of the Company and its volatility had decreased by 10% with all other variables held constant and all the derivative components moved according to the historical correlation with the share price of the Company, the consolidated loss after tax for the year would have been decreased by HK$18,127,000 and HK$3,349,000 respectively, arising from changes in fair value of the derivative components of convertible bonds and redeemable convertible cumulative preference shares.

(c) Credit risk

The carrying amounts of the bank balances and cash, trade and other receivables, and loan receivables included in the balance sheets represent the Group's maximum exposure to credit risk in relation to the Group's financial assets.

Except for the loan receivables, the Group has no significant concentrations of credit risk.

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

The Group only trades with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis, the directors review the recoverable amount of each individual trade debt and loan regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

5. FINANCIAL RISK MANAGEMENT *(Continued)*

(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 long term.

The maturity analysis of the Group's financial liabilities is as follows:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
	HK$'000	*HK$'000*	*HK$'000*
At 31 March 2006			
Trade payables	1,409	–	–
Other payables and accrued liabilities	12,221	–	–
Due to directors	6,942	–	–
Convertible bonds	1,544	1,544	53,227
At 31 March 2007			
Trade payables	552	–	–
Other payables and accrued liabilities	20,647	–	–
Due to directors	5,311	–	–
Convertible bonds	1,912	1,912	70,216
Redeemable convertible cumulative preference shares	2,340	2,340	122,436
At 31 March 2008			
Trade payables	2,180	–	–
Other payables and accrued liabilities	30,450	–	–
Due to directors	1,972	–	–
Convertible bonds	1,720	45,634	18,529
Redeemable convertible cumulative preference shares	2,340	2,340	120,096

(e) Interest rate risk

The interest rates of the convertible bonds and redeemable convertible cumulative preference shares are fixed as disclosed in notes 28 and 29 to the Financial Information respectively and expose the Group to fair value interest rate risks.

The Group's bank deposits bear interests at variable rates varied with the then prevailing market condition and expose the Group to cash flow interest rate risk.

The Group's result is not sensitive to changes in interest rate as the Group's borrowings are at fixed interest rates and the interest income generated from bank deposits is insignificant.

(f) Fair values

Except for the convertible bonds and redeemable convertible cumulative preference shares disclosed in 28 and 29 to the Financial Information respectively, the carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated balance sheets approximate their respective fair values.

6. TURNOVER

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

The Group

	Year ended 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Turnover			
Sales of biotechnology products	3,683	2,852	5,884
Revenue from E-commerce distribution of mobile pre-charge	–	1,627,076	2,857,505
Income of healthcare services	3,151	3,033	4,181
	6,834	1,632,961	2,867,570

7. OTHER INCOME

The Group

	Year ended 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Interest income on bank deposits	687	2,805	1,458
Other interest income	342	873	1,136
Reversal of impairment losses for doubtful debts	44	531	–
Government subsidies	–	665	1,303
Fair value gains (realised and unrealised) on financial assets at fair value through profit or loss	–	595	–
Fair value gain on derivative component of convertible bonds	–	–	3,710
Gain on repurchase of convertible bonds	–	–	2,959
Sundry income	264	1,252	845
	1,337	6,721	11,411

8. SEGMENT INFORMATION

(a) Primary reporting format – business segments

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

8. **SEGMENT INFORMATION** *(Continued)*

(b) Secondary reporting format – geographical segments

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

Primary reporting format – business segments

Consolidated income statement

	Year ended 31 March 2006				
	Production and trading of biotechnology products	**Procurement of healthcare services**	**E-commerce distribution of mobile pre-charge**	**Investment holding**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue	3,683	3,151	–	–	6,834
Segment results	(9,220)	(18,623)	–	(48,806)	(76,649)
Other income					1,337
Unallocated corporate expenses					(23,784)
Loss from operations					(99,096)
Finance costs					(2,767)
Loss before tax					(101,863)

	Year ended 31 March 2007				
	Production and trading of biotechnology products	**Procurement of healthcare services**	**E-commerce distribution of mobile pre-charge**	**Investment holding**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue	2,852	3,033	1,627,076	–	1,632,961
Segment results	(3,221)	(11,915)	4,694	–	(10,442)
Other income					6,721
Unallocated corporate expenses					(60,884)
Loss from operations					(64,605)
Finance costs					(9,011)
Gain on disposal of an associate					236
Share of profits of an associate					8
Loss before tax					(73,372)

8. SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments *(Continued)*

Consolidated income statement *(Continued)*

	Year ended 31 March 2008				
	Production and trading of biotechnology products	**Procurement of healthcare services**	**E-commerce distribution of mobile pre-charge**	**Investment holding**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue	5,884	4,181	2,857,505	–	2,867,570
Segment results	(4,542)	(7,681)	6,863	–	(5,360)
Other income					11,411
Unallocated corporate expenses					(25,645)
Loss from operations					(19,594)
Finance costs					(12,648)
Gain on disposal of subsidiaries					10,333
Loss before tax					(21,909)

Consolidated balance sheet

	As at 31 March 2006				
	Production and trading of biotechnology products	**Procurement of healthcare services**	**E-commerce distribution of mobile pre-charge**	**Investment holding**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*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

8. SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments *(Continued)*

Consolidated balance sheet *(Continued)*

	As at 31 March 2007				
	Production and trading of biotechnology products	**Procurement of healthcare services**	**E-commerce distribution of mobile pre-charge**	**Investment holding**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS					
Segment assets	8,164	18,292	66,782	1	93,239
Unallocated corporate assets					105,568
Consolidated total assets					198,807
LIABILITIES					
Segment liabilities	781	2,955	5,824	–	9,560
Unallocated corporate liabilities					215,577
Consolidated total liabilities					225,137

	As at 31 March 2008				
	Production and trading of biotechnology products	**Procurement of healthcare services**	**E-commerce distribution of mobile pre-charge**	**Investment holding**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS					
Segment assets	3,001	15,221	74,671	1	92,894
Unallocated corporate assets					103,547
Consolidated total assets					196,441
LIABILITIES					
Segment liabilities	532	3,509	14,065	–	18,106
Unallocated corporate liabilities					222,934
Consolidated total liabilities					241,040

8. **SEGMENT INFORMATION** *(Continued)*

Primary reporting format – business segments *(Continued)*

Other information

	Year ended 31 March 2006					
	Production and trading of biotechnology products	**Procurement of healthcare services**	**E-commerce distribution of mobile pre-charge**	**Investment holding**	**Unallocated corporate assets**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Additions:						
– Property, plant and equipment	215	6,268	–	–	1,156	7,639
– Goodwill	–	1,213	–	–	–	1,213
Impairment losses of inventories	377	–	–	–	–	377
Impairment losses for doubtful debts	40	–	–	21,177	–	21,217
Impairment losses of available-for-sale financial assets	–	–	–	22,588	–	22,588
Impairment losses of goodwill	5,600	5,400	–	4,500	–	15,500
Amortisation of other intangible assets	191	–	–	–	–	191
Depreciation	497	1,753	–	–	375	2,625
Share-based payment expense	–	–	–	–	148	148

	Year ended 31 March 2007					
	Production and trading of biotechnology products	**Procurement of healthcare services**	**E-commerce distribution of mobile pre-charge**	**Investment holding**	**Unallocated corporate assets**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Additions:						
– Property, plant and equipment	73	1,926	7,001	–	155	9,155
– Goodwill	–	2,348	19,105	–	–	21,453
– Other intangible assets	–	–	1,050	–	–	1,050
Impairment losses for obsolete inventories	613	87	–	–	–	700
Impairment losses for doubtful debts	1,765	–	483	–	59	2,307
Impairment losses of goodwill	8,301	6,161	–	–	–	14,462
Amortisation of other intangible assets	198	–	132	–	–	330
Depreciation	344	2,392	1,726	–	389	4,851

8. SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments *(Continued)*

Other information *(Continued)*

	Year ended 31 March 2008					
	Production and trading of biotechnology products	**Procurement of healthcare services**	**E-commerce distribution of mobile pre-charge**	**Investment holding**	**Unallocated corporate assets**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Additions:						
– Property, plant and equipment	4,596	134	3,182	–	355	8,267
Impairment losses for obsolete inventories	–	25	–	–	–	25
Impairment losses for doubtful debts	7	130	4	–	266	407
Impairment losses of goodwill	–	–	493	–	–	493
Amortisation of other intangible assets	174	–	211	–	–	385
Depreciation	404	1,886	2,707	–	394	5,391

9. FINANCE COSTS

The Group

	Year ended 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Interest on convertible bonds wholly repayable within five years	2,767	3,023	3,179
Interest on other loans wholly repayable within five years	–	31	–
Interest on liability component of redeemable convertible cumulative preference shares wholly repayable within five years	–	5,957	9,469
	2,767	9,011	12,648

10. INCOME TAX EXPENSE

The Group

	Year ended 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Current tax – PRC			
Provision for the year	–	883	2,079
Under-provision in prior year	–	–	12
	–	883	2,091

No provision for Hong Kong Profits Tax has been made in the Financial Information as the Group did not generate any assessable profit arising from Hong Kong during the Relevant Periods.

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

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

The Group

	Year ended 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Loss before tax	(101,863)	(73,372)	(21,909)
Tax at the Hong Kong Profits Tax rate of 17.5%	(17,826)	(12,840)	(3,834)
Tax effect of income that is not taxable in determining taxable profit	(193)	(2,259)	(8,073)
Tax effect of expenses that are not deductible in determining taxable profit	15,193	16,350	11,313
Tax effect of losses not recognised due to uncertainty on future profit streams	4,606	139	1,769
Tax effect of difference on depreciation between tax and accounting purposes	129	39	295
Effect of different tax rates operating in other jurisdiction	(1,909)	(546)	609
Under-provision in prior year	–	–	12
Income tax expense	–	883	2,091

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

11. LOSS FOR THE YEAR

Loss for the year is stated after charging/(crediting) the following:

The Group

	Year ended 31 March		
	2006	**2007**	**2008**
	HK\$'000	*HK\$'000*	*HK\$'000*
Amortisation of other intangible assets included in administrative expenses	191	330	385
Auditor's remuneration			
– Current year	831	1,358	1,800
– Underprovision in prior years	35	–	–
	866	1,358	1,800
Cost of inventories recognised as expenses *(Note)*	3,218	1,617,088	2,480,318
Depreciation	2,625	4,851	5,391
Net exchange losses	233	375	531
Fair value loss on financial assets at fair value through profit or loss	–	–	222
Fair value loss/(gain) on derivative component of convertible bonds	–	5,720	(3,710)
Fair value loss on derivative component of redeemable convertible cumulative preference shares	–	10,311	5,990
Impairment losses for doubtful debts	21,217	2,307	–
Impairment losses for obsolete inventories	377	700	25
Loss on disposal of property, plant and equipment	3	869	2,460
Operating leases payments in respect of land and buildings	3,748	4,977	5,007
Research and development expenditure	384	278	1,697
Impairment losses of available-for-sale financial assets	22,588	–	–
Staff costs (including directors' remuneration)			
– Salaries and allowances	16,202	16,047	15,750
– Retirement benefit scheme contributions	117	1,122	1,123
	16,319	17,169	16,873
Share-based payment expenses	148	–	–

Note: Other than the purchase costs of finished goods, raw materials and consumables and other overheads, cost of inventories recognised as expenses included staff costs, depreciation and operating lease payments of HK\$894,000, HK\$813,000 and HK\$795,000 for the years ended 31 March 2006, 2007 and 2008 respectively.

12. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company for the years ended 31 March 2006, 2007 and 2008 includes profit/(loss) of HK\$12,495,000, (HK\$77,837,000) and (HK\$18,962,000) respectively, which has been dealt with in the financial statements of the Company.

13. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES

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

Name	Directors' fees	Salaries and other benefits	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Dr. Li Zhong Yuan	–	2,787	12	2,799
Dr. Ni Aimin (Resigned on 1 November 2007)	–	1,800	12	1,812
Mr. Lee Jong Dae	–	2,040	12	2,052
Mr. Deng Ku Hon (Resigned on 6 July 2007)	–	1,200	12	1,212
Non-executive directors				
Mr. Robin Willi (Resigned on 15 August 2006)	–	–	–	–
Mr. Martin Treffer	–	–	–	–
Independent non-executive directors				
Mr. Li Xiao Ru (Resigned on 29 August 2006)	–	–	–	–
Dr. Ma Yin Ming (Resigned on 30 November 2006)	–	–	–	–
Mr. Mu Xiang Ming	–	–	–	–
Dr. Yan Shi Yun (Appointed on 29 August 2006)	–	–	–	–
Mr. Zhou Bao Yi (Appointed on 1 December 2006)	–	–	–	–
Total	–	7,827	48	7,875

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

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

Name	Directors' fees	Salaries and other benefits	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Dr. Li Zhong Yuan	–	2,615	12	2,627
Dr. Ni Aimin (Resigned on 1 November 2007)	–	1,533	12	1,545
Mr. Lee Jong Dae	–	2,140	12	2,152
Mr. Deng Ku Hon (Resigned on 6 July 2007)	–	1,000	12	1,012
Non-executive directors				
Mr. Robin Willi (Resigned on 15 August 2006)	–	–	–	–
Mr. Martin Treffer	–	–	–	–
Independent non-executive directors				
Mr. Li Xiao Ru (Resigned on 29 August 2006)	500	–	–	500
Dr. Ma Yin Ming (Resigned on 30 November 2006)	–	–	–	–
Mr. Mu Xiang Ming	175	–	–	175
Dr. Yan Shi Yun (Appointed on 29 August 2006)	–	–	–	–
Mr. Zhou Bao Yi (Appointed on 1 December 2006)	–	–	–	–
Total	675	7,288	48	8,011

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

The remuneration of each director for the year ended 31 March 2008 is set out below:

Name	Directors' fees	Salaries and other benefits	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Dr. Li Zhong Yuan	–	2,496	12	2,508
Dr. Ni Aimin (Resigned on 1 November 2007)	–	583	6	589
Mr. Lee Jong Dae	–	2,040	12	2,052
Mr. Deng Ku Hon (Resigned on 6 July 2007)	–	200	–	200
Mr. Zhou Bao Yi (Re-designated on 6 July 2007)	–	227	–	227
Non-executive director				
Mr. Martin Treffer	–	–	–	–
Independent non-executive directors				
Mr. Mu Xiang Ming	100	–	–	100
Dr. Yan Shi Yun (Appointed on 29 August 2006)	83	–	–	83
Mr. Jiang Bo (Appointed on 31 July 2007)	–	–	–	–
Total	183	5,546	30	5,759

Details of share options granted to the directors are set out in note 33 to the Financial Information. None of the directors has waived any emoluments during the Relevant Periods.

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

The five highest paid employees of the Group included four, five and four directors for the years ended 31 March 2006, 2007 and 2008 respectively, details of whose emoluments are set out above. The emoluments of the remaining one individual for the years ended 31 March 2006 and 2008 are set out below:

	Year ended 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Salaries and other benefits	410	–	286
Retirement benefit scheme contributions	12	–	12
	422	–	298

During the years ended 31 March 2006, 2007 and 2008, 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.

14. DIVIDEND

No dividend has been paid or declared by the Company during the Relevant Periods.

15. LOSS PER SHARE

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

	Year ended 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'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)	(73,210)	(25,152)

	Year ended 31 March		
	2006	**2007**	**2008**
Weighted average number of ordinary shares for the purpose of basic loss per share	230,244,015	234,367,577	234,367,577

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

16. PROPERTY, PLANT AND EQUIPMENT

The Group

	Construction in progress *HK$'000*	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Cost						
At 1 April 2005	–	4,005	1,100	2,316	1,590	9,011
Exchange realignment	–	131	52	62	9	254
Additions	–	650	54	3,443	1,714	5,861
Disposals/write off	–	(98)	–	(15)	–	(113)
Reclassification	–	(8)	–	8	–	–
Acquired on acquisition of a subsidiary	–	1,459	–	319	–	1,778
At 31 March 2006 and 1 April 2006	–	6,139	1,206	6,133	3,313	16,791
Exchange realignment	41	289	286	326	99	1,041
Additions	–	99	108	1,412	3	1,622
Disposals/write off	(931)	–	(34)	(6)	(248)	(1,219)
Reclassification/transfer from inventories	–	–	(92)	114	–	22
Acquired on acquisition of a subsidiary	890	253	4,646	1,330	414	7,533
At 31 March 2007 and 1 April 2007	–	6,780	6,120	9,309	3,581	25,790
Exchange realignment	–	438	674	745	159	2,016
Additions	–	212	2,619	4,845	591	8,267
Disposals/write off	–	(4,088)	(1,085)	(1,552)	(2,152)	(8,877)
Reclassification/transfer to inventories	–	–	(125)	(61)	–	(186)
Disposal of subsidiaries	–	(538)	(1,486)	(4,951)	(408)	(7,383)
At 31 March 2008	–	2,804	6,717	8,335	1,771	19,627
Accumulated depreciation						
At 1 April 2005	–	106	137	398	1,480	2,121
Exchange realignment	–	24	32	22	9	87
Provided for the year	–	1,112	343	902	268	2,625
Elimination on disposals/write off	–	–	–	(10)	–	(10)
At 31 March 2006 and 1 April 2006	–	1,242	512	1,312	1,757	4,823
Exchange realignment	–	92	100	93	28	313
Provided for the year	–	1,263	1,453	1,688	447	4,851
Elimination on disposals/write off	–	–	(23)	(1)	(67)	(91)
Reclassification	–	–	(76)	76	–	–
At 31 March 2007 and 1 April 2007	–	2,597	1,966	3,168	2,165	9,896
Exchange realignment	–	208	340	383	58	989
Provided for the year	–	817	1,985	2,165	424	5,391
Elimination on disposals/write off	–	(1,751)	(820)	(1,059)	(1,972)	(5,602)
Reclassification	–	–	82	(82)	–	–
Disposal of subsidiaries	–	(538)	(1,134)	(954)	(409)	(3,035)
At 31 March 2008	–	1,333	2,419	3,621	266	7,639
Carrying amounts						
At 31 March 2008	–	1,471	4,298	4,714	1,505	11,988
At 31 March 2007	–	4,183	4,154	6,141	1,416	15,894
At 31 March 2006	–	4,897	694	4,821	1,556	11,968

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

The Company

	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Cost			
At 1 April 2005, 31 March 2006 and 31 March 2007	93	1,430	1,523
Disposals	–	(1,430)	(1,430)
At 31 March 2008	93	–	93
Accumulated depreciation			
At 1 April 2005	71	1,430	1,501
Provided for the year	19	–	19
At 31 March 2006	90	1,430	1,520
Provided for the year	3	–	3
At 31 March 2007	93	1,430	1,523
Elimination on disposals	–	(1,430)	(1,430)
At 31 March 2008	93	–	93
Carrying amounts			
At 31 March 2008	–	–	–
At 31 March 2007	–	–	–
At 31 March 2006	3	–	3

17. GOODWILL

	The Group
	HK$'000
Cost	
At 1 April 2005	36,547
Arising on acquisition of a subsidiary	1,213
Elimination of accumulated amortisation upon the adoption of HKFRS 3	(2,262)
At 31 March 2006 and 1 April 2006	35,498
Arising on acquisition of subsidiaries and additional equity interests in a subsidiary	21,453
At 31 March 2007 and 1 April 2007	56,951
Disposal of subsidiaries	(17,133)
At 31 March 2008	39,818
Amortisation	
At 1 April 2005	2,262
Elimination of accumulated amortisation upon the adoption of HKFRS 3	(2,262)
At 31 March 2006, 31 March 2007 and 31 March 2008	–
Accumulated impairment	
At 1 April 2005	612
Impairment loss recognised during the year	11,000
At 31 March 2006 and 1 April 2006	11,612
Impairment loss recognised during the year	14,462
At 31 March 2007 and 1 April 2007	26,074
Disposal of subsidiaries	(13,901)
Impairment loss recognised during the year	493
At 31 March 2008	12,666
Carrying amounts	
At 31 March 2008	27,152
At 31 March 2007	30,877
At 31 March 2006	23,886

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 has been allocated as follows:

	2006	2007	2008
	HK$'000	*HK$'000*	*HK$'000*
Production and trading of biotechnology products:			
Shanghai Haoyuan Biotechnology Co., Ltd. ("SHB")	17,133	11,533	–
Procurement of healthcare services:			
Beijing Universal Medical Assistance Co., Ltd. ("BUMA")	16,540	11,140	8,540
CHC (Shanghai) Medical & Healthcare Services Limited ("SMHS")	1,213	2,015	–
Shanghai New Everstep Investment Management and Consultancy Limited ("SNEI")	–	1,546	–
E-commerce distribution of mobile pre-charge:			
Shanghai Harvest Network Technology Co. Limited and its subsidiary	–	18,612	18,612
Shanghai Epay Information Technology Company Limited ("Shanghai Epay")	–	493	493
	34,886	45,339	27,645

The Group reviews 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.

At 31 March 2006, 2007 and 2008, the Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five, three and five years with the residual periods using the growth rate of 2.5%, 5% and 2.5% respectively. These rates do not exceed the average long-term growth rates for the relevant markets.

During the Relevant Periods, the rates used to discount the forecast cash flows from the Group's producing and trading of biotechnology product activities, procurement of healthcare services activities and E-commerce distribution of mobile pre-charge activities are 12.6%, 11.5% and 11.0% respectively.

At 31 March 2006, before impairment review, 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 ended 31 March 2006.

17. GOODWILL *(Continued)*

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

	HK$'000
Production and trading of biotechnology products:	
SHB	8,301
Procurement of healthcare services:	
BUMA	2,600
SMHS	2,015
SNEI	1,546
Impairment loss of goodwill recognised in the year ended 31 March 2007	14,462

At 31 March 2008, since Shanghai Epay recorded an operating loss, the directors evaluated the business activity and future performance of Shanghai Epay and considered that the goodwill arising from the acquisition of Shanghai Epay was fully impaired. Accordingly impairment loss of goodwill amounted to HK$493,000 attributable to the Group's equity interests in Shanghai Epay was recognised in the consolidated income statement.

18. OTHER INTANGIBLE ASSETS

The Group

	Patents	Computer software	Total
	HK$'000	*HK$'000*	*HK$'000*
Cost			
At 1 April 2005	1,415	–	1,415
Exchange realignment	34	–	34
At 31 March 2006 and 1 April 2006	1,449	–	1,449
Exchange realignment	66	43	109
Acquired on acquisition of subsidiaries	–	1,050	1,050
At 31 March 2007 and 1 April 2007	1,515	1,093	2,608
Exchange realignment	115	109	224
Disposal of subsidiaries	(1,630)	–	(1,630)
At 31 March 2008	–	1,202	1,202
Amortisation			
At 1 April 2005	141	–	141
Exchange realignment	6	–	6
Charge for the year	191	–	191
At 31 March 2006 and 1 April 2006	338	–	338
Exchange realignment	20	3	23
Charge for the year	198	132	330
At 31 March 2007 and 1 April 2007	556	135	691
Exchange realignment	49	26	75
Disposal of subsidiaries	(779)	–	(779)
Charge for the year	174	211	385
At 31 March 2008	–	372	372
Carrying amounts			
At 31 March 2008	–	830	830
At 31 March 2007	959	958	1,917
At 31 March 2006	1,111	–	1,111

18. OTHER INTANGIBLE ASSETS *(Continued)*

The Group's patents protect the design and specification of the Group's biotechnology products. The average remaining amortisation periods of the patents and the computer software are as follows:

	2006	**2007**	**2008**
Patents	5.75 years	4.75 years	N/A
Computer software	N/A	5 years	4 years

19. INVESTMENTS IN SUBSIDIARIES

The Company

	As at 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Unlisted investments, at cost	15,619	26,149	26,149
Impairment losses	(1,597)	(1,597)	(1,597)
	14,022	24,552	24,552

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

Particulars of the subsidiaries during the Relevant Periods are as follows:

	Place of incorporation/ registration and operations/date of incorporation	**Class of shares held**	**Issued/registered capital**	**Percentage of interest in ownership held by the Group**			**Principal activities**
				2006	**2007**	**2008**	
Artel Limited	Hong Kong 5 September 2006	Ordinary	HK$10	–	60%	60%	Investment holding
Beijing Joyzone Network Technologic Co., Ltd. *(notes a and e)*	PRC 26 February 2007	Registered capital	RMB1,000,000	–	100%	100%	General trading by e-commerce
BUMA *(notes b and e)*	PRC 18 May 2001	Registered capital	RMB3,000,000	62.36%	62.36%	62.36%	Provision of exclusive nationwide medical assistance services
Beijing Weichang Medical Clinic Co., Ltd. ("BWC") *(notes c, d and e)*	PRC 28 March 2007	Registered capital	RMB2,000,000	–	100%	100%	Provision of medical services
Card Symbols Limited	British Virgin Islands/ Hong Kong 26 September 2002	Ordinary	US$1	100%	100%	100%	Investment holding
CHC Investment Holdings Limited	British Virgin Islands/Hong Kong 8 May 2001	Ordinary	US$100	100%	100%	100%	Investment holding

19. INVESTMENTS IN SUBSIDIARIES *(Continued)*

	Place of incorporation/ registration and operations/date of incorporation	Class of shares held	Issued/registered capital	Percentage of interest in ownership held by the Group 2006	2007	2008	Principal activities
SMHS *(notes c, d and e)*	PRC 27 February 2004	Registered capital	RMB6,820,000	56%	68.46%	68.46%	Provision of healthcare services
China Clinical Trials Centre Limited	British Virgin Islands/Hong Kong 28 May 2004	Ordinary	US$100	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 6 March 2001	Ordinary	HK$10,000	100%	100%	100%	Investment holding
China Healthcare Services Investment Limited	British Virgin Islands/Hong Kong 23 April 2002	Ordinary	US$137,500	89.09%	89.09%	89.09%	Investment holding
China Medicare Limited	Hong Kong 7 June 2002	Ordinary	HK$1,000,000	89.09%	89.09%	89.09%	Investment holding
Fullway Technology Limited	British Virgin Islands/Hong Kong 1 August 2003	Ordinary	US$1,000	51%	51%	51%	Investment holding
Guangdong Harvest Network Technology Company Limited *(notes c and e)*	PRC 21 August 2007	Registered capital	RMB10,000,000	–	–	69.3%	E-commerce distribution of mobile pre-charge
Junghua Enterprises Holdings Limited	British Virgin Islands/Hong Kong 5 November 2002	Ordinary	US$1	100%	100%	100%	Investment holding
Power Ability Limited	British Virgin Islands/Hong Kong 10 March 2004	Ordinary	US$10,000	51%	51%	–	Investment holding and trading of medical equipments
Shanghai Epay *(notes c, d and e)*	PRC 29 April 2006	Registered capital	US$920,000	–	60%	60%	E-commerce distribution of mobile pre-charge
SHB *(notes a and e)*	PRC 23 January 1997	Registered capital	RMB8,090,970	51%	51%	–	Developing, producing and marketing NAT clinical reagents and medical equipments
Shanghai Harvest Network Technology Company Limited ("Shanghai Harvest") *(notes b and e)*	PRC 23 October 2000	Registered capital	RMB40,000,000	–	70%	70%	E-commerce distribution of mobile pre-charge
Shanghai Kejin Network Technology Company Limited *(notes c and e)*	PRC 30 June 2003	Registered capital	RMB5,000,000	–	63%	63%	E-commerce distribution of mobile pre-charge

19. INVESTMENTS IN SUBSIDIARIES *(Continued)*

	Place of incorporation/ registration and operations/date of incorporation	Class of shares held	Issued/registered capital	Percentage of interest in ownership held by the Group 2006	2007	2008	Principal activities
SNEI *(notes a and e)*	PRC 30 May 2005	Registered capital	US$420,000	–	100%	100%	Provision of maternal and fetal care services
Shanghai Qiangzhi Biotechnology Co., Ltd. ("SQB") *(notes c, d and e)*	PRC 8 June 2007	Registered capital	US$3,000,000	–	–	100%	Trading of clinical reagents and medical equipments
Shanghai Weichang Investment and Management Consulting Co., Ltd. *(notes a and e)*	PRC 7 February 2005	Registered capital	US$3,350,000	100%	100%	100%	Investment management and consultancy services
Success Gateway	British Virgin Islands/Hong Kong 21 February 2006	Ordinary	US$100	100%	100%	100%	Investment holding
TechCap BioTech Holdings Limited	British Virgin Islands/Hong Kong 3 July 2001	Ordinary	US$1,000	100%	100%	100%	Investment holding
West Regent Property Limited	British Virgin Islands/Hong Kong 15 July 2002	Ordinary	US$1	100%	100%	100%	Investment holding
Wisdom Profit Investment Limited	Hong Kong 23 February 2001	Ordinary	HK$10,000	100%	100%	100%	Investment holding and money lending

Notes:

(a) Wholly foreign owned enterprises established in PRC.

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

(c) Domestic enterprises established in PRC.

(d) Through the relevant contractual arrangement, the Group's 100% equity interest in BWC and SQB; 68.46% equity interest in SMHS; and 60% equity interest in Shanghai Epay, are held by PRC residents as individual nominee for and on behalf of the Group.

(e) These companies have adopted 31 December as their financial year end date.

20. INTEREST IN AN ASSOCIATE

The Group

	As at 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Unlisted investments:			
Share of net assets	1	1	1
Amount due from an associate	151	151	151
	152	152	152
Less: Impairment loss for amount due from an associate	(151)	(151)	(151)
	1	1	1

Particulars of the Group's associate during the Relevant Periods are as follows:

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

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

	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	1	1	1
Total liabilities	(160)	(165)	(170)
Net liabilities	(159)	(164)	(169)
Revenue	–	–	–
Loss for the year	(156)	(5)	(8)

The Group has not recognised its share of loss for the years ended 31 March 2006, 2007 and 2008 amounting to HK$62,000, HK$2,000 and HK$3,000 respectively for Moment Touch Management Limited. The accumulated losses not recognised were HK$64,000, HK$66,000 and HK$69,000 for the years ended 31 March 2006, 2007 and 2008 respectively.

21. INVENTORIES

The Group

	As at 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Raw materials	1,205	847	142
Finished goods	1,441	22,408	14,371
	2,646	23,255	14,513

22. TRADE RECEIVABLES

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

The Group

	As at 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Within 30 days	280	17,395	32,953
31 to 60 days	273	79	254
61 to 90 days	156	151	347
91 to 120 days	165	222	–
Over 120 days	2,415	791	9
Total	3,289	18,638	33,563

The carrying amounts of the Group's trade receivables are denominated in RMB.

As at 31 March 2006, 2007 and 2008, an allowance was made for estimated irrecoverable trade receivables of approximately HK$818,000, HK$8,742,000 and HK$8,295,000 respectively. The movements in the allowance for estimated irrecoverable trade receivables during the Relevant Periods are as follows:

The Group

	As at 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
At beginning of the year	792	818	8,742
Exchange realignment	54	157	732
Impairment loss recognised	16	560	460
Reversal of impairment losses	(44)	–	–
Acquisition of subsidiaries	–	7,207	–
Disposal of subsidiaries	–	–	(1,639)
At end of the year	818	8,742	8,295

22. TRADE RECEIVABLES *(Continued)*

As of 31 March 2006, 2007 and 2008, trade receivables of HK$3,009,000, HK$859,000 and HK$184,000 respectively were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. An ageing analysis of these trade receivables is as follows:

The Group

	As at 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Up to 3 months	429	230	175
3 to 6 months	1,070	278	7
Over 6 months	1,510	351	2
	3,009	859	184

23. LOAN RECEIVABLES

The Group

	As at 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Secured term loans	27,828	37,618	37,618
Unsecured term loans	1,004	3,842	11,064
	28,832	41,460	48,682
Less: Impairment losses	(21,026)	(21,026)	(21,026)
	7,806	20,434	27,656

The Company

	As at 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Unsecured term loans	624	624	624

23. LOAN RECEIVABLES *(Continued)*

The carrying amounts of the loan receivables are denominated in the following currencies:

The Group

	As at 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
HK$	7,004	20,434	20,434
RMB	802	–	7,222
	7,806	20,434	27,656

The Company

	As at 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
HK$	624	624	624

The interest rates received were as follows:

The Group and the Company

	2006	**2007**	**2008**
Secured term loans	2% – 8%	5.5% – 5.75%	5.5% – 5.75%
Unsecured term loans	7.75 – 8%	5% – 8%	5% – 8%

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

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group

	As at 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Equity securities, at fair value			
Listed in Hong Kong	–	192	48
Listed outside Hong Kong	–	153	75
Market value of listed securities	–	345	123

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

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

25. BANK BALANCES AND CASH

As at 31 March 2006, 2007 and 2008, the bank balances and cash of the Group denominated in RMB amounted to HK$5,825,000, HK$22,483,000 and HK$46,905,000 respectively. Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

26. TRADE PAYABLES

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

The Group

	As at 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Within 30 days	42	444	1,207
31 to 60 days	–	5	9
61 to 90 days	4	12	–
91 to 120 days	494	23	1
Over 120 days	869	68	963
	1,409	552	2,180

The carrying amounts of the Group's trade payables are denominated in RMB.

27. DUE FROM/(TO) DIRECTORS

Amount due from a director disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance is as follows:

The Company

Year ended 31 March 2007

Name	**Balance at 31 March 2007**	**Balance at 1 April 2006**	**Maximum amount outstanding during the year**
	HK$'000	*HK$'000*	*HK$'000*
Dr. Li Zhong Yuan	180	–	180

27. DUE FROM/(TO) DIRECTORS *(Continued)*

Year ended 31 March 2008

Name	Balance at 31 March 2008	Balance at 1 April 2007	Maximum amount outstanding during the year
	HK$'000	*HK$'000*	*HK$'000*
Dr. Li Zhong Yuan	180	180	180

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

28. CONVERTIBLE BONDS

The Group and the Company

	As at 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Liability component of convertible bonds			
Convertible bonds issued with equity component *(note a)*	48,992	49,904	44,565
Convertible bonds issued with derivative component *(note b)*	–	16,739	17,641
	48,992	66,643	62,206
Derivative component of convertible bonds *(note b)*	–	7,947	4,237

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

	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
In the second to fifth years inclusive	48,992	66,643	62,206

Notes:

(a) Convertible bonds issued with equity component

On 19 May 2005, the Company issued convertible bonds with a nominal value of US$6,600,000 due on 18 May 2009 ("CB1"). CB1 carry interest at 3% per annum payable semi-annually in arrears with the first interest payment due on 18 November 2005 and the last interest payment due on 18 May 2009. Each CB1 entitles the holder to convert the bonds into new 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.

28. CONVERTIBLE BONDS *(Continued)*

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

	As at 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
At beginning of the year	–	48,992	49,904
Issued during the year	47,664	–	–
Interest charged for the year	2,100	2,457	2,277
Interest paid for the year	(772)	(1,545)	(1,459)
Repurchase during the year	–	–	(6,157)
At end of the year	48,992	49,904	44,565

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

The directors estimate the fair values of the liability component of CB1 at 31 March 2006, 2007 and 2008 to be approximately HK$45,237,000, HK$47,461,000 and HK$49,583,000 respectively. The fair values have been calculated by discounting the future cash flows at the market rates.

On 21 June 2007, the Group repurchased CB1 with principal amount of US$820,000 (equivalent to HK$6,396,000) at a consideration of US$410,000 (equivalent to HK$3,198,000).

(b) Convertible bonds issued with derivative component

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

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

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

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

The fair value of the derivative component, representing the embedded options entitled to the holders of CB2, was estimated at the issuance and each balance sheet date using an option pricing model and the change in fair value of that component is recognised in the income statement.

28. CONVERTIBLE BONDS *(Continued)*

The movement of the derivative and liability components of CB2 during the Relevant Periods are set out below:

	As at 31 March	
	2007	**2008**
	HK$'000	*HK$'000*
Derivative component		
At beginning of the year/date of issue	2,227	7,947
Fair value loss/(gain)	5,720	(3,710)
At end of the year	7,947	4,237
Liability component		
At beginning of the year/date of issue	16,173	16,739
Interest charged for the year	566	902
At end of the year	16,739	17,641

The interest charged on CB2 during the Relevant Periods are calculated by applying an effective interest rate of 5.479% to the liability component.

The directors estimate the fair values of the liability component of CB2 at 31 March 2007 and 2008 to be approximately HK$15,451,000 and HK$16,273,000 respectively. This fair values have been calculated by discounting the future cash flows at the market rates.

The derivative component of CB2 was revalued based on valuations by independent valuers, determined using option pricing models. The significant inputs to the models were as follows:

	As at 31 March	
	2007	**2008**
Share price of underlying shares	HK$1.45	HK$0.40
Exercise price	HK$1.16	HK$1.16
Expected volatility	74.9%	81.0%
Expected life	1 year	2.35 years
Risk-free rate	3.73%	1.3%
Expected dividend yield	Nil	Nil

29. REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES

On 28 July 2006, the Company issued 15,000 redeemable convertible cumulative preference shares of US$0.01 each ("PS") for a total cash consideration of US$15,000,000 (equivalent to HK$117,000,000). The PS 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:

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

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

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

The fair value of the derivative component, representing the embedded options entitled to the holders of PS, was estimated at the issuance and each balance sheet date using an option pricing model and the change in fair value of that component is recognised in the income statement.

The movements of the derivative and liability components of PS during the Relevant Periods are set out below:

The Group and the Company

	As at 31 March	
	2007	**2008**
	HK$'000	*HK$'000*
Derivative component		
At beginning of the year/date of issue	32,258	42,569
Fair value loss	10,311	5,990
At end of the year	42,569	48,559

29. REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES *(Continued)*

The Group and the Company

	As at 31 March	
	2007	**2008**
	HK$'000	*HK$'000*
Liability component		
At beginning of the year/date of issue	75,181	81,138
Interest charged for the year	5,957	9,469
At end of the year	81,138	90,607

During the Relevant Periods, the interest charged for the Relevant Periods is calculated by applying the effective interest rate of 11.965% to the liability component.

The directors estimate the fair values of the liability component of PS at 31 March 2007 and 2008 to be approximately HK$93,621,000 and HK$98,460,000 respectively. These fair values have been calculated by discounting the future cash flows at the market values.

The derivative component of redeemable convertible cumulative preference shares were revalued based on valuations by independent valuers, determined using option pricing models. The significant inputs to the models were as follows:

	As at 31 March	
	2007	**2008**
Share price of underlying shares	HK$1.45	HK$0.40
Exercise price	HK$1.16	HK$1.16
Expected volatility	74.9%	81.0%
Expected life	1 year	3.32 years
Risk-free rate	3.7%	1.6%
Expected dividend yield	Nil	Nil

30. DEFERRED TAXATION

At 31 March 2006, 2007 and 2008, the Group has unused tax losses of approximately HK$23,847,000, HK$37,843,000 and HK$40,045,000 respectively and other temporary differences of nil, HK$14,079,000 and HK$15,496,000 that are available for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses and other temporary differences due to unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$23,522,000, HK$35,421,000 and HK$40,045,000 that will be expired from 2006 to 2011, 2007 to 2012 and 2008 to 2013 for the years ended 31 March 2006, 2007 and 2008 respectively. Other losses may be carried forward indefinitely.

31. SHARE CAPITAL

The Group and the Company

	2006		2007		2008	
	Number of shares	*HK$'000*	*Number of shares*	*HK$'000*	*Number of shares*	*HK$'000*
Authorised:						
Ordinary shares of HK$0.1 each	5,000,000,000	500,000	5,000,000,000	500,000	5,000,000,000	500,000
Non-voting preference shares of HK$10 each	100,000,000	1,000,000	–	–	–	–
Redeemable convertible cumulative preference shares of US$0.01 each *(Note 29)*	–	–	15,000	1	15,000	1
Issued and fully paid:						
Ordinary shares of HK$0.1 each						
At beginning of year	217,067,577	21,707	234,367,577	23,437	234,367,577	23,437
Issue of shares upon conversion of convertible bonds *(Note a)*	17,300,000	1,730	–	–	–	–
At end of year	234,367,577	23,437	234,367,577	23,437	234,367,577	23,437

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

(a) During the year ended 31 March 2006, the Company had issued a total of 17,300,000 ordinary shares of HK$0.1 each in the Company upon the conversion of convertible bonds as follows:

Conversion price per share	**Amount of convertible bonds converted**	**Shares issued upon conversion**	**Share capital increased upon conversion**
	HK$'000		*HK$'000*
HK$1.0	17,300	17,300,000	1,730

31. SHARE CAPITAL *(Continued)*

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

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

(iii) the creation of 15,000 PS of US$0.01 each, with the respective rights and privileges and subject to the restrictions as set out in note 29 and the Company's circular dated 16 June 2006,

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

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

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

The only externally imposed capital requirement is that for the Group to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares. The Group receives a report from the share registrars monthly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year. Approximately 86.7%, 87.1% and 87.6% of the shares were in public hands for the years ended 31 March 2006, 2007 and 2008 respectively.

32. RESERVES

(a) The Group

Details of the movements in the reserves of the Group are set out in the Consolidated Statements of Changes in Equity on page 45.

(b) Nature and purpose of reserves

(i) Share premium account

Share premium represents premium arising from the issue of shares at a price in excess of their par value per share and is not distributable but may be applied in paying up unissued shares of the Company to be issued to the shareholders of the Company as fully paid bonus shares or in providing for the premiums payable on repurchase of shares.

(ii) Contributed surplus

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

32. RESERVES *(Continued)*

(b) Nature and purpose of reserves *(Continued)*

(ii) Contributed surplus (Continued)

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

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

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

In the opinion of the directors, the Company did not have any reserve available for distribution to shareholders during the Relevant Periods.

(iii) Statutory reserves

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

(iv) Convertible bonds reserve

The convertible bonds reserve represents the value of the unexercised/repurchased equity component of convertible bonds issued by the Company recognised in accordance with the accounting policy adopted for convertible bonds in note 3(p)(i) to the Financial Information.

(v) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the Financial Information of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(d)(iii) to the Financial Information.

(vi) Share option reserve

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

32. RESERVES *(Continued)*

(c) The Company

	Share premium	Contributed surplus	Convertible bonds reserve	Share option reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2005	194,543	57,124	2,195	–	(269,846)	(15,984)
Recognition of equity component of convertible bonds	–	–	3,592	–	–	3,592
Issue of shares on conversion of convertible bonds	17,765	–	(2,195)	–	–	15,570
Recognition of share-based payments	–	–	–	148	–	148
Profit for the year	–	–	–	–	12,495	12,495
At 31 March 2006 and 1 April 2006	212,308	57,124	3,592	148	(257,351)	15,821
Loss for the year	–	–	–	–	(77,837)	(77,837)
At 31 March 2007 and 1 April 2007	212,308	57,124	3,592	148	(335,188)	(62,016)
Loss for the year	–	–	–	–	(18,962)	(18,962)
At 31 March 2008	212,308	57,124	3,592	148	(354,150)	(80,978)

33. SHARE OPTION SCHEMES

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

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

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

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

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

Particulars of share options granted by the Company during the Relevant Periods are as follows:

Option type	**Date of grant**	**Exercisable period**		**Exercise price**
		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

The following tables summarise the movements of the Company's share options in respect of the Old Scheme during the Relevant Periods:

		Number of share options		
	Option type	**Outstanding at 1 April 2005, 2006 and 2007**	**Lapsed/ Exercised**	**Outstanding at 31 March 2006, 2007 and 2008**
Directors	A	25,000	–	25,000

33. SHARE OPTION SCHEMES *(Continued)*

The following tables summarise the movements of the Company's share options in respect of the New Scheme during the Relevant Periods:

For the year ended 31 March 2006

	Option type	Number of share 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

For the year ended 31 March 2007

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

33. SHARE OPTION SCHEMES *(Continued)*

Note: The directors resigned during the year ended 31 March 2007 remain as advisors within the Group and are therefore continued to be eligible as holders of the options granted under the New Scheme. Accordingly, the outstanding options of the resigned directors were reallocated under advisors and consultants.

For the year ended 31 March 2008

		Number of share options			
	Option type	Outstanding at 1 April 2007	Granted	Lapsed	Outstanding at 31 March 2008
Directors	B	6,000,000	–	(3,000,000)	3,000,000
	C	7,110,000	–	(1,800,000)	5,310,000
Total of directors		13,110,000	–	(4,800,000)	8,310,000
Employees	B	60,000	–	–	60,000
	C	270,000	–	–	270,000
Total of employees		330,000	–	–	330,000
Advisors and consultants	B	10,048,000	–	(1,002,000)	9,046,000
	C	9,882,000	–	(1,260,000)	8,622,000
	D	99,000	–	–	99,000
Total of advisors and consultants		20,029,000	–	(2,262,000)	17,767,000
Total		33,469,000	–	(7,062,000)	26,407,000

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

	2006		2007		2008	
	Average exercise price in HK$ per share	Number of share options	Average exercise price in HK$ per share	Number of share options	Average exercise price in HK$ per share	Number of share options
At beginning of the year	2.846	34,374,000	2.846	33,704,000	2.846	33,494,000
Granted	2.330	99,000	–	–	–	–
Lapsed	2.771	(769,000)	2.786	(210,000)	2.934	(7,062,000)
At end of the year	2.846	33,704,000	2.846	33,494,000	2.823	26,432,000

33. SHARE OPTION SCHEMES *(Continued)*

The options outstanding for the years ended 31 March 2006, 2007 and 2008 have a weighted average remaining contractual life of 6.02 years, 5.02 years and 4.02 years respectively.

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 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. 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.

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) 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. The fair values of the identifiable assets and liabilities of the subsidiary as at its date of acquisition which has no significant difference from their carrying amounts are as follows:

	2006
	HK$'000
Net assets acquired:	
Property, plant and equipment	1,778
Inventories	69
Prepayments, deposits and other receivables	71
Bank balances and cash	3,800
Trade payables	(28)
Other payables and accrued liabilities	(1,071)
Total net assets	4,619
Minority interests	(2,032)
Net assets acquired	2,587
Goodwill on acquisition	1,213
Satisfied by:	
Cash consideration	3,800
Net cash outflow arising on acquisition:	
Cash consideration	(3,800)
Bank balances and cash acquired	3,800
	–

For the year ended 31 March 2007

On 26 May 2006, the Group acquired 100% equity interest in SNEI at a total cash consideration of HK$4,484,000.

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

On 1 November 2006, the Group acquired 60% equity interest in Shanghai Epay at a cash consideration of approximately HK$1 million. Shanghai Epay is a domestic company incorporated in the PRC and is principally engaged in E-commerce distribution of mobile pre-charge and other E-commerce prepaid products and services.

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(a) Acquisition of subsidiaries *(Continued)*

For the year ended 31 March 2007 (Continued)

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

	2007			
	SNEI	**Harvest Group**	**Shanghai Epay**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Net assets acquired:				
Property, plant and equipment	898	6,322	313	7,533
Intangible assets	–	1,050	–	1,050
Interests in an associate	–	1,703	–	1,703
Inventories	–	7,907	669	8,576
Bank balances and cash	2,968	12,526	19	15,513
Trade receivables	–	10,183	94	10,277
Prepayments, deposits and other receivables	532	1,638	541	2,711
Other payables and accrued liabilities	(1,460)	(12,342)	(808)	(14,610)
Amount due to minority equity holders	–	(2,686)	–	(2,686)
Tax payable	–	(446)	–	(446)
Total net assets	2,938	25,855	828	29,621
Minority interests	–	(8,067)	(331)	(8,398)
Net assets acquired	2,938	17,788	497	21,223
Goodwill on acquisition	1,546	18,612	493	20,651
	4,484	36,400	990	41,874
Satisfied by:				
Cash consideration	–	18,000	990	18,990
Offsetting amount advanced to the third party	4,484	–	–	4,484
Issue of convertible bonds	–	18,400	–	18,400
Total consideration	4,484	36,400	990	41,874
Net cash inflow/(outflow) arising on acquisition:				
Cash consideration	–	(18,000)	(990)	(18,990)
Bank balances and cash acquired	2,968	12,526	19	15,513
	2,968	(5,474)	(971)	(3,477)

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(a) Acquisition of subsidiaries *(Continued)*

For the year ended 31 March 2007 (Continued)

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

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

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

(b) Disposal of subsidiaries

On 31 January 2008, the Group disposed its entire equity interest in Power Ability Limited and its subsidiary, SHB to an independent third party at a cash consideration of USD2,000,000 (equivalent to HK$15,600,000).

Net assets at the date of disposal were as follows:

	2008
	HK$'000
Property, plant and equipment	4,348
Other intangible assets	851
Goodwill	3,232
Inventories	1,748
Trade receivables	1,205
Prepayments, deposits and other receivables	4,520
Bank balances and cash	895
Trade payables	(1,453)
Other payables	(4,033)
Net assets disposed	11,313
Release of foreign currency translation reserve	(343)
Minority interests	(6,462)
Gain on disposal of subsidiaries	10,333
Total consideration, net of direct cost of disposal – satisfied by cash	14,841
Net cash inflow arising on disposal:	
Cash consideration received	14,841
Cash and cash equivalents disposed	(895)
	13,946

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Major non-cash transactions

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

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

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

(iii) During the year ended 31 March 2007, a borrower of the loan receivables agreed to take up the amount due to a director and accrued liabilities amounting HK$4,229,000 of the Group as partial repayment. Accordingly, these balances were set off against the loan receivables.

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

35. CAPITAL COMMITMENTS

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

The Group

	As at 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Capital expenditure contracted but not provided for in the financial statements in respect of:			
Capital contribution to subsidiaries	10,530	1,010	–
Acquisition of non-current assets	–	5,051	–
	10,530	6,061	–

36. OPERATING LEASE COMMITMENTS

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

The Group

	As at 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	2,103	5,087	3,150
In the second to fifth years inclusive	3,557	7,231	2,029
	5,660	12,318	5,179

36. OPERATING LEASE COMMITMENTS *(Continued)*

At 31 March 2006, 2007 and 2008, the total future minimum sublease payments expected to be received under non-cancellable subleases amounted to HK$177,000, HK$520,000 and HK$40,000 respectively.

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.

37. SUBSEQUENT EVENTS

(a) On 28 February 2008, Success Gateway, a wholly owned subsidiary of the Company, entered into a provisional sale and purchase agreement with Panjinfenyuan Technology Investment Limited ("Panjinfenyuan") whereby Success Gateway agreed to acquire the remaining 30% equity interest in Shanghai Harvest from the minority equity holder, Panjinfenyuan, at a consideration of HK$41.5 million. On completion of the acquisition, Shanghai Harvest becomes a wholly owned subsidiary of the Company. Details of the acquisition were set out in the Company's circular dated 29 April 2008. The transaction was approved by an ordinary resolution passed at the special general meeting held on 20 May 2008.

(b) On 2 September 2008, Success Gateway entered into a subscription agreement, pursuant to which, Success Gateway has agreed to issue and sell to DLB Harvest LLC and Dr. Li Zhong Yuan ("Dr. Li"), a director of the Company, 18,000,000 and 1,500,000 convertible cumulative preference shares of US$1.00 each of Success Gateway ("Subscription Shares") respectively at a cash consideration of US$1.00 per share. Furthermore, Dr. Li and Jade Capital LLC shall subscribe additional 1,500,000 Subscription Shares and 2,000,000 Subscription Shares respectively at the consideration of US$1.00 per share no later than 31 December 2008. Pursuant to the subscription agreement, Jade Capital LLC and Dr. Li shall also subscribe for 4,000,000 and 600,000 warrants of the Subscription Shares at the consideration of US$200,000 and US$30,000 respectively. Details of the subscription were set out in the Company's announcement dated 5 September 2008.

37. SUBSEQUENT EVENTS *(Continued)*

The financial information of Success Gateway and its subsidiary (the "Success Gateway Group") for the Relevant Periods are as follow:

Results of Success Gateway Group

	Year ended 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	–	1,627,076	2,857,505
Cost of sales and services	–	(1,615,310)	(2,835,641)
Gross Profit	–	11,766	21,864
Other income	–	1,810	1,715
Distribution costs	–	(2,218)	(4,275)
Administrative expenses	(4)	(5,796)	(10,869)
Impairment losses for doubtful debts	–	(482)	(4)
Impairment losses of goodwill	–	–	(493)
Other operating expenses	–	–	(87)
Profit/(loss) from operations	(4)	5,080	7,851
Finance costs	–	(219)	(223)
Gain on disposal of an associate	–	236	–
Share of profits of an associate	–	8	–
Profit/(loss) before tax	(4)	5,105	7,628
Income tax expense	–	(883)	(2,071)
Profit/(loss) for the year	(4)	4,222	5,557
Attributable to:			
Equity holders of the Success Gateway	(4)	2,778	2,423
Minority interests	–	1,444	3,134
	(4)	4,222	5,557

37. SUBSEQUENT EVENTS *(Continued)*

Assets and liabilities of Success Gateway Group

	As at 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Property, plant and equipment	–	5,623	5,812
Goodwill	–	19,105	18,612
Other intangible assets	–	957	830
	–	25,685	25,254
Current assets			
Inventories	–	21,220	12,994
Trade receivables	–	17,464	32,432
Prepayments, deposits and other receivables	–	2,567	6,095
Due from immediate holding company	1	1	1
Bank balances and cash	–	6,589	15,629
	1	47,841	67,151
Current liabilities			
Trade payables	–	25	1,965
Other payables and accrued liabilities	–	5,600	11,271
Due to ultimate holding company	–	18,821	11,234
Due to fellow subsidiaries	4	35,591	45,759
Current tax liabilities	–	330	828
	4	60,367	71,057
Net current liabilities	(3)	(12,526)	(3,906)
NET (LIABILITIES)/ASSETS	(3)	13,159	21,348
Capital and reserves			
Share capital	1	1	1
Reserves	(4)	3,555	8,338
Equity attributable to equity holders of the Success Gateway	(3)	3,556	8,339
Minority interests	–	9,603	13,009
TOTAL EQUITY	(3)	13,159	21,348

37. SUBSEQUENT EVENTS *(Continued)*

Changes in equity of Success Gateway Group

	Attributable to equity holders of Success Gateway						
	Share Capital HK$'000	Statutory reserves HK$'000	Foreign currency translation reserve HK$'000	Accumulated losses HK$'000	Sub-total HK$'000	Minority interests HK$'000	Total equity HK$'000
Issue of shares	1	–	–	–	1	–	1
Loss for the year	–	–	–	(4)	(4)	–	(4)
At 31 March 2006 and 1 April 2006	1	–	–	(4)	(3)	–	(3)
Exchange differences arising on translation of financial statements of overseas operations and net income recognised directly in equity	–	–	781	–	781	358	1,139
Profit for the year	–	–	–	2,778	2,778	1,444	4,222
Total recognised income and expense for the year	–	–	781	2,778	3,559	1,802	5,361
Transfer to statutory reserve	–	179	–	(179)	–	–	–
Dividend paid to minority equity holders	–	–	–	–	–	(597)	(597)
Acquisition of subsidiaries	–	–	–	–	–	8,398	8,398
	–	179	–	(179)	–	7,801	7,801
At 31 March 2007 and 1 April 2007	1	179	781	2,595	3,556	9,603	13,159
Exchange differences arising on translation of financial statements of overseas operations and net income recognised directly in equity	–	–	2,360	–	2,360	272	2,632
Profit for the year	–	–	–	2,423	2,423	3,134	5,557
Total recognised income and expense for the year	–	–	2,360	2,423	4,783	3,406	8,189
Transfer to statutory reserves	–	868	–	(868)	–	–	–
At 31 March 2008	1	1,047	3,141	4,150	8,339	13,009	21,348

37. SUBSEQUENT EVENTS *(Continued)*

Cash flows of Success Gateway Group

	Year ended 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax	(4)	5,105	7,628
Adjustments for:			
Finance costs	–	219	223
Share of profits of an associate	–	(8)	–
Amortisation of other intangible assets	–	132	211
Depreciation	–	1,733	2,707
Impairment losses for doubtful debts	–	482	4
Impairment losses of goodwill	–	–	493
(Gain)/loss on disposal of property, plant and equipment	–	(22)	86
Gain on disposal of an associate	–	(236)	–
Operating cash flows before working capital changes	(4)	7,405	11,352
(Increase)/decrease in inventories	–	(12,667)	8,413
Increase in trade receivables	–	(7,668)	(14,972)
Increase in prepayments, deposits and other receivables	–	(388)	(3,528)
Increase in due from immediate holding company	(1)	–	–
Increase in trade payables	–	25	1,940
(Decrease)/increase in other payables and accrued liabilities	–	(10,455)	5,447
Increase/(decrease) in due to ultimate holding company	–	421	(7,588)
Increase in due to fellow subsidiaries	4	35,586	10,168
Cash (used in)/generated from operations	(1)	12,259	11,232
Income tax paid	–	(1,035)	(1,702)
Net cash (used in)/generated from operating activities	(1)	11,224	9,530
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries	–	(6,445)	–
Purchase of property, plant and equipment	–	(483)	(3,182)
Proceeds from disposal of property, plant and equipment	–	72	383
Proceeds from disposal of an associate	–	1,980	–
Net cash used in investing activities	–	(4,876)	(2,799)

37. SUBSEQUENT EVENTS *(Continued)*

Cash flows of Success Gateway Group *(Continued)*

	Year ended 31 March		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid to minority equity holders	–	(597)	–
Proceeds from issue of shares	1	–	–
Net cash generated from/(used in) financing activities	1	(597)	–
NET INCREASE IN CASH AND CASH EQUIVALENTS	–	5,751	6,731
Effect of foreign currency exchange rate changes	–	838	2,309
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	–	–	6,589
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	–	6,589	15,629

38. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to 31 March 2008.

Yours faithfully,

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, RSM.

A. INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

The accompanying unaudited pro forma financial information of the Remaining Group has been prepared to illustrate the effect of the proposed issuance of the convertible cumulative preference shares and warrants (the "Proposed Issuance") by a wholly-owned subsidiary of the Company, Success Gateway Investments Limited ("Success Gateway") might have affected the financial information of the Group.

The unaudited pro forma consolidated income statement and cash flow statement of the Remaining Group for the year ended 31 March 2008 have been prepared based on the audited consolidated income statement and cash flow statement of the Group for the year ended 31 March 2008 as extracted from the annual report of the Company for the year ended 31 March 2008 as if the Proposed Issuance had been completed on 1 April 2007.

The unaudited pro forma consolidated balance sheet of the Remaining Group as at 31 March 2008 has been prepared based on the audited consolidated balance sheet of the Group as at 31 March 2008 as extracted from the annual report of the Company for the year ended 31 March 2008 as if the Proposed Issuance had been completed on 31 March 2008.

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

The unaudited pro forma financial information of the Remaining Group should be read in conjunction with the Accountants' Report of the Group as set out in Appendix II and other financial information included elsewhere in this circular.

B. UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE REMAINING GROUP

	The Group	Pro forma adjustments	*Notes*	The Remaining Group
	HK$'000	*HK$'000*		*HK$'000*
Turnover	2,867,570			2,867,570
Cost of sales and services	(2,841,100)			(2,841,100)
Gross profit	26,470			26,470
Other income	11,411			11,411
Distribution costs	(7,480)			(7,480)
Administrative expenses	(40,645)			(40,645)
Impairment losses for doubtful debts	(407)			(407)
Impairment losses of goodwill	(493)			(493)
Other operating expenses	(8,450)			(8,450)
Loss from operations	(19,594)			(19,594)
Finance costs	(12,648)			(12,648)
Gain on disposal of subsidiaries	10,333			10,333
Loss before tax	(21,909)			(21,909)
Income tax expense	(2,091)			(2,091)
Loss for the year	(24,000)			(24,000)
Attributable to:				
Equity holders of the Company	(25,152)	(7,578)	*5*	(32,730)
Minority interests	1,152	7,578	*5*	8,730
	(24,000)			(24,000)

C. UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE REMAINING GROUP

	The Group	Pro forma adjustments	*Notes*	The Remaining Group
	HK$'000	*HK$'000*		*HK$'000*
Non-current assets				
Property, plant and equipment	11,988			11,988
Goodwill	27,152			27,152
Other intangible assets	830			830
Prepayment for acquisition of non-current assets	6,889			6,889
Interest in an associate	1			1
	46,860			46,860
Current assets				
Inventories	14,513			14,513
Trade receivables	33,563			33,563
Prepayments, deposits and other receivables	14,147			14,147
Loan receivables	27,656			27,656
Financial assets at fair value through profit or loss	123			123
Bank balances and cash	59,579	181,194	*2*	240,773
	149,581			330,775
Current liabilities				
Trade payables	2,180			2,180
Other payables and accrued liabilities	30,450			30,450
Due to directors	1,972			1,972
Derivative component of convertible bonds	4,237			4,237
Derivative component of redeemable convertible cumulative preference shares	48,559			48,559
Current tax liabilities	829			829
	88,227			88,227
Net current assets	61,354			242,548
Total assets less current liabilities	108,214			289,408

C. UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE REMAINING GROUP *(Continued)*

	The Group	Pro forma adjustments	*Notes*	The Remaining Group
	HK$'000	*HK$'000*		*HK$'000*
Non-current liabilities				
Convertible bonds	62,206			62,206
Redeemable convertible cumulative preference shares	90,607			90,607
	152,813			152,813
NET (LIABILITIES)/ASSETS	(44,599)			136,595
Capital and reserves				
Share capital	23,437			23,437
Reserves	(81,044)	86,847	*2*	5,803
Equity attributable to equity holders of the Company	(57,607)			29,240
Minority interests	13,008	94,347	*2*	107,355
TOTAL EQUITY	(44,599)			136,595

D. UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE REMAINING GROUP

	The Group	Pro forma adjustments	Notes	The Remaining Group
	HK$'000	*HK$'000*		*HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before tax	(21,909)			(21,909)
Adjustments for:				
Finance costs	12,648			12,648
Interest income	(2,594)			(2,594)
Amortisation of other intangible assets	385			385
Depreciation	5,391			5,391
Impairment losses for doubtful debts	407			407
Impairment losses of goodwill	493			493
Impairment losses for obsolete inventories	25			25
Fair value loss (realised and unrealised) on financial assets at fair value through profit or loss	222			222
Gain on repurchase of convertible bonds	(2,959)			(2,959)
Fair value gain on derivative component of convertible bonds	(3,710)			(3,710)
Fair value loss on derivative component of redeemable convertible cumulative preference shares	5,990			5,990
Gain on disposal of subsidiaries	(10,333)			(10,333)
Loss on disposal of property, plant and equipment	2,460			2,460
Operating cash flows before working capital changes	(13,484)			(13,484)
Decrease in inventories	7,166			7,166
Increase in trade receivables	(16,272)			(16,272)
Increase in prepayments, deposits and other receivables	(10,035)			(10,035)
Increase in trade payables	3,080			3,080
Increase in other payables and accrued liabilities	13,836			13,836
Decrease in amounts due to directors	(3,339)			(3,339)
Cash used in operations	(19,048)			(19,048)
Income tax paid	(1,722)			(1,722)
Interest paid	(1,459)			(1,459)

D. UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE REMAINING GROUP *(Continued)*

	The Group	Pro forma adjustments	*Notes*	The Remaining Group
	HK$'000	*HK$'000*		*HK$'000*
Net cash used in operating activities	(22,229)			(22,229)
CASH FLOWS FROM INVESTING ACTIVITIES				
Disposal of subsidiaries	13,946			13,946
Interest received	1,866			1,866
Prepayment for acquisition of non-current assets	(1,111)			(1,111)
Purchase of property, plant and equipment	(8,267)			(8,267)
Proceeds from disposal of property, plant and equipment	815			815
Advances of loan receivables	(7,222)			(7,222)
Net cash generated from investing activities	27			27
CASH FLOWS FROM FINANCING ACTIVITIES				
Repurchase of convertible bonds	(3,198)			(3,198)
Capital contribution by minority equity holders	4,462			4,462
Dividend paid to minority shareholders	–	(14,352)	*4*	(14,352)
Proceeds from issuance of convertible cumulative preference shares and warrants of a subsidiary	–	181,194	*3*	181,194
Net cash generated from financing activities	1,264			168,106
NET DECREASE IN CASH AND CASH EQUIVALENTS	(20,938)			145,904
Effect of foreign currency exchange rate changes	6,495			6,495
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	74,022			74,022
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	59,579			226,421

E. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

1. On 2 September 2008, Success Gateway entered into a subscription agreement, whereby Success Gateway has agreed to issue and sell to DLB Harvest LLC, Jade Capital LLC and Dr. Li Zhong Yuan ("Dr. Li"), a director of the Company, 18,000,000, 2,000,000 and 3,000,000 convertible cumulative preference shares of US$1.00 each of Success Gateway ("Subscription Shares") respectively for cash consideration of US$1.00 per share. Pursuant to the subscription agreement, Jade Capital LLC and Dr. Li shall also subscribe for 4,000,000 and 600,000 warrants of the Subscription Shares at consideration of US$200,000 and US$30,000 respectively and Success Gateway shall undertake the following capital restructuring for the transaction:

   a) The 100 issued ordinary shares of Success Gateway will be split into 20,500,000 split ordinary shares.

   b) Success Gateway will redeem its 3,000,000 split ordinary shares from its immediate holding company at consideration of US$1.00 per share.

   Each Subscription Share is convertible into one ordinary share of Success Gateway after the capital restructuring. Pursuant to the subscription agreement, before the conversion of the Subscription Shares, the holders of the Subscription Shares are entitled to 8% dividend per annum and 56.79% share of the remaining profit or loss of Success Gateway. As the Company still controls the financial and operating policies of Success Gateway after the Proposed Issuance, Success Gateway will maintain as a subsidiary of the Group and the interest of holders of Subscription Shares is classified as minority interests of the Group.

   The following pro forma adjustments have been prepared on the basis of no conversion of the Subscription Shares.

2. The adjustments represent the aggregate gross proceeds of US$23,230,000 (equivalent to approximately HK$181,194,000) received from the issuance of 23,000,000 Subscription Shares and 4,600,000 warrants by Success Gateway and the recognition of minority interests of HK$94,347,000, representing 56.79% minority interests of Subscription Shares with reference to the profit or loss sharing in Success Gateway described in note (1) above, in Success Gateway Group's net asset value of HK$166,133,000 attributable to equity holders of Success Gateway at 31 March 2008 after the Proposed Issuance and capital restructuring by the following calculation, and reserves of HK$86,847,000 for the Proposed Issuance.

	HK$'000
Net asset value of Success Gateway Group attributable to equity holders of Success Gateway at 31 March 2008	8,339
Gross proceeds received from the issuance of the Subscription Shares and warrants by Success Gateway	181,194
Payment for the redemption of the split ordinary shares by Success Gateway (US$3,000,000)	(23,400)
	166,133

3. The adjustment represents the aggregate gross proceeds of approximately HK$181,194,000 received from the Proposed Issuance as described in note 2 above.

4. The adjustment of HK$14,352,000 represents the 8% dividend per annum on the issue price of 23,000,000 Subscription Shares paid to the holders of the Subscription Shares.

5. The adjustment of HK$7,578,000 reflects the results of Success Gateway Group shared by the holders of Subscription Shares, representing 8% dividend per annum of HK$14,352,000 on the Subscription Shares and 56.79% share of loss of Success Gateway Group for the year, after deducting the 8% dividend per annum on the Subscription Shares, amounting to HK$6,774,000 by the following calculation.

	HK$'000
Profit of Success Gateway Group attributable to equity holders of Success Gateway for the year ended 31 March 2008	2,423
8% dividend per annum on the Subscription Shares	(14,352)
Adjusted loss	(11,929)
56.79% share of the adjusted loss of Success Gateway Group by the holders of Subscription Shares	(6,774)

6. For the purpose of the unaudited pro forma financial information, the amounts stated in US dollar have been translated to Hong Kong dollar at an exchange rate of US$1=HK$7.8.

7. Adjustments in notes 4 and 5 are expected to have continuing effects on the Remaining Group.

F. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountants, RSM.

RSM! Nelson Wheeler
中瑞岳華(香港)會計師事務所
Certified Public Accountants

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

30 September 2008

The Board of Directors
China HealthCare Holdings Limited

Dear Sirs,

We report on the unaudited pro forma financial information of China HealthCare Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed issuance of the convertible cumulative preference shares and warrants by a wholly-owned subsidiary of the Company, Success Gateway Investments Limited, might have affected the financial information of the Group presented, for inclusion in Appendix III to the circular of the Company dated 30 September 2008 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on page 112 to 119 to the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

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

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

F. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION *(Continued)*

Basis of opinion

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

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

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

- the financial position of the Group as at 31 March 2008 or any future date; or
- the results and cash flows of the Group for the year ended 31 March 2008 or any future periods.

Opinion

In our opinion:

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

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

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

Yours faithfully,
RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountant, RSM.

A. INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING SUCCESS GATEWAY GROUP

The accompanying unaudited pro forma financial information of the Remaining Success Gateway Group has been prepared to illustrate the effect of the disposal of entire equity interests in Shanghai Epay Information Technology Company Limited and Artel Limited after 31 March 2008 by Success Gateway (the "Disposal") might have affected the financial information of the Success Gateway Group.

The unaudited pro forma consolidated income statement of the Remaining Success Gateway Group for the year ended 31 March 2008 has been prepared based on the consolidated income statement of the Success Gateway Group for the year ended 31 March 2008 as extracted from section (F)(37)(b) of the Accountants' Report of the Group as set out in the Appendix II of this circular as if the Disposal had been completed on 1 April 2007.

The unaudited pro forma consolidated balance sheet of the Remaining Success Gateway Group as at 31 March 2008 has been prepared based on the consolidated balance sheet of the Success Gateway Group as at 31 March 2008 as extracted from section (F)(37)(b) of the Accountants' Report of the Group as set out in the Appendix II of this circular as if the Disposal had been completed on 31 March 2008.

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

The unaudited pro forma financial information of the Remaining Success Gateway Group should be read in conjunction with the Accountants' Report of the Group as set out in Appendix II and other financial information included elsewhere in this circular.

B. UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE REMAINING SUCCESS GATEWAY GROUP

	The Success Gateway Group	Pro forma adjustments	*Notes*	The Remaining Success Gateway Group
	HK$'000	*HK$'000*		*HK$'000*
Turnover	2,857,505	(107,226)	*2*	2,750,279
Cost of sales and services	(2,835,641)	106,774	*2*	(2,728,867)
Gross profit	21,864			21,412
Other income	1,715	(23)	*2*	1,692
Distribution costs	(4,275)	633	*2*	(3,642)
Administrative expenses	(10,869)	3,054	*2*	(7,815)
Impairment losses for doubtful debts	(4)			(4)
Impairment losses of goodwill	(493)	493	*2*	–
Other operating expenses	(87)	16	*2*	(71)
Profit from operations	7,851			11,572
Finance costs	(223)			(223)
Gain on disposal of subsidiaries	–	725	*2*	725
Profit before tax	7,628			12,074
Income tax expense	(2,071)	62	*2*	(2,009)
Profit for the year	5,557			10,065
Attributable to:				
Equity holders of the Success Gateway	2,423	4,508	*2*	6,931
Minority interests	3,134			3,134
	5,557			10,065

C. UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE REMAINING SUCCESS GATEWAY GROUP

	The Success Gateway Group *HK$'000*	Pro forma adjustments *HK$'000*	*Notes*	The Remaining Success Gateway Group *HK$'000*
Non-current assets				
Property, plant and equipment	5,812	(645)	*1*	5,167
Goodwill	18,612			18,612
Other intangible assets	830			830
	25,254			24,609
Current assets				
Inventories	12,994	(1,077)	*1*	11,917
Trade receivables	32,432	(1,492)	*1*	30,940
Prepayments, deposits and other receivables	6,095	(499)	*1*	5,596
Due from immediate holding company	1			1
Bank balances and cash	15,629	143	*1*	15,772
	67,151			64,226
Current liabilities				
Trade payables	1,965	(28)	*1*	1,937
Other payables and accrued liabilities	11,271	(1,125)	*1*	10,146
Due to ultimate holding company	11,234	(9)	*1*	11,225
Due to fellow subsidiaries	45,759	(7,088)	*1*	38,671
Current tax liabilities	828	(17)	*1*	811
	71,057			62,790
Net current (liabilities)/assets	(3,906)			1,436
NET ASSETS	21,348			26,045
Capital and reserves				
Share capital	1			1
Reserves	8,338	4,697	*1*	13,035
Equity attributable to equity holders of the Success Gateway	8,339			13,036
Minority interests	13,009			13,009
TOTAL EQUITY	21,348			26,045

D. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING SUCCESS GATEWAY GROUP

1. Pursuant to Group's restructuring on 31 July 2008, Success Gateway disposed of its entire interest in its subsidiary, Artel Limited, at a cash consideration of HK$6 to a fellow subsidiary, CHC Investment Holdings Limited.

   Pursuant to a sale and purchase agreement dated 2 June 2008, Success Gateway disposed of its entire equity interest in its subsidiary, Shanghai Epay Information Technology Company Limited, to an independent third party at a cash consideration of RMB300,000 (equivalent to HK$333,000).

   Shanghai Epay Information Technology Company Limited and Artel Limited and its subsidiary are hereinafter collectively referred to as the "Disposal Group".

   The adjustments reflect the carrying values of assets and liabilities of the Disposal Group disposed, net cash inflow of HK$143,000 and gain on disposal of the Disposal Group of HK$4,507,000, as a result of the Disposal. An analysis is as follows:

	HK$'000
Property, plant and equipment	645
Inventories	1,077
Trade receivables	1,492
Prepayments, deposits and other receivables	499
Bank balances and cash	190
Trade payables	(28)
Other payables and accrued liabilities	(1,125)
Due to ultimate holding company	(9)
Due to fellow subsidiaries	(7,088)
Current tax liabilities	(17)
Net liabilities disposed	(4,364)
Release of foreign currency translation reserve	190
Gain on disposal of subsidiaries	4,507
Total cash consideration	333
Net cash inflow arising on disposal:	
Cash consideration received	333
Cash and cash equivalents disposed	(190)
	143

   The adjustment of HK$4,697,000 to the reserves represents the gain on disposal of HK$4,507,000 plus the release of foreign currency translation reserve of HK$190,000 from the Disposal.

D. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING SUCCESS GATEWAY GROUP (CONT'D)

2. The adjustments represent the deconsolidation of the loss of HK$3,783,000 of the Disposal Group for the year ended 31 March 2008 and the recognition of the gain on disposal of the Disposal Group of HK$725,006 which comprises the cash consideration of HK$333,006 plus the net liabilities of the Disposal Group of HK$409,000 as at 1 April 2007 less the release of foreign currency translation reserve of HK$17,000 as at 1 April 2007 in connection with the Disposal Group.

3. The above pro forma adjustments would not have continuing effect on the consolidated income statements of the Remaining Success Gateway Group

4. For the purpose of the unaudited pro forma financial information, the amounts stated in RMB dollar have been translated to Hong Kong dollar at an exchange rate of RMB1=HK$0.9.

E. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountants, RSM.

RSM Nelson Wheeler
中瑞岳華(香港)會計師事務所
Certified Public Accountants

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

30 September 2008

The Board of Directors
China HealthCare Holdings Limited

Dear Sirs,

We report on the unaudited pro forma financial information of Success Gateway Investments Limited ("Success Gateway") and its subsidiaries (hereinafter collectively referred to as the "Success Gateway Group"), which has been prepared by the directors of China HealthCare Holdings Limited (the "Company"), for illustrative purposes only, to provide information about how the disposal of entire equity interests in Shanghai Epay Information Technology Company Limited and Artel Limited after 31 March 2008 by Success Gateway, might have affected the financial information of the Success Gateway Group presented, for inclusion in Appendix IV to the circular of the Company dated 30 September 2008 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on page 122 to 126 to the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

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

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

Basis of opinion

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

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

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

- the financial position of the Success Gateway Group as at 31 March 2008 or any future date; or
- the results of the Success Gateway Group for the year ended 31 March 2008 or any future periods.

Opinion

In our opinion:

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

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

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

Yours faithfully,
RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

FOR THE YEAR ENDED 31 MARCH 2006

Results

For the year ended 31 March 2006, the Group recorded a turnover of approximately HK$6.8 million, representing a decrease of 80.5% as compared to the previous year. The net loss attributable to the equity holders of the Company for the year ended 31 March 2006 was approximately HK$96.8 million, representing an increase of 86.5% as compared to last year.

Capital structure, liquidity and financial resources

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

For the year ended 31 March 2006, the Company completed a fund raising activity by the issue of convertible bonds in aggregate principal amount of US$6.6 million (approximately HK$51.5 million). As at 31 March 2006, the total borrowings of the Group amounted to approximately HK$49.0 million, solely comprised a convertible bond carrying interest at 3% per annum payable semi-annually in arrears with maturity of 18 May 2009. The borrowings of the Group were denominated in US$. The bank and cash balances of the Group was approximately HK$47.9 million as at 31 March 2006. The Group's gearing ratio, as expressed as the ratio of total liabilities divided by total assets, was approximately 0.65 as at 31 March 2006.

Most of the sales and expenditures of the Group were denominated in HK$, US$ and Renminbi ("RMB"). The Group had no significant foreign exchange exposure and did not use any financial instrument for hedging purposes.

As at 31 March 2006, the Group neither had any contingent liability nor charge on any of its assets.

Business review

For the year ended 31 March 2006, the Group was principally engaged in investment holding and provision of healthcare services in the PRC. The Group's emergency assistance medical services was an integrated call centre providing post-pay, 24 hour emergency medical assistance nationwide, through a network of 914 hospitals pre-selected by the Chinese Ministry of Health and was the only designated entity with the right to utilize the networked hospitals. The Group had devoted its resources in establishing its marketing infrastructure for distributing such services through membership-based program by establishing relationships with insurance companies, financial institutions or travel agencies.

Material investments, acquisitions or disposals

In April 2005, the Group subscribed 56% equity interest in CHC (Shanghai) Medical & Healthcare Services Ltd. by injecting capital contribution of HK$3.8 million. Save as disclosed above, the Group had no significant investment held and there was no material acquisition and disposal of subsidiaries and associated companies during the year ended 31 March 2006.

As at 31 March 2006, the Group had capital commitment in respect of investment in a subsidiary of approximately HK$10.5 million. Save as disclosed above, the Group neither had any material capital expenditure commitment nor future plan for material investments or capital assets as at 31 March 2006.

Segmental Analysis

Approximately 53.9% of the Group's turnover was generated from the production and trading of biotechnology products and the balance of the turnover was generated from the procurement of healthcare services for the year ended 31 March 2006. The production and trading of biotechnology products, provision of healthcare services and investment holding segment recorded a segment loss of approximately HK$9.2 million, HK$18.6 million and HK$48.8 million respectively.

Human Resources

The total number of employees of the Group was 149 as at 31 March 2006 and the total staff cost, including directors' emoluments for the year ended 31 March 2006 was approximately HK$16.3 million.

The Group continued to review remuneration packages of employees with reference to the level and composition of pay, the general market condition and individual performance. Remuneration packages comprised salaries, contributions to the Mandatory Provident Fund Schemes, discretionary bonus, which was linked to the performance of the Group and the individual, and share option scheme.

FOR THE YEAR ENDED 31 MARCH 2007

Results

For the year ended 31 March 2007, the Group recorded a turnover of approximately HK$1,633.0 million, representing an increase of 240 times as compared to the previous year. The net loss attributable to the equity holders of the Company for the year ended 31 March 2007 was approximately HK$73.2 million, representing a decrease of 24.4% as compared to last year.

Capital structure, liquidity and financial resources

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

For the year ended 31 March 2007, the Company issued redeemable convertible cumulative preference shares and convertible bonds in aggregate principal amount of US$15 million (approximately HK$117 million) and HK$18.4 million respectively. As at 31 March 2007, the total borrowings of the Group amounted to approximately HK$147.8 million, which comprised convertible bonds of approximately HK$66.7 million and redeemable convertible cumulative preference shares of approximately HK$81.1 million. The convertible bonds comprised (i) a convertible bond which carries interest at 3% per annum payable semi-annually in arrears and matures on 18 May 2009; and (ii) a convertible bond which carries interest at 2% per annum payable semi-annually in arrears and matures on 6 August 2010. The redeemable convertible cumulative preference shares carry dividend at 2% per annum, subject to adjustment to 5% on certain special events, payable semi-annually in arrears and mature on the fifth anniversary of 28 July 2006 or such later date, not being later than the seventh anniversary of 28 July 2006, as may be agreed in writing between the Company and the holders of the redeemable convertible cumulative preference shares. The borrowings of the Group were denominated in HK$ and US$. The bank and cash balances of the Group was approximately HK$74.0 million as at 31 March 2007. The Group's gearing ratio, as expressed as the ratio of total liabilities divided by total assets, was approximately 1.13 as at 31 March 2007.

Most of the sales and expenditures of the Group were denominated in HK$, US$ and RMB. The Group had no significant foreign exchange exposure and did not use any financial instrument for hedging purposes.

As at 31 March 2007, the Group neither had any contingent liability nor charge on any of its assets.

Business review

After the acquisition of Shanghai Harvest Network Technology Co. Limited and its subsidiary in August 2006, the Group was mainly engaged in the business of e-commerce distribution of mobile pre-charge. As at 31 March 2007, approximately 5,000 proprietary e-charge POS systems were placed in the major convenience store chains and other retail spots in Shanghai. The Group had achieved a dominant market share of approximately 25% in the Shanghai mobile prepayment market and also expanded its business to the operation of e-payment cards and debit cards in Shanghai.

Material investments, acquisitions or disposals

In May 2006, the Group acquired the entire equity interest in Shanghai New Everstep Investment Management and Consultancy Limited at a cash consideration of approximately HK$4.5 million. In August 2006, the Group acquired 70% equity interest in Shanghai Harvest Network Technology Co. Limited and its subsidiary at a total consideration of HK$36.4 million, of which HK$18.0 million was satisfied in cash and HK$18.4 million was satisfied by the issue of convertible notes. Moreover, the Group acquired an additional 12.46% equity interest in CHC (Shanghai) Medical & Healthcare Services Limited at a consideration of approximately HK$0.8 million in August 2006. In November 2006, the Group acquired 60% equity interest in Shanghai EPay Information Technology Company Limited at a cash consideration of approximately HK$1.0 million. Save as disclosed above, the Group had no significant investment held and there was no material acquisition and disposal of subsidiaries and associated companies during the year ended 31 March 2007.

As at 31 March 2007, the Group had capital commitment in respect of capital contribution to a subsidiary and acquisition of non-current assets of approximately HK$1.0 million and HK$5.1 million respectively. Save as disclosed above, the Group neither had any material capital expenditure commitment nor future plan for material investments or capital assets as at 31 March 2007.

Segmental Analysis

For the year ended 31 March 2007, approximately 99.6% of the Group's turnover was generated from the e-commerce distribution of mobile pre-charge while the balance of the turnover was generated from the production and trading of biotechnology products and the procurement of healthcare services. The e-commerce distribution of mobile pre-charge recorded a segment gain of approximately HK$4.7 million while the production and trading of biotechnology products and procurement of healthcare services recorded a segment loss of approximately HK$3.2 million and HK$11.9 million respectively.

Human Resources

The total number of employees of the Group was 149 as at 31 March 2007 and the total staff cost, including directors' emoluments for the year ended 31 March 2007 was approximately HK$17.2 million.

The Group continued to review remuneration packages of employees with reference to the level and composition of pay, the general market condition and individual performance. Remuneration packages comprised salaries, contributions to the Mandatory Provident Fund Schemes and the PRC government pension schemes based on applicable rates of monthly salary in accordance with government regulations in the PRC, discretionary bonus, which was linked to the performance of the Group and the individual, and share option scheme.

FOR THE YEAR ENDED 31 MARCH 2008

Results

For the year ended 31 March 2008, the Group recorded a turnover of approximately HK$2,867.6 million, representing an increase of 75.6% as compared to the previous year. The net loss attributable to the equity holders of the Company for the year ended 31 March 2008 was approximately HK$25.2 million, representing a decrease of 65.6% as compared to last year.

Capital structure, liquidity and financial resources

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

As at 31 March 2008, the total borrowings of the Group amounted to approximately HK$152.8 million, which comprised convertible bonds of approximately HK$62.2 million and redeemable convertible cumulative preference shares of approximately HK$90.6 million. The convertible bonds included (i) a convertible bond which carries interest at 3% per annum payable semi-annually in arrears and matures on 18 May 2009; and (ii) a convertible bond which carries interest at 2% per annum payable semi-annually in arrears and matures on 6 August 2010. The redeemable convertible cumulative preference shares carry dividend at 2% per annum, subject to adjustment to 5% on certain special events, payable semi-annually in arrears and mature on the fifth anniversary of 28 July 2006 or such later date, not being later than the seventh anniversary of 28 July 2006, as may be agreed in writing between the Company and the holders of the redeemable convertible cumulative preference shares. The borrowings of the Group were denominated in HK$ and US$. The bank and cash balances of the Group was approximately HK$59.6 million as at 31 March 2008. The Group's gearing ratio, as expressed as the ratio of total liabilities divided by total assets, was approximately 1.23 as at 31 March 2008.

Most of the sales and expenditures of the Group were denominated in HK$, US$ and RMB. The Group had no significant foreign exchange exposure and did not use any financial instrument for hedging purposes.

As at 31 March 2008, the Group neither had any contingent liability nor charge on any of its assets.

Business review

As at 31 March 2008, over 4,700 proprietary e-charge POS systems were placed in the major convenience store chains and other retail spots in Shanghai. The Group had achieved a dominant market share of approximately 24% in the Shanghai mobile prepayment market and also expanded its business to the operation of e-payment cards and Health Debit Cards to facilitate the procurement of an array of health and wellness-related consumption in Shanghai. In addition, the Group allied with hospitals and insurance companies to provide emergency medical assistance services to over 1.5 million prepaid members in the PRC.

Material investments, acquisitions or disposals

In January 2008, the Group disposed of its entire equity interest in Power Ability Limited and its subsidiary to an independent third party at a cash consideration of US$2 million. Save as disclosed above, the Group had no significant investment held and there was no material acquisition and disposal of subsidiaries and associated companies during the year ended 31 March 2008.

As at 31 March 2008, the Group neither had any material capital expenditure commitment nor future plan for material investments or capital assets.

Segmental Analysis

For the year ended 31 March 2008, approximately 99.6% of the Group's turnover was generated from the e-commerce distribution of mobile pre-charge while the balance of the turnover was generated from the production and trading of biotechnology products and procurement of healthcare services. The e-commerce distribution of mobile pre-charge recorded a segment profit of approximately HK$6.9 million while the production and trading of biotechnology products and procurement of healthcare services recorded a segment loss of approximately HK$4.5 million and HK$7.7 million respectively.

Human Resources

The total number of employees of the Group was 130 as at 31 March 2008 and the total staff cost, including directors' emoluments for the year ended 31 March 2008 was approximately HK$16.9 million.

The Group continued to review remuneration packages of employees with reference to the level and composition of pay, the general market condition and individual performance. Remuneration packages comprised salaries, contributions to the Mandatory Provident Fund Schemes and the PRC government pension schemes based on applicable rates of monthly salary in accordance with government regulations in the PRC, discretionary bonus, which was linked to the performance of the Group and the individual, and share option scheme.

The information shown in this section is based on the unaudited pro forma financial information on the Remaining Group as set out in Appendix III to this circular which has been prepared for the purpose of illustrating the effect of the Subscription and the Redemption becoming effective as if taken place on 31 March 2008.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

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

As at 31 March 2008, the total borrowings of the Remaining Group amounted to approximately HK$152.8 million, which comprised convertible bonds of approximately HK$62.2 million and redeemable convertible cumulative preference shares of approximately HK$90.6 million. The convertible bonds included (i) a convertible bond which carries interest at 3% per annum payable semi-annually in arrears and matures on 18 May 2009; and (ii) a convertible bond which carries interest at 2% per annum payable semi-annually in arrears and matures on 6 August 2010. The redeemable convertible cumulative preference shares carry dividend at 2% per annum, subject to adjustment to 5% on certain special events, payable semi-annually in arrears and mature on the fifth anniversary of 28 July 2006 or such later date, not being later than the seventh anniversary of 28 July 2006, as may be agreed in writing between the Company and the holders of the redeemable convertible cumulative preference shares. The borrowings of the Remaining Group were denominated in HK$ and US$. The bank and cash balances of the Remaining Group was approximately HK$240.8 million as at 31 March 2008. The Remaining Group's gearing ratio, as expressed as the ratio of total liabilities divided by total assets, was approximately 0.64 as at 31 March 2008.

Most of the sales and expenditures of the Remaining Group were denominated in HK$, US$ and RMB. The Remaining Group had no significant foreign exchange exposure and did not use any financial instrument for hedging purposes.

As at 31 March 2008, the Remaining Group neither had any contingent liability nor charge on any of its assets.

BUSINESS REVIEW

For the year ended 31 March 2008, the Remaining Group recorded a turnover of approximately HK$2,867.6 million, representing an increase of 75.6% as compared to the pervious year.

For the year ended 31 March 2008, over 4,700 proprietary e-charge POS systems were placed in the major convenience store chains and other retail spots in Shanghai. The Remaining Group has achieved a dominant market share of approximately 24% in the Shanghai mobile prepayment market and also expanded its business to the operation of e-payment cards, the Health Debit Cards to facilitate the procurement of an array of health and wellness related consumption in Shanghai. In addition, the Remaining Group also networked with hospitals and insurance companies to provide emergency medical assistance services to over 1.5 million prepaid members in the PRC.

MATERIAL INVESTMENTS, ACQUISITIONS OR DISPOSALS

In January 2008, the Remaining Group disposed of its entire equity interest in Power Ability Limited and its subsidiary to an independent third party at a cash consideration of US$2 million. Save as disclosed above, the Remaining Group had no significant investment held and there was no material acquisition and disposal of subsidiaries and associated companies during the year ended 31 March 2008.

As at 31 March 2008, the Remaining Group neither had any material capital expenditure commitment nor future plan for material investments or capital assets.

SEGMENTAL ANALYSIS

Approximately 99.6% of the Remaining Group's turnover was generated from the e-commerce distribution of mobile pre-charge and the balance of the turnover was generated from the production and trading of biotechnology products and procurement of healthcare services for the year ended 31 March 2008. The e-commerce distribution of mobile pre-charge recorded a segment profit of approximately HK$6.9 million while the production and trading of biotechnology products and procurement of healthcare services recorded a segment loss of approximately HK$4.5 million and HK$7.7 million respectively.

HUMAN RESOURCES

The total number of employees of the Remaining Group was 130 as at 31 March 2008 and the total staff cost, including directors' emoluments for the year ended 31 March 2008 was approximately HK$16.9 million.

The Remaining Group continued to review remuneration packages of employees with reference to the level and composition of pay, the general market condition and individual performance. Remuneration packages comprised salaries, contributions to the Mandatory Provident Fund Schemes and the PRC government pension schemes based on applicable rates of monthly salary in accordance with government regulations in the PRC, discretionary bonus, which was linked to the performance of the Remaining Group and the individual, and share option scheme.

RESPONSIBILITY STATEMENT

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

PROCEDURES FOR DEMANDING A POLL

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

(i) the chairman of such meeting; or

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

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

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

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

DISCLOSURE OF INTERESTS

A. Interests in the Company or its associated companies

(a) Interests of Directors and chief executives

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executives of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provision of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange, were as follows:

Name of Director/ chief executive	Company/ associated corporation	Capacity	Interests in Shares	Interests in underlying Shares pursuant to equity derivatives *(Note 3)*	Total interests in Shares/ underlying Shares	Percentage of Shares and underlying Shares held to existing total issued Shares
Dr. Li	The Company	Corporate	19,808,000 *(Note 1)*	–	19,808,000	8.45%
		Personal	4,635,000	3,625,000	8,260,000	3.52%
Mr. Lee Jong Dae	The Company	Personal	3,026,500	3,600,000	6,626,500	2.83%
Mr. Martin Treffer	The Company	Corporate	1,295,000 *(Note 2)*	–	1,295,000	0.55%
		Personal	250,000	900,000	1,150,000	0.49%
Mr. Mu Xiang Ming	The Company	Personal	–	210,000	210,000	0.09%

Notes:

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

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

3. The underlying shares of equity derivatives represent the shares issuable upon the exercise of share options granted to the Directors/chief executives by the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interest or short position in Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

(b) Substantial Shareholders and other persons' interests in Shares and underlying Shares

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

Name of substantial Shareholders	Capacity	Interest in Shares	Interests in underlying Shares pursuant to equity derivatives	Total interests in Shares/ underlying Shares	Percentage of Shares and underlying Shares held to existing total issued Shares
China Healthcare Services Ltd.	Beneficial owner	17,541,000	–	17,541,000	7.48%
Orient Access International Inc.	Beneficial owner	17,300,000	–	17,300,000	7.38%
OZ Master Fund, Ltd. *(Note 1)*	Beneficial owner	–	47,356,068	47,356,068	20.21%
OZ Asia Master Fund, Ltd. *(Note 2)*	Beneficial owner	–	46,586,758	46,586,758	19.88%
OZ Management, L.L.C. *(Note 3)*	Interest of controlled corporations	–	100,344,827	100,344,827	42.82%
Och-Ziff Holding Corporation *(Note 4)*	Interest of controlled corporations	–	100,344,827	100,344,827	42.82%
Och-Ziff Capital Management Group L.L.C. *(Note 4)*	Interest of controlled corporations	–	100,344,827	100,344,827	42.82%
Mr. Daniel Saul Och *(Note 4)*	Interest of controlled corporations	–	100,344,827	100,344,827	42.82%
Mr. Hou Shu Ming *(Note 5)*	Beneficial owner	–	15,862,068	15,862,068	6.77%
Mr. Tian Chengwang *(Note 6)*	Interest of controlled corporations	–	17,241,379	17,241,379	7.36%
Mr. Li Guoming *(Note 6)*	Interest of controlled corporations	–	17,241,379	17,241,379	7.36%

Notes:

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

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

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

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

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

6. The underlying Shares represent convertible notes of the Company which entitle the holder thereof to convert for 17,241,379 fully paid Shares at an initial conversion price of HK$1.16 per Share (subject to adjustments). As at the Latest Practicable Date, Panjinfenyuan Technology Investment Limited was beneficially owned as to 50% by Mr. Tian Chengwang and 50% by Mr. Li Guoming. Therefore, each of Mr. Tian Chengwang and Mr. Li Guoming was deemed to be interested in the underlying Shares held by Panjinfenyuan Technology Investment Limited.

Save as disclosed above, as at the Latest Practicable Date, the Directors and chief executives of the Company were not aware of any person (other than the Directors and chief executives of the Company) who had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

B. Interests in contracts

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

C. Interests in assets

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any asset which has been, since 31 March 2008, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group or was proposed to be acquired or disposed of by or leased to any member of the Group.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

DIRECTORS' SERVICE CONTRACTS

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

QUALIFICATIONS AND CONSENTS OF EXPERTS

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

Independent Financial Adviser	a licensed corporation to carry out type 6 (advising on corporate finance) regulated activities as set out in the SFO
RSM	Certified Public Accountants

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

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

d) None of the Independent Financial Adviser and RSM had any interest, direct or indirect, in any asset which has been, since 31 March 2008, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group, or was proposed to be acquired or disposed of by or leased to any member of the Group.

MATERIAL LITIGATION

As at the Latest Practicable Date, none of the members of the Group was involved in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against the Group.

MATERIAL CONTRACTS

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

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

b) a sale and purchase agreement dated 28 February 2008 entered into between Success Gateway and Panjinfenyuan Technology Investment Limited, pursuant to which Success Gateway agreed to acquire, and Panjinfenyuan Technology Investment Limited agreed to sell, 30% equity interest in Shanghai Harvest Network Technology Co. Limited at a total consideration of HK$41.5 million; and

c) the Subscription Agreement.

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

GENERAL

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

(b) The qualified accountant of the Company is Mr. Tsui Siu Hung Raymond. Mr. Tsui holds a bachelor degree in business administration in accounting. He is an associate member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

(c) The registered office and head office of the Company is situate at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and 9th Floor, Shun Ho Tower, No. 24-30 Ice House Street, Central, Hong Kong respectively.

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

(e) This circular and the accompany form of proxy are prepared in both English and Chinese. In the event of inconsistency, the English texts shall prevail.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's principal place of business at 9th Floor, Shun Ho Tower, No. 24-30 Ice House Street, Central, Hong Kong up to and including the date of the SGM:

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

(b) the annual reports of the Company for the two years ended 31 March 2008;

(c) the letter from the Independent Financial Adviser, the text of which is set out on pages 16 to 36 of this circular;

(d) the accountants' report on the Group prepared by RSM for the three years ended 31 March 2008, the text of which is set out in Appendix II to this circular;

(e) the report prepared by RSM on the unaudited pro forma financial information on the Remaining Group, the text of which is set out in Appendix III to this circular;

(f) the report prepared by RSM on the unaudited pro forma financial information on the Remaining Success Gateway Group, the text of which is set out in Appendix IV to this circular;

(g) the written consents referred to in the paragraph headed "Qualifications and Consents of Experts" in this Appendix;

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

(i) the circular of the Company dated 30 April 2008; and

(j) the Subscription Agreement.

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

(incorporated in Bermuda with limited liability)

(Stock Code: 673)

NOTICE IS HEREBY GIVEN that a special general meeting (the "SGM") of China HealthCare Holdings Limited (the "Company") will be held at 9th Floor, Shun Ho Tower, No. 24-30 Ice House Street, Central, Hong Kong on 15 October 2008 at 10:30 a.m. for the purpose of transacting the following business:

ORDINARY RESOLUTION

"**THAT**:–

(a) the subscription agreement (the "Subscription Agreement") entered into between, inter alia, the Company, Success Gateway Investments Limited ("Success Gateway"), a wholly-owned subsidiary of the Company, Dr. Li Zhong Yuan, DLB Harvest LLC and Jade Capital LLC, and dated 2 September 2008, pursuant to which, (i) Success Gateway conditionally agreed to issue and sell to DLB Harvest LLC and Dr. Li Zhong Yuan 18,000,000 unlisted redeemable convertible cumulative preference shares of US$1.00 each in the capital of Success Gateway (the "Convertible Preference Shares") and 1,500,000 Convertible Preference Shares respectively at a cash consideration of US$1.00 per Convertible Preference Share; (ii) Dr. Li Zhong Yuan and Jade Capital LLC agreed to subscribe for additional 1,500,000 Convertible Preference Shares and 2,000,000 Convertible Preference Shares respectively at the consideration of US$1.00 per Convertible Preference Share no later than 31 December 2008; (iii) Jade Capital LLC and Dr. Li Zhong Yuan agreed to subscribe for 4,000,000 warrants ("Warrants"), each of which carries the right to subscribe for one Convertible Preference Share, and 600,000 Warrants at the consideration of US$200,000 and US$30,000 respectively; and (iv) the Company agreed to sell, and Success Gateway agreed to redeem, 3,000,000 common shares of Success Gateway after the subdivision of the existing and unissued common shares of Success Gateway on the basis of 205,000 subdivided shares for one existing common share, a copy of which has been produced to the meeting and initialed by the chairman of the meeting for the purpose of identification, and the transactions contemplated thereby be and are hereby approved, ratified and confirmed; and

* *For identification purpose only*

(b) the directors of Success Gateway be and are hereby authorized to allot and issue the common shares of US$1.00 each in the share capital of Success Gateway upon the exercise of the conversion rights attaching to the Convertible Preference Shares and to do all such acts and things and execute such further documents and take all steps which, in his (or their) opinion may necessary, desirable and expedient to implement and/or give effect to the terms of, and all transactions contemplated under, the Subscription Agreement for and on behalf of Success Gateway and to approve any changes and amendments thereto as he (or they) may consider necessary, desirable or expedient."

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

Hong Kong, 30 September 2008

Notes:

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

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

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

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