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 to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant, or other professional adviser.

If you have sold or transferred all your shares in Hua Xia Healthcare Holdings Limited (the "**Company**"), you should at once hand this circular and the accompanying form of proxy to the purchaser or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular appears for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.

HUA XIA HEALTHCARE HOLDINGS LIMITED

華夏醫療集團有限公司 *

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8143)

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RESPECT OF THE PROPOSED ACQUISITION OF PHARMACEUTICAL RETAIL CHAIN, WHOLESALE AND DISTRIBUTION BUSINESS; (2) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL; AND (3) NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial adviser to the Company

INCU Corporate Finance Limited

Independent Financial Adviser to the Independent Board Committee

VEDA | CAPITAL

智略資本

A letter from the Board is set out on pages 9 to 75 of this circular. A letter of advice from Veda Capital to the Independent Board Committee and the Independent Shareholders is set out on pages 77 to 100 of this circular. The recommendation of the Independent Board Committee to the Independent Shareholders is set out on page 76 of this circular.

A notice convening the extraordinary general meeting (the "**EGM**") of the Company to be held at Room 1902, 19/F., Sing Pao Building, No. 101 King's Road, North Point, Hong Kong on Wednesday, 3 March 2010 at 11:00 a.m.. A form of proxy for the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the form of proxy in accordance with the instruction printed thereon and return the same to the principal place of business of the Company in Hong Kong at Room 1902, 19/F., Sing Pao Building, No. 101 King's Road, North Point, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM. Completion and return of the enclosed form of proxy will not preclude you from attending and voting in person at such meeting or any adjournment meeting should you so wish.

This circular will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and the website of the Company at www.huaxia-healthcare.com.hk.

11 February 2010

* *For identification purpose only*

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

CONTENTS

In this circular, the following expressions shall have the following meanings unless the context otherwise requires:

"acting in concert"	has the meanings ascribed to it under the Takeovers Code
"Announcement"	the announcement of the Company dated 23 November 2009, in relation to the Proposed Acquisition and the Capital Increase
"associates"	the meaning ascribed thereto in the GEM Listing Rules
"Board"	the board of Directors
"business day"	any day (other than a Saturday or Sunday or public holiday) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
"BVI"	British Virgin Islands
"Capital Increase"	the proposed increase of the authorised share capital of the Company from HK$500,000,000 divided into 10,000,000,000 Shares of HK$0.05 each to HK$1,500,000,000 by the creation of an additional 12,000,000,000 Shares and 8,000,000,000 CP Shares
"CEPA"	Mainland and Hong Kong Closer Economic Partnership Arrangement
"Company"	Hua Xia Healthcare Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on GEM
"Completion"	completion of the Proposed Acquisition in accordance with the terms of the Formal Agreement
"connected persons"	has the meaning ascribed to this term under the GEM Listing Rules
"Consideration"	HK$600 million, being the consideration for the Sale Share and Sale Loan

"Control Agreements"	the agreements all dated 20 December 2009 and entered into among Mr. Yung, Huihao Sihai and Huihao Hong Kong including the Loan Agreement, the Share Charge, the Exclusive Share Purchase Agreement, the Management Appointment Agreement, the Director's Undertakings and the Shareholder's Undertaking
"Conversion CP Shares"	new Shares to be issued by the Company upon the exercise of the conversion rights attached to the CP Shares
"CP Shares"	a total of 4,833,333,333 non-redeemable convertible preference shares of HK$0.06 each to be allotted and issued at the Issue Price in the share capital of the Company and having the rights and benefits and subject to the restrictions to be set out in the terms governing the CP Shares
"Deposit"	together (i) HK$9,800,000 being the initial deposit which has been made by the Company to Mr. Yung within 5 business days upon signing of the Formal Agreement; and (ii) HK$10,200,000 being the further deposit and the partial payment to be paid by the Purchaser to Mr. Yung in cash on the date that the Proposed Acquisition is approved by the Independent Shareholders at the EGM
"Director(s)"	director(s) of the Company
"Director's Undertakings"	an undertaking dated 20 December 2009 by each of Mr. Yung and Mrs. Yung in favour of Huihao Hong Kong that each of them shall vote in accordance with the instructions of Huihao Hong Kong in all future directors' meetings of Huihao Sihai prior to the completion of the Exclusive Share Purchase Agreement
"Easeglory"	Easeglory Holdings Limited, a company incorporated in the BVI, the entire issued share capital of which is wholly and beneficially owned by Mr. Yung
"EGM"	an extraordinary general meeting of the Company to be held on Wednesday, 3 March 2010 to consider and approve the Formal Agreement, the Capital Increase and the transactions contemplated thereunder

"Enlarged Group"	the Group as enlarged by the Target Group upon Completion
"Exclusive Share Purchase Agreement"	an agreement dated 20 December 2009 and entered into between Huihao Hong Kong, Mr. Yung and Huihao Sihai in relation to the acquisition of 99.29% equity interests in Huihao Sihai by Huihao Hong Kong
"Formal Agreement"	a formal sale and purchase agreement and entered into between the Purchaser as purchaser and Mr. Yung as vendor on 13 November 2009 in relation to the Proposed Acquisition which supersedes and replaces all the terms and conditions of the Framework Agreement
"Framework Agreement"	the framework agreement dated 26 October 2009 and entered into among the Company as purchaser, Mr. Yung as vendor, Huihao Sihai and Huihao Hong Kong in relation to the Proposed Acquisition
"Fujian Huihao"	Fujian Province Fuzhou City Huihao Pharmaceutical Co. Ltd# (福建省福州市惠好藥業有限公司), a company established in the PRC, a wholly-owned subsidiary of Huihao Hong Kong
"Fujian Huiming"	Fujian Huiming Medicine Co. Ltd# (福建省惠明醫藥有限公司), a company established in the PRC, a wholly-owned subsidiary of Fujian Huihao
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"GMP" or "Good Manufacturing Practices"	guidelines and regulations issued from time to time pursuant to the Law of the People's Republic of China on the Administration of Pharmaceuticals (中華人民共和國藥品管理法) and to provide quality assurance and ensure that pharmaceutical products subject to the guidelines and regulations are consistently produced and controlled to the quality and standards appropriate for their intended uses
"Group"	the Company and its subsidiaries

"GSP" or "Good Supply Practices"	guidelines and regulations issued from time to time pursuant to the Law of the People's Republic of China on the Administration of Pharmaceuticals (中華人民共和國藥品管理法) to provide quality assurance and ensure that pharmaceutical distribution enterprises distribute pharmaceutical products in compliance with the guidelines and regulations
"Guaranteed Profit"	audited consolidated net profit after taxation and extraordinary or exceptional items and minority interests of the Target Group for the year ending 31 March 2011 which shall not be less than HK$50 million
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Huihao Hong Kong"	Hui Hao (HK) Group Limited (惠好(香港)醫藥集團有限公司), a company incorporated in Hong Kong with limited liability and the entire equity interests of which is held by the Target
"Huihao Medicine Wholesale Group"	together, Huihao Hong Kong, Fujian Huihao, Putian Huihao and Fujian Huiming
"Huihao Sihai"	Fujian Huihao Sihai Pharmaceutical Chain Company Limited# (福建惠好四海醫藥連鎖有限責任公司), a company established in the PRC with limited liability, 99.29% equity interests of which is held by the Target through Huihao Hong Kong since the completion of the Reorganisation
"IBC" or "Independent Board Committee"	the independent board committee comprising all the independent non-executive Directors established to advise the Independent Shareholders as to the fairness and reasonableness of the Formal Agreement, the Capital Increase and the transactions contemplated thereunder
"Independent Shareholders"	Shareholders other than Mr. Yung, Easeglory and their respective associates

"Independent Third Party(ies)"	any person or company and its ultimate beneficial owner(s), to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons
"Issue Price"	an issue price of HK$0.06 for each CP Share
"Last Trading Day"	23 October 2009, being the last trading date immediately before the date of the signing of the Framework Agreement
"Latest Practicable Date"	8 February 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Loan Agreement"	a loan agreement dated 20 December 2009 and entered into between Huihao Hong Kong and Mr. Yung in relation to the advancement of loan of HK$12,463,124.44 by Huihao Hong Kong to Mr. Yung for the purpose of acquisition of 99.29% equity interests in Huihao Sihai for an initial term of ten years
"Long Stop Date"	the 180th day from the date of the Formal Agreement, or such other date as may be agreed by the Purchaser and Mr. Yung
"Management Appointment Agreement"	an exclusive appointment agreement dated 20 December 2009 and entered into among Huihao Sihai, Mr. Yung and Huihao Hong Kong in relation to, among other things, the appointment of two directors to the board of directors of Huihao Sihai by Huihao Hong Kong
"Mr. Yung"	Mr. Yung Kwok Leong, an executive Director and a substantial Shareholder, being the vendor to the Proposed Acquisition
"Mrs. Yung"	Mrs. Yung Muk Ying, wife of Mr. Yung
"PRC"	The People's Republic of China, for the purpose of this circular excluding Hong Kong, Macau Special Administrative Region and Taiwan
"Profit Guarantee"	the profit guarantee given by Mr. Yung pursuant to the Formal Agreement

"Promissory Note"	promissory note with the principal amount of HK$290 million to be issued by the Company to satisfy part of the Consideration payable by the Purchaser pursuant to the Formal Agreement
"Proposed Acquisition"	the proposed acquisition of the Sale Share and Sale Loan
"Purchaser"	Timely Hero Enterprises Limited, a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of the Company
"Putian Huihao"	Putian Medicine Co. Ltd# (福建莆田惠好醫藥有限公司), a company established in the PRC, a wholly-owned subsidiary of Fujian Huihao
"Reorganisation"	the acquisition of 100% equity interests in Huihao Hong Kong, and its subsidiaries (including 99.29% equity interests in Huihao Sihai) by the Target, which had been completed as at the Latest Practicable Date
"Sale Loan"	all obligations, liabilities and debts owing or incurred by the Target Group to Mr. Yung at Completion (whether actual, contingent or deferred). As at the date of the Formal Agreement, the Target Group was indebted to Mr. Yung in the amount of approximately HK$35,500,000
"Sale Share"	1 ordinary share of US$1.00 in the issued share capital of the Target, representing the entire issued share capital of the Target
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share Charge"	a share charge dated 20 December 2009 and executed by Mr. Yung in favour of Huihao Hong Kong over his equity interests in Huihao Sihai as a security for the Loan Agreement and the Exclusive Share Purchase Agreement
"Share(s)"	ordinary share(s) of HK$0.05 each in the issued share capital of the Company

"Shareholder(s)"	holder(s) of the issued Shares
"Shareholder's Undertaking"	an undertaking dated 20 December 2009 and executed by Mr. Yung in favour of Huihao Hong Kong that he will vote in accordance with the instructions of Huihao Hong Kong in all future shareholder's meetings of Huihao Sihai prior to the completion of the Exclusive Share Purchase Agreement
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	Hong Kong Code on Takeovers and Mergers
"Target"	Nurture Fit Limited, a company incorporated in the BVI, whose entire issued share capital is beneficially owned by Mr. Yung. It holds 100% equity interests in Huihao Hong Kong
"Target Group" or "Huihao Group"	the Target, Huihao Sihai, Huihao Hong Kong and their respective subsidiaries
"Trademarks Licence Agreement I"	the trademarks licence agreement dated 31 July 2008 and entered into between Fujian Huihao Pharmaceutical Company Limited# (福建惠好藥業有限公司) (as grantor), Fujian Huihao, Huihao Sihai, Fujian Huiming and Putian Huihao (as grantee) in relation to the use of five trademarks
"Trademarks Licence Agreement II"	the trademarks licence agreement dated 31 July 2008 and entered into between Fujian Huihao Pharmaceutical Chain Company Limited# (福建惠好醫藥連鎖有限公司) (as grantor), Fujian Huihao, Huihao Sihai, Fujian Huiming and Putian Huihao (as grantees) in relation to the use of six trademarks
"Track Record Period"	each of the three accounting years ended 31 March 2007, 2008 and 2009 and the six-month period ended 30 September 2009 of the Target Group

"Trademarks Transfer Agreement I"	the trademarks transfer agreement dated 30 November 2009 (as supplemented by a supplemental agreement dated 22 December 2009) and entered into between Fujian Huihao Pharmaceutical Company Limited# (福建惠好藥業有限公司) (as transferor) and Huihao Sihai (as transferee) in relation to the transfer of five trademarks
"Trademarks Transfer Agreement II"	the trademarks transfer agreement dated 30 November 2009 (as supplemented by a supplemental agreement dated 22 December 2009) and entered into between Fujian Huihao Pharmaceutical Chain Company Limited# (福建惠好醫藥連鎖有限公司) (as transferor) and Huihao Sihai (as transferee) in relation to the transfer of seven trademarks and the usage of one trademark
"Veda Capital"	Veda Capital Limited, the independent financial adviser to the Independent Board Committee and Independent Shareholders in relation to the Proposed Acquisition and the Capital Increase. Veda Capital is a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO
"WTO"	World Trade Organization
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"sq.m"	square meter(s)
"US$"	United States dollars, the lawful currency of United States of America
"%"	per cent.

The English transliteration of the Chinese names in this circular, where indicated, is included for information only, and should not be regarded as the official English names of such Chinese names.

HUA XIA HEALTHCARE HOLDINGS LIMITED
華夏醫療集團有限公司 *

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8143)

Executive Directors:
Mr. Yung Kwok Leong *(Chairman)*
Dr. Jiang Tao *(Chief Executive Officer)*
Mr. Zheng Gang
Mr. Chen Jin Shan
Dr. Huang Jiaqing

Non-executive Director:
Dr. Wong Yu Man, James

Independent non-executive Directors:
Ms. Wong Ka Wai, Jeanne
Prof. Hu Shanlian
Prof. Lu Chuanzhen

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place of business in Hong Kong:
Room 1902, 19/F
Sing Pao Building
No. 101 King's Road
North Point, Hong Kong

11 February 2010

To Shareholders,

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RESPECT OF THE PROPOSED ACQUISITION OF PHARMACEUTICAL RETAIL CHAIN, WHOLESALE AND DISTRIBUTION BUSINESS; (2) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL; AND (3) NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

On 23 November 2009, the Company announced that (i) the Purchaser entered into the Formal Agreement on 13 November 2009 with Mr. Yung in relation to the Proposed Acquisition; and (ii) the Capital Increase.

* *For identification purpose only*

The purpose of this circular is to provide you with, among other things, (i) further information on the Proposed Acquisition and the Capital Increase; (ii) further information on the terms of CP Shares; (iii) the financial information of the Group and the Target Group; (iv) the unaudited proforma financial information of the Enlarged Group; (v) the recommendations of the IBC regarding the Proposed Acquisition and the Capital Increase; (vi) the letter from Veda Capital, the independent financial adviser to the IBC on the Proposed Acquisition and the Capital Increase, in respect of the fairness and reasonableness of the terms and conditions of the Proposed Acquisition and the Capital Increase; and (vii) the notice of EGM and other information as required under the GEM Listing Rules.

THE FORMAL AGREEMENT

Date

13 November 2009

Parties

(i) Mr. Yung, as vendor; and

(ii) Timely Hero Enterprises Limited, a wholly-owned subsidiary of the Company, as purchaser.

As at the Latest Practicable Date, Mr. Yung is interested in 100% equity interests in the Target, which is the beneficial owner of 100% equity interests in Huihao Hong Kong which, in turn, holds 99.29% equity interests in Huihao Sihai. Mr. Yung is an executive Director and a substantial Shareholder holding (both in person and through his wholly-owned corporation, Easeglory) 1,225,073,750 Shares in aggregate, representing approximately 27.25% of the issued share capital of the Company as at the Latest Practicable Date. Mr. Yung is therefore a connected person of the Company as defined under the GEM Listing Rules.

Assets to be acquired

(i) The Sale Share, being the entire issued share capital of the Target; and

(ii) The Sale Loan, being all obligations, liabilities and debts owing or incurred by the Target Group to Mr. Yung (whether actual, contingent or deferred) at Completion. As at the date of the Formal Agreement, the Target Group was indebted to Mr. Yung in the amount of approximately HK$35,500,000.

Consideration

The consideration for the Sale Share and the Sale Loan is HK$600 million, representing 12 times of the profit guarantee given by Mr. Yung under the Formal Agreement which shall be satisfied by the Purchaser in the following manner:–

(a) as to HK$9.8 million being the initial deposit and part of the Consideration, be payable by the Purchaser to Mr. Yung in cash within 5 business days after the date of the Formal Agreement. As at the Latest Practicable Date, this part of Deposit has been paid by the Purchaser to Mr. Yung;

(b) as to HK$10.2 million being the further deposit and part of the Consideration, will be payable by the Purchaser to Mr. Yung in cash on the date that the Proposed Acquisition is approved by the Independent Shareholders at the EGM;

(c) as to HK$290 million will be payable by the Purchaser procuring the Company to allot and issue the CP Shares in favour of Mr. Yung upon Completion; and

(d) as to HK$290 million will be payable by the Purchaser procuring the Company to issue the Promissory Note in favour of Mr. Yung upon Completion.

The cash consideration was and will be financed by the Group's internal resources.

Basis of determining the Consideration

The Consideration was on normal commercial terms and arrived at after arm's length negotiations between the parties to the Formal Agreement and by reference to (i) the Profit Guarantee; (ii) the price earning ratio of 12 times, after taking into account the lower range of the price earning ratios of other listed companies in Hong Kong engaging in similar business of the Target Group ranging from about 10.1 times to about 67.5 times; (iii) prospects of pharmaceutical business in the PRC; (iv) financial performance of the Target Group; and (v) secured foothold and establishment of the pharmaceutical retail chain under Huihao Sihai brand name in Fujian.

The Profit Guarantee

In the Formal Agreement, Mr. Yung has irrevocably guaranteed and warranted to the Company that the audited consolidated net profit after taxation and extraordinary or exceptional items and minority interests of the Target Group for the year ending 31 March 2011 (the "**Net Profit**") shall not be less than the Guaranteed Profit of HK$50 million.

Adjustment mechanism for the Consideration

In the event that the Net Profit is less than the Guaranteed Profit, Mr. Yung shall pay to the Company, an amount equivalent to the product of 12 times, being the price earning multiple for determining the Consideration and such shortfall, as compensation (the "**Shortfall**"). In the event there is an audited consolidated net loss for the year ending 31 March 2011, the Net Profit will be deemed to be zero for the purpose of calculating compensation payable to the Group.

The amount of Shortfall will first be set off against the face value of the Promissory Note then outstanding. If the amount of Shortfall exceeds the face value of the Promissory Note then outstanding, Mr. Yung shall pay to the Purchaser the remaining Shortfall in cash. For the avoidance of doubt, (i) the total amount to be set off and payable by Mr. Yung shall not exceed HK$600 million, being the total Consideration; and (ii) if the Net Profit exceeds the Guaranteed Profit, no payment shall be made by the Group to Mr. Yung.

As informed by Mr. Yung, the acquisition of 100% equity interests in the Huihao Medicine Wholesale Group and 99.29% equity interests in Huihao Sihai by Mr. Yung had been approved in-principle by the relevant authorities in the PRC on 2 December 2008 and 6 November 2009 respectively. The original acquisition costs of 100% equity interests in the Huihao Medicine Wholesale Group and 99.29% equity interests Huihao Sihai to Mr. Yung are approximately HK$35,500,000 and RMB10,957,579 respectively. In aggregate, the total costs of acquisition of the Target Group incurred by Mr. Yung before completion of the Reorganisation is approximately HK$48 million. The acquisition costs were determined based on the then net asset value of the acquired assets and were made in compliance with the relevant law in the PRC.

As referred in the above paragraph headed "Basis of determining the Consideration", the Consideration of HK$600 million has been arrived after arm's length negotiation between the parties to the Formal Agreement and was determined based on the price earnings ratio approach (which is a common valuation approach used in Hong Kong for valuing enterprises based on their future prospects) and the Profit Guarantee, i.e. the product of 12 times (being the lower range of the price earning ratios of other listed companies in Hong Kong engaging in similar business of the Target Group ranging from about 10.1 times to about 67.5 times) and the Guaranteed Profit of HK$50 million. In view of the other factors considered for determining the Consideration as mentioned above and the adjustment mechanism for the Consideration, the Directors (including independent non-executive Directors) consider that the basis for determining the Consideration (i.e. using a price earning ratio approach rather than a net asset value approach) and that the Consideration represents a premium over the original acquisition costs paid by Mr. Yung for the Sale Share and Sale Loan are fair and reasonable.

The Company will publish an announcement if the Profit Guarantee is not achieved and will include details of such shortfall in the Company's next annual report after the Net Profit is determined. The independent non-executive Directors will also provide an opinion in the Company's next annual report after the Net Profit is determined as to whether the Profit Guarantee is fulfilled.

Conditions precedent

The Proposed Acquisition is subject to the following conditions precedent:

(a) the obtaining of all necessary consents and approvals on the part of Mr. Yung, the Company and the Target Group respectively;

(b) the warranties given by Mr. Yung in the Formal Agreement remaining true and accurate in all respects;

(c) the GEM Listing Committee of the Stock Exchange having granted the listing of, and the permission to deal in the Conversion CP Shares;

(d) the passing by the Independent Shareholders at the EGM by way of poll, the necessary resolutions to approve the Formal Agreement and the transactions contemplated thereunder, including without limitation, the issue of the Promissory Note and the CP Shares as required by the GEM Listing Rules;

(e) the obtaining of a PRC legal opinion (in the form and the substance satisfactory to the Company) in relation to the validity and legality of the incorporation of the Target Group, the Reorganisation and the transactions contemplated under the Formal Agreement;

(f) the Company being satisfied with the results of the due diligence review to be conducted on the assets, liabilities, operations and affairs of the Target Group; and

(g) the completion of Reorganisation.

Save for conditions (b) and (f) which are waivable by the Purchaser, none of the conditions precedent are waivable. If the above conditions precedent have not been satisfied (or as the case may be, waived) on or before the Long Stop Date or such later date as the Company and Mr. Yung may agree, Mr. Yung shall forthwith refund the Deposit (without interest) to the Company and the Formal Agreement shall cease and determine and neither party shall have any obligations and liabilities towards each other thereunder save for antecedent breaches of the terms of the Formal Agreement.

As at the Latest Practicable Date, save for condition (g) above has been satisfied, none of the other conditions has been fulfilled.

If Completion does not take place as a result of the sole default of the Purchaser, Mr. Yung shall have the right to forfeit all the Deposit received by him.

If Completion does not take place as a result of the sole default of Mr. Yung, Mr. Yung shall forthwith repay all the Deposit received by him and compensate the Purchaser a sum equivalent to the amounts of all the Deposit received by him.

If Completion does not take place otherwise than as a result of the sole default of neither the Purchaser nor Mr. Yung, Mr. Yung shall forthwith and repay the Deposit to the Purchaser (without interest).

Completion

Completion is subject to the fulfilment and/or waiver of the conditions precedent set out in the Formal Agreement. Upon Completion, the Target Group will become subsidiaries of the Company and its financial results will be consolidated into the accounts of the Group.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Formal Agreement are fair and reasonable and the Proposed Acquisition is in the interests of the Company and the Shareholders as a whole.

CONVERTIBLE PREFERENCE SHARES

Upon Completion, HK$290 million of the Consideration will be satisfied by the Purchaser procuring the Company to allot and issue 4,833,333,333 CP Shares in favour of Mr. Yung at an Issue Price of HK$0.06.

The principal terms of the CP Shares are as follows:

Notional value	HK$0.06
Issue Price	HK$0.06 per CP Share
Number of CP Shares to be issued	4,833,333,333 CP Shares
Conversion price	Initially, CP Shares of the notional value of an amount equivalent to HK$0.06 shall be convertible into one Share (subject to standard adjustments)
Conversion period	Perpetual

Limitations on conversion	No conversion of the CP Shares is allowed provided that (i) any conversion of the CP Shares triggers a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the holder(s) of the CP Shares and parties acting in concert with any of them who exercised the conversion rights and the number of Shares to be allotted and issued upon the exercise of the conversion rights attaching to the CP Shares (if applicable, including any Shares acquired by the parties acting in concert with the holder(s) of the CP Shares), together with the Shares and Conversion CP Shares in issue, represents 30% or more of the then issued ordinary share capital of the Company or otherwise pursuant to other provisions of the Takeovers Code or (ii) if immediately after such conversion, the public float of the Shares falls below the minimum public float requirements stipulated under the GEM Listing Rules or as required by the Stock Exchange.
Redemption	The CP Shares are non-redeemable.
Ranking	The CP Shares rank: (i) in priority to the Shares and any other shares of the Company as to return of capital, and (ii) pari passu with Shares as to dividends. The Conversion CP Shares, when allotted and issued, will rank pari passu in all respects with all Shares in issue at the date of allotment and issue of such Conversion CP Shares.
Voting rights	Holders of the CP Shares (in their capacity as such) will not be permitted to attend or vote at meetings of the Company, unless a resolution is proposed to vary the rights of holders of the CP Shares or a resolution is proposed for the winding up of the Company.
Dividends	Holder of each CP Share shall have the same entitlement to dividend as holder of the number of Shares into which such CP Share may be converted upon exercise of conversion rights attached thereto.

Transferability	The CP Shares may be assigned or transferred to any transferee provided that such transferee is not a connected person of the Company, unless the necessary approval (if any) be obtained from the Stock Exchange and from the Independent Shareholder.
Rights upon liquidation	On winding up of the Company, the holder(s) of the CP Shares shall be entitled to the return of capital on the basis of the notional value of the CP Shares.
Governing law	The CP Shares shall be governed by and construed in accordance with the laws of the Cayman Islands.
Listing	No application will be made by the Company to the GEM Listing Committee of the Stock Exchange for the listing of the CP Shares.

The Issue Price per CP Share is HK$0.06 and was determined after arm's length negotiations between the parties to the Formal Agreement with reference to the recent market price of the Shares, which represent (i) a premium of approximately 7.14% over the closing price of HK$0.0560 per Share as quoted on the Stock Exchange on the Last Trading Day; (ii) a premium of approximately 2.74% over the average closing price of HK$0.0584 per Share as quoted on the Stock Exchange on the last five trading days immediately prior to the Last Trading Day; (iii) a premium of approximately 6.76% over the average closing price of HK$0.0562 per Share as quoted on the Stock Exchange on the last ten trading days immediately prior to the Last Trading Day; and (iv) a discount approximately 25.93% to the closing price of HK$0.081 on the Latest Practicable Date.

The Directors (including the independent non-executive Directors) consider that the Issue Price of HK$0.06 and initial Conversion Price of HK$0.06 per CP Share are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Upon Completion, 4,833,333,333 CP Shares will be allotted and issued at the Issue Price. Upon full conversion of all CP Shares at the initial Conversion Price of HK$0.06, 4,833,333,333 Conversion CP Shares will be issued, which represent approximately 107.52% of the issued share capital of the Company as at the Latest Practicable Date and approximately 51.81% of the issued share capital of the Company as enlarged by the issue of the Conversion CP Shares. However, holder(s) of the CP Shares shall have the right to convert the CP Shares provided that any conversion of the CP Shares does not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the holder(s) of the CP Shares and parties acting in concert with any of them. The CP Shares will be issued under a specific mandate to be sought at the EGM. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion CP Shares.

Terms constituting the CP Shares are set out in Appendix VII to this circular.

THE PROMISSORY NOTE

Upon Completion, the Company will issue the Promissory Note in the principal amount of HK$290 million to Mr. Yung. The principal terms of the Promissory Note are as follows:

Issuer	The Company
Principal amount	HK$290 million
Maturity	The tenth anniversary from the date of issue of the Promissory Note
Transferability	The Promissory Note may be assigned or transferred to any transferee provided that such transferee is not a connected person of the Company and that Mr. Yung has discharged in full his obligations under the adjustment mechanism relating to the Consideration. The Promissory Note may be assigned or transferred in whole or in part (in multiples of HK$1,000,000) of its outstanding principal amount.
Coupon rate	1% per annum, payable semi-annually in arrears.
Redemption	The Company may at any time before the maturity date of the Promissory Note, by serving at least ten (10) business days' prior written notice to the holder(s) of the Promissory Note with the total amount proposed to be redeemed from such holder specified therein, redeem the Promissory Note (in whole or in part) at 100% to the principal amount of the part of the Promissory Note to be redeemed. Such amount to be redeemed shall not be less than HK$1 million and shall be in integral multiples of HK$1,000,000. If the remaining outstanding amount of the Promissory Note to be redeemed is less than HK$1,000,000, the remaining amount will be redeemed in full. Any amount of the Promissory Note which remains outstanding on the maturity date shall be redeemed at 100% of its then outstanding principal amount, inclusive of interest thereon. Any amount of the Promissory Note which is redeemed by the Company will be forthwith cancelled. The holder(s) of the Promissory Note shall not have any early redemption right.

SHAREHOLDING STRUCTURE OF THE COMPANY BEFORE AND AFTER COMPLETION

The following table shows the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) upon Completion and the issue of all the CP Shares; and (iii) upon Completion and the full conversion of CP Shares to Conversion CP Shares.

Shareholders	As at the Latest Practicable Date		Upon Completion and the issue of all the CP Shares *(note 3)*			Upon Completion and the issue of all the Conversion CP Shares *(for illustration propose only, note 4)*	
	Number of Shares	*Approximate %*	*Number of Shares*	*Number of CP Shares*	*Approximate %*	*Number of Shares*	*Approximate %*
Mr. Yung *(notes 1 and 2)*	15,468,750	0.34	15,468,750	4,833,333,333	51.98	4,848,802,083	51.98
Easeglory *(note 1)*	1,209,605,000	26.91	1,209,605,000	–	12.97	1,209,605,000	12.97
	1,225,073,750	27.25	1,225,073,750	–	64.95	6,058,407,083	64.95
Zheng Gang *(note 2)*	9,000,000	0.20	9,000,000	–	0.10	9,000,000	0.10
Sub-total	1,234,073,750	27.45	1,234,073,750	–	65.05	6,067,407,083	65.05
Public Shareholders	3,261,038,236	72.55	3,261,038,236	–	34.95	3,261,038,236	34.95
Total	4,495,111,986	100.00	4,495,111,986	4,833,333,333	100.00	9,328,445,319	100.00

Notes:

(1) Easeglory, a company incorporated in the BVI with limited liability, the entire issued share capital of which is wholly owned by Mr. Yung. Mr. Yung is deemed to be interested in the 1,209,605,000 Shares by virtue of the Securities and Futures Ordinance.

(2) Mr. Yung and Zheng Gang are Directors.

(3) Holders of the CP Shares (in their capacity as such) will not be permitted to attend or vote at general meetings of the Company, unless a resolution is proposed to vary the rights of holders of the CP Shares or a resolution is proposed for the winding up of the Company.

(4) This scenario is for illustration purpose only assuming all the CP Shares have been fully converted into Conversion CP Shares. However, pursuant to the terms and conditions of the CP Shares, holder(s) of the CP Shares shall have the right to convert the CP Shares provided that any conversion of the CP Shares (i) does not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the holder(s) of the CP Shares and parties acting in concert with any of them; and (ii) the public float of the Shares does not fall below the minimum public float requirements stipulated under the GEM Listing Rules or as required by the Stock Exchange.

There will be no change of control of the Company after the allotment and issue of the CP Shares.

THE CONTROL AGREEMENTS

Initially, pharmaceutical retail chain carried out by Huihao Sihai is a restricted business in the PRC. Pursuant to the Catalogue for the Guidance of Foreign Investment Industries《外商投資產業指導目錄》issued by the Ministry of Commerce of the PRC, foreign investors are not allowed to hold the entire shareholding interests in a company which is principally engaged in pharmaceutical retail chain business in the PRC. Under CEPA, preferential treatment is granted by the PRC authorities to a natural person who is a Hong Kong permanent resident or a Hong Kong service supplier which is a company having engaged in substantive business operations in Hong Kong for three to five years, to acquire the entire equity interests in the restricted business. As at the Latest Practicable Date, the shareholding structure of Huihao Sihai has been approved by the relevant PRC authorities. As part of the Reorganisation and in order to obtain an effective control on Huihao Sihai, the Target Group have entered into the Control Agreements with Mr. Yung as the Group does not have any suitable vehicle that meet the requirement in order to benefit from CEPA to hold the 99.29% equity interests in Huihao Sihai upon Completion. The Board expects that it will take several years for the Group to get the necessary qualification under CEPA in order to directly hold 99.29% equity interests in Huihao Sihai.

The Control Agreements are designed to provide the Group with an effective control over and the right to enjoy the economic benefits in and/or assets of, Huihao Sihai. Upon Completion, the Company will be able to govern the financial and operating policies of Huihao Sihai because (i) the board of directors of Huihao Sihai will be controlled by Huihao Hong Kong pursuant to the Management Appointment Agreement and the Director's Undertakings; (ii) the general meeting will be controlled by Huihao Hong Kong pursuant to the Shareholder's Undertaking; and (iii) all the benefits arising from 99.29% equity interests in Huihao Sihai will be entirely conveyed to Huihao Hong Kong pursuant to the Share Charge. As discussed with the auditors of the Company, subject to the Group having obtained control over Huihao Sihai upon Completion, pursuant to the Control Agreements, Huihao Sihai will be accounted for as a 99.29% subsidiary of the Company in accordance with generally accepted accounting principles in Hong Kong and the financial results of Huihao Sihai will be consolidated with that of Huihao Hong Kong.

The Company has been advised by its PRC legal adviser that the Control Agreements are legal, effective and enforceable and in compliance with the relevant rules and regulations of the PRC.

Salient terms and conditions of the Control Agreements are extracted as below.

The Loan Agreement

Date:	20 December 2009
Parties:	(1) Mr. Yung, as borrower; and
	(2) Huihao Hong Kong, as lender
Subject:	Huihao Hong Kong agreed to advance an interest-free loan of approximately HK$12,463,124.44 for an initial term of ten years to Mr. Yung.
Term:	The sole purpose of the loan is for the acquisition of the 99.29% equity interests in Huihao Sihai by Mr. Yung. The loan will only be offset against the consideration under the Exclusive Share Purchase Agreement. The initial term of the Loan Agreement is ten years which is extendable automatically unless otherwise terminated by Huihao Hong Kong. As at the Latest Practicable Date, the loan had been advanced to Mr. Yung.

Exclusive Share Purchase Agreement

Date:	20 December 2009
Parties:	(1) Mr. Yung, as grantor;
	(2) Huihao Sihai; and
	(3) Huihao Hong Kong, as grantee
Subject:	Mr. Yung granted an irrevocable and exclusive right to Huihao Hong Kong or its nominee to acquire the entire or part of his equity interests in Huihao Sihai of up to 99.29%.
Consideration:	Parties to the Exclusive Share Purchase Agreement agreed that the consideration for the acquisition of the 99.29% equity interests in Huihao Sihai of HK$12,463,124.44 will be offset against the loan amount under the Loan Agreement or by any other means in compliance with the relevant rules and requirements in the PRC upon exercise of the right to acquire equity interests in Huihao Sihai by Huihao Hong Kong.

Term: Within ten years from the date of entering into of the Exclusive Share Purchase Agreement, extendable for another ten years until the completion of acquisition of equity interests in Huihao Sihai, Huihao Hong Kong may exercise its rights under the Exclusive Share Purchase Agreement in whole or in part to acquire up to 99.29% of the equity interests in Huihao Sihai.

Share Charge

Date: 20 December 2009

Parties:

(1) Mr. Yung, as chargor;

(2) Huihao Hong Kong, as chargee; and

(3) Huihao Sihai

Subject: In consideration of the advancement of the loan by Huihao Hong Kong to Mr. Yung under the Loan Agreement, Mr. Yung created a charge over his 99.29% equity interests in Huihao Sihai in favour of Huihao Hong Kong to secure the performance of Mr. Yung under the Exclusive Share Purchase Agreement and the Loan Agreement.

Term: In accordance with the terms and conditions of the Share Charge, Mr. Yung charged his entire 99.29% equity interests in Huihao Sihai to Huihao Hong Kong and will procure Huihao Sihai to register the Share Charge in its register of members.

The period of the Share Charge commences from the date of the Share Charge to the full discharge of the obligations of the borrower under the Loan Agreement.

During the term of the Share Charge, Mr. Yung shall convey all the dividends, distribution, capital bonus and other assets distributed paid or made by Huihao Sihai to him as a shareholder to Huihao Hong Kong with respect to his entire charged equity interests in Huihao Sihai.

Management Appointment Agreement

Date: 20 December 2009

Parties: (1) Mr. Yung; and

(2) Huihao Hong Kong

Subject: Mr. Yung shall vote on any resolution proposed at a general meeting of shareholders of Huihao Sihai in accordance with the directions of Huihao Hong Kong. Huihao Hong Kong shall appoint two directors to the board of directors of Huihao Sihai creating an effective control on the board of directors of Huihao Sihai. In addition, Huihao Hong Kong is entitled to remove the general manager and legal representative of Huihao Sihai and replace therewith its nominees.

Term: Commencing from the date of the Management Appointment Agreement until the fulfillment of all of the obligations under the Exclusive Share Purchase Agreement.

Director's Undertakings

Date: 20 December 2009

Parties: Mr. Yung and Mrs. Yung

Subject: Each of Mr. Yung and Mrs. Yung undertakes to pass a copy of all notices of directors' meetings received from Huihao Sihai to Huihao Hong Kong and to vote on any resolutions proposed at the directors' meetings of Huihao Sihai in accordance with the voting instructions given by Huihao Hong Kong. Each of Mr. Yung and Mrs. Yung further undertakes to procure any of his/her replacing directors of Huihao Sihai to give a similar undertaking as aforesaid.

Shareholder's Undertaking

Date:	20 December 2009
Party:	Mr. Yung
Subject:	Mr. Yung undertakes to Huihao Hong Kong to vote on any resolution proposed at a general meeting of the shareholders of Huihao Sihai in accordance with the directions of Huihao Hong Kong.

OVERVIEW OF THE PHARMACEUTICAL WHOLESALE AND DISTRIBUTION AND PHARMACEUTICAL RETAIL CHAIN BUSINESS IN THE PRC AND FUJIAN PROVINCE, THE PRC

This section contains information and statistics relating to the pharmaceutical wholesale and retail industry in which the Target Group operates. The Directors have derived such information and data partly from publicly available and authoritative sources which have not been independently verified by the Directors or any of their advisers. The Directors make no representation as to the correctness or accuracy of such information provided by those organizations and accordingly such information should not be unduly relied on. The Directors have performed due diligence work to ensure the information is accurate and complete and have taken such care as they consider reasonable in the reproduction and extraction of such information.

(1) Industry overview in the PRC

Leveraging on the growth of the PRC's economy, size of its population, improvement of living standards, increase in health consciousness and the supportive government policy, the pharmaceutical wholesale and distribution and pharmaceutical retail chain business in the PRC is rapidly growing with immense potential.

In 2008, the total revenue of the pharmaceutical wholesale and distribution and pharmaceutical retail chain business in the PRC reached approximately RMB469.87 billion, representing an increase of 16.71% from 2007, of which the top three distributors captured a revenue of RMB94.38 billion, representing approximately 20.09% of the total market share; while the top 20 distributors captured a revenue of RMB202.5 billion, representing approximately 43% of the total market share. The entry level of revenue to the top 100 distributors increased from RMB630 million in 2007 to RMB740 million in 2008. (Source of information: China Association of Pharmaceutical Commerce 中國醫藥商業協會)

In 2007, the total revenue of the pharmaceutical wholesale and distribution and pharmaceutical retail chain business in the PRC reached approximately RMB402.59 billion, representing an increase of 19.81% from 2006, of which the top three distributors captured a revenue of RMB77.34 billion, approximately 19.21% of the total market share; while the top 20 distributors captured a revenue of RMB166.4 billion, approximately 41.33% of the total market share. The entry level of revenue to the top 100 distributors increased from RMB580 million in 2006 to RMB630 million in 2007. (Source of information: China Association of Pharmaceutical Commerce 中國醫藥商業協會)

In 2006, the total revenue of the pharmaceutical wholesale and distribution and pharmaceutical retail chain business in the PRC reached approximately RMB336.03 billion, representing an increase of 12.00% from 2005, of which the top three distributors captured a revenue of RMB63.66 billion, approximately 18.95% of the total market share; while the top 20 distributors captured a revenue of RMB141.95 billion, approximately 42.25% of the total market share. The entry level of revenue to the top 100 distributors increased from RMB529 million in 2005 to RMB580 million in 2006. (Source of information: China Association of Pharmaceutical Commerce 中國醫藥商業協會)

According to the China Statistical Yearbook 2008 (the "Yearbook"), from 2003 to 2008, the average per capita annual disposable income of the PRC's urban residents increased from approximately RMB8,472 to RMB15,781, representing a compound annual growth rate ("**CAGR**") of approximately 13.2%. According to the Yearbook, the PRC's gross domestic product ("**GDP**") grew at a CAGR of 16.4% from 2003 to 2008, and its per capita GDP grew from RMB10,542 in 2003 to approximately RMB22,640 in 2008, representing a CAGR of 16.5%. During this period, national income and disposable income levels increased significantly.

With the rising living standards and increasing disposable income, people in the PRC have become more health conscious. These developments have resulted in both the PRC urban and rural residents spending more on healthcare products. According to the PRC National Bureau of Statistics, consumer expenditures on healthcare in the PRC's urban and rural areas increased from approximately RMB476.0 and RMB117.8 per person in 2003, respectively, to approximately RMB699.0 and RMB210.2 per person in 2007, respectively.

As part of its Eleventh Five-Year Plan (2006-2010), the PRC government has actively supported the healthcare industry (including the pharmaceutical wholesale and distribution and pharmaceutical retail chain business) by providing a number of incentives and enacting programs, including increased funding for building additional hospitals, research centers and other healthcare facilities, enacting healthcare reforms and standards and subsidizing healthcare services for its citizens. The PRC government has announced it will spend an additional RMB850 billion on healthcare programs from 2009 to 2011, which will significantly bolster the PRC healthcare market including the pharmaceutical wholesale and distribution and pharmaceutical retail chain business.

Apart from the above mentioned favorable factors, the pharmaceutical distribution and retail chain business in the PRC is under continuing intense competition, including:

(a) ***Scale of operation***. Due to the competitive market and more rigorous regulatory standards and requirements imposed by the PRC Government, achieving economies of scale and optimisation of use of resources are crucial for pharmaceutical distributors to maintain a sustainable and profitable business. Existing pharmaceutical distributors are facing the trend of consolidation in the industry which means that more resources are needed for improving current business infrastructure and for possible mergers and acquisitions.

(b) ***Quality and range of services***. Customers now value pharmaceutical distributors and retail chain services providers in terms of their ability to deliver high quality of services and products as well as the provision of one-stop shop pharmaceutical distribution services, logistics and other value-added services.

(c) ***Geographic coverage***. The PRC's vast territory presents significant geographical challenges that require pharmaceutical distributors and retail chain services providers to continue to develop and establish their distribution networks and penetrate as many local markets as possible.

(d) ***Product portfolio***. The product portfolio that pharmaceutical distributors and retails chain services providers offer, is an important factor for satisfying their customers' need and capture more market share.

(e) ***Price***. Price competition is intensive in the pharmaceutical distribution and retail chain industry. However, customers and suppliers generally do not make purchasing decisions solely based on price, as they will consider the foregoing factors, as well as stable supply and quality of products.

(f) ***Foreign competitors***. Since the entry to the WTO, the PRC has opened up certain segments of the manufacture, distribution and sale of pharmaceutical products to selected foreign investors since 2005. Therefore, competition in terms of quality of services and product variety in the industry is unavoidable.

(2) Industry overview in Fujian

The Target Group operates in a rapidly growing pharmaceutical industry in Fujian Province, the PRC. The healthcare industry in Fujian Province, the PRC is supported by a variety of favourable socio-economic factors such as the growth of economy, improvement of living standards, increased health consciousness and active PRC Government support.

Fujian Province, the PRC is one of the economic hubs in the southeast region of the PRC. According to the China Statistics Yearbook of 2008, the population of Fujian Province, the PRC was about 36.04 million. The average annual income in the Fujian Province of the PRC urban cities had attained a double digit growth in the past consecutive five years, ranging from about 10.3% to about 15.8% per annum and reached RMB17,961 per capita in 2008.

According to the annual statistics published by the People's Government of Fujian Province, for the years ended 2006, 2007 and 2008, the GDP of Fujian Province, the PRC amounted to approximately RMB750 billion, RMB916 billion and RMB1,082 billion respectively and the GDP per capita of Fujian Province, the PRC amounted to RMB21,152, RMB25,662 and RMB30,123 respectively, representing a double digit growth of GDP in the past consecutive three years. Fujian Province, the PRC ranked 10th place among all provinces and municipal cities in the PRC with GDP per capita of RMB30,123 in 2008.

With the rising living standards, people in Fujian Province, the PRC have become more health conscious. These developments have resulted in more spending on the healthcare products. According to the annual statistics published by the People's Government of Fujian Province, consumer expenditures on healthcare in Fujian Province, the PRC kept a stable increasing trend of over 2% per annum from 2006 to 2008 with annual spending per person on healthcare products in the Fujian Province, the PRC in urban cities reached approximately RMB540.

(3) Regulatory overview

Set forth below are summaries of certain PRC laws and regulations applicable to the Target Group's operations and business in pharmaceutical wholesale and retail business in the PRC.

(a) Restrictions on foreign investment

Initially, pharmaceutical retail chain carried out by the Target Group is a restricted business in the PRC. Pursuant to the Catalogue for the Guidance of Foreign Investment Industries《外商投資產業指導目錄》issued by the Ministry of Commerce of the PRC, if a foreign investor owns more than 30 retail pharmacies that sell a variety of branded pharmaceutical products sourced from different suppliers, such foreign investor is not allowed to hold the entire shareholding interests in a company which is principally engaged in pharmaceutical retail chain business in the PRC.

Under CEPA Supplement V as signed on 29 July 2008, preferential treatment will be granted by the PRC authorities to a Hong Kong Services Provider who is either a Hong Kong permanent resident or a Hong Kong service provider which is a company having engaged in substantive business operations in Hong Kong for three to five years, to acquire the entire equity interests in the restricted business.

(b) Commercial anti-corruption measures

Most hospitals in the PRC are operated by the PRC government, and the sale by hospital pharmacies accounts for a large percentage of total revenue of the hospitals. The PRC government has strengthened its anti-corruption measures targeting corruption practices in procurement and prescription in government-owned hospitals. The amendment of the Criminal Law of the PRC in 2006 to increase the penalties for corrupt business practices enhances regulation of pharmaceutical product suppliers to ensure they conduct business on fair and equal terms. Those anti-corruption measures are expected to result in more growth opportunities for pharmacies that are not affiliated with hospitals, increase consumer confidence and promote the further development of the pharmaceutical industry.

(c) Regulations on quality control of medicine production and distribution

The Chinese government has been increasingly active in handling quality problems of pharmaceutical products. Recently the PRC government has created a comprehensive regulatory and legal structure with an aim to crack down the problem such as the amendment to patient laws to protect intellectual property, which involves compulsory license regime. The Chinese government has also joined the International Medical Products Anti-Counterfeiting Taskforce, a global partnership created by the WTO to deal with the problem.

(d) Licenses and permits for the business in distribution of pharmaceutical products

Wholesale and retail pharmaceutical distributors in the PRC are required to obtain certain permits and licenses from various PRC governmental authorities before commencement of the business.

Pharmaceutical product distributors are required to obtain a business license from the relevant administration for industry and commerce in the region prior to commencing its business.

A distributor of pharmaceutical products must obtain a distribution permit from the relevant provincial- or designated municipal- or county-level food and drug administration. The grant of such permit is subject to a prior inspection of the distributor's facilities, warehouses, hygienic environment, quality control systems, personnel and equipment, etc.. The distribution permit is valid for five years, and the holder must apply for renewal of the permit prior to its expiration.

The GSP standards were also promulgated on 24 April 2003, to regulate wholesale and retail pharmaceutical product distributors to ensure the quality of distribution of pharmaceutical products in the PRC. A distributor of pharmaceutical products must comply with the standard for running the business. Under the current applicable GSP standards, pharmaceutical product distributors are required to implement strict controls on the distribution of medicine products, including distribution premises, warehouses, inspection equipment and facilities, management, staff qualifications and quality control. The GSP certificate is usually valid for five years and is renewable three months prior to its expiration subject to the conditions being satisfied. Moreover, all distributors are subject to continuous supervision and revision of the GSP standards.

In addition, under the Provisions for Supervision of Drug Distribution《藥品流通監督管理辦法》promulgated by the State Food and Drug Administration on 31 January 2007, and effective since 1 May 2007, a pharmaceutical product distributor is responsible for its procurement and sales activities and is liable for the actions of its employees or agents in connection with its conduct of distribution. A retail distributor of pharmaceutical products is not allowed to sell prescription pharmaceutical products without the presence of a certified in-store pharmacist.

(e) Product liability and consumers' protection

The distribution and retail business is subject to the General Principles of the Civil Law of the PRC and the Product Quality Law of the PRC for the product liability and customer protection. Under the General Principles of the Civil Law of the PRC, sellers of defective products causing property damage or injury shall incur civil liabilities for such damage or injuries. Under the Product Quality Law of the PRC, manufacturers and distributors who produce or sell defective products may be subject to confiscation of earnings from such sales, revocation of business licenses and imposition of fines, and in severe circumstances, may be subject to criminal liability.

(f) Price controls

The retail prices of certain pharmaceutical products sold in the PRC are subject to price controls administered by the Price Control Office of the National Development and Reform Commission, and provincial and regional price control authorities from time to time. The price control is applied primarily for those pharmaceutical products included in the national and provincial medical insurance catalogs, pharmaceutical products to be purchased by the public hospitals and healthcare institutions through public tender implemented by the government and those pharmaceutical products whose production or distribution are deemed to constitute monopolies in the form of fixed prices or price ceilings. Producers or distributors cannot set the price nor change the retail price for any price-controlled products above the applicable price ceiling or deviate from the applicable fixed price imposed by the PRC government.

(4) Prospects of the pharmaceutical wholesale and distribution and pharmaceutical retail chain business in the PRC and Fujian

There is active PRC government support as stated in Opinion on Deepening the Healthcare System Reform《中共中央國務院關於深化醫藥衛生體制改革的意見》published on 17 March 2009 ("New Healthcare Reform"). The New Healthcare Reform is expected to bring an additional RMB100 billion spending in the pharmaceutical market, of which RMB25 billion will be applied towards provincial hospitals, RMB25 billion will be applied towards county clinics, RMB28 billion will be applied towards the community health centres, and not more than RMB20 billion will be applied towards local pharmacies and provincial or national hospitals.

In 2007, the size of the national pharmaceutical market is about RMB400 billion. The pharmaceutical sale to government medical institutions are about RMB270 billion, representing about 67.5% of the total market share. According to the Yearbook of Public Health in the People's Republic of China《2008中國衛生統計年鑒》, the distribution of the pharmaceutical sale is as follows:

	No. of medical institutions	Annual sales in average *(RMB'000)*
Public hospitals of different levels	4,757	11,600 – 455,000
Local pharmacies	367,530	354
Local clinics	537,000	15 – 1,400
Community health centres	14,700	500 – 1,500

Therefore, those provincial-level and regional distributors will continue to benefit from the supportive governmental policies.

According to China Pharmacy Magazine《中國藥店》, as a result of the introduction of the New Healthcare Reform, the next following five years is crucial for future development of pharmaceutical retail business in the PRC, more importantly, market participants should strengthen their business and provide more value-added services in the following aspects in order to increase their competitiveness:

(a) Optimisation

In response to the increasing demand imposed by more stringent regulatory requirements, such as inclusion of essential medicines (according to National List of Essential Drugs《國家基本藥物目錄》) in every pharmacy, the competition in the PRC pharmaceutical retail market will intensify. As a result, those unqualified pharmacies will be eliminated while remaining pharmacies will continue to increase its product range and expand its business scope, so that the pharmaceutical market will be optimized.

(b) Decentralisation

In future, an increasing number of pharmaceutical stores will be set up over the cities and rural areas of the PRC and will be located at its consumption groups. It is because of the increasing demand for convenience by the general public in the PRC.

(c) Specialisation

Pharmaceutical stores in the PRC tend to be more customer-oriented and provide personal services to meet customers' unique demand. Some specific pharmaceutical products will be sold in the stores to match the customers' needs in the region.

(d) Diversification

The pharmaceutical stores in the PRC tend to provide a wider range of products and services to customers, such as pharmaceutical exhibitions and talks. This is a marketing strategy to improve the image of the pharmaceutical stores and promote their businesses.

As announced in March 2009 and as stated in Opinion on Deepening the Healthcare System Reform in Fujian Province《福建省2009年醫藥衛生體制改革實施方案》("Fujian Healthcare Reform"), major tasks and objectives to be promoted include (a) national medical insurance scheme, (b) the essential medicines system, (c) basic health services, (d) public health services, (e) public hospital reform, and (f) the promotion of health information. In 2008, the government investment fund for Fujian Healthcare Reform is about RMB5.298 billion. In 2009, such fund is increased by 48.92% to about RMB7.89 billion.

(a) National Medical Insurance Scheme

Over 90% of the population of Fujian Province, the PRC is expected to be covered through the national medical insurance scheme, by virtue of Urban Worker Program, Urban Resident Program and New Rural Insurance Scheme. The Fujian government plans to incorporate students as part of the population of the Urban Resident Program to improve the basic healthcare standards.

(b) The Essential Medicines System

This system aims to promote the rational use of essential medicines. Essential medicines will be integrated into the claim directory of the basic medical insurance. This policy will help to stabilize the prices of medicines so that the medical resources can be fully used.

(c) Basic Health Services

By strengthening the healthcare institutions, better services can be provided. 20 county hospitals (including Chinese medicine hospitals), which are not up to standard, will be renovated. In addition, graduate medical staff will be trained for another 2 years so that more comprehensive medical services can be provided.

(d) Public Health Services

Public health funding will be increased. The per capita funding for urban and rural residents in Fujian Province, the PRC will be increased to RMB15 in 2009. Massive vaccines and medical check-up will be further promoted.

(e) Public Hospital Reform

A comprehensive and integrated reform of public hospitals will be carried out in Xiamen, Fujian Province, the PRC as a trial point to strengthen the existing medical institutions. Moreover, more non-profit medical institutions will be established in order to have better control on the medical services and fees.

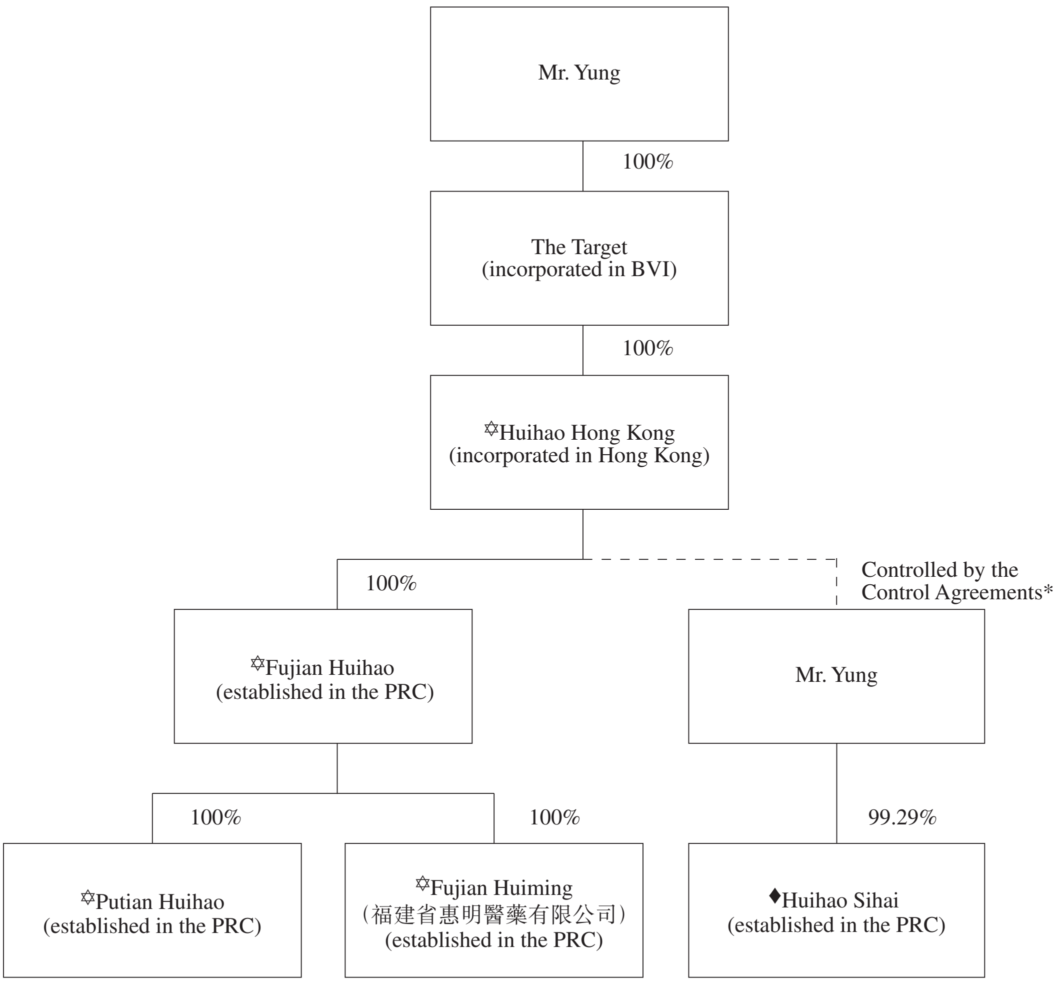
(f) The Promotion of Health Information

A health information system for all medical institutions in Fujian Province, the PRC will be established. This system aims to share the medical information through internet and to improve the service standard of the medical institutions.

As a whole, the Fujian Healthcare Reform is expected to benefit the pharmaceutical distribution and retail business as more funding and resources are available. However, since better quality of medical services is emphasized by the Fujian Healthcare Reform, market participants are required to upgrade their services and therefore more intensive competition within the industry is foreseeable which imposes challenges to them.

GROUP STRUCTURE

The diagram below shows the structure of the Target Group and their ultimate beneficial shareholders immediately after Reorganisation and before Completion:



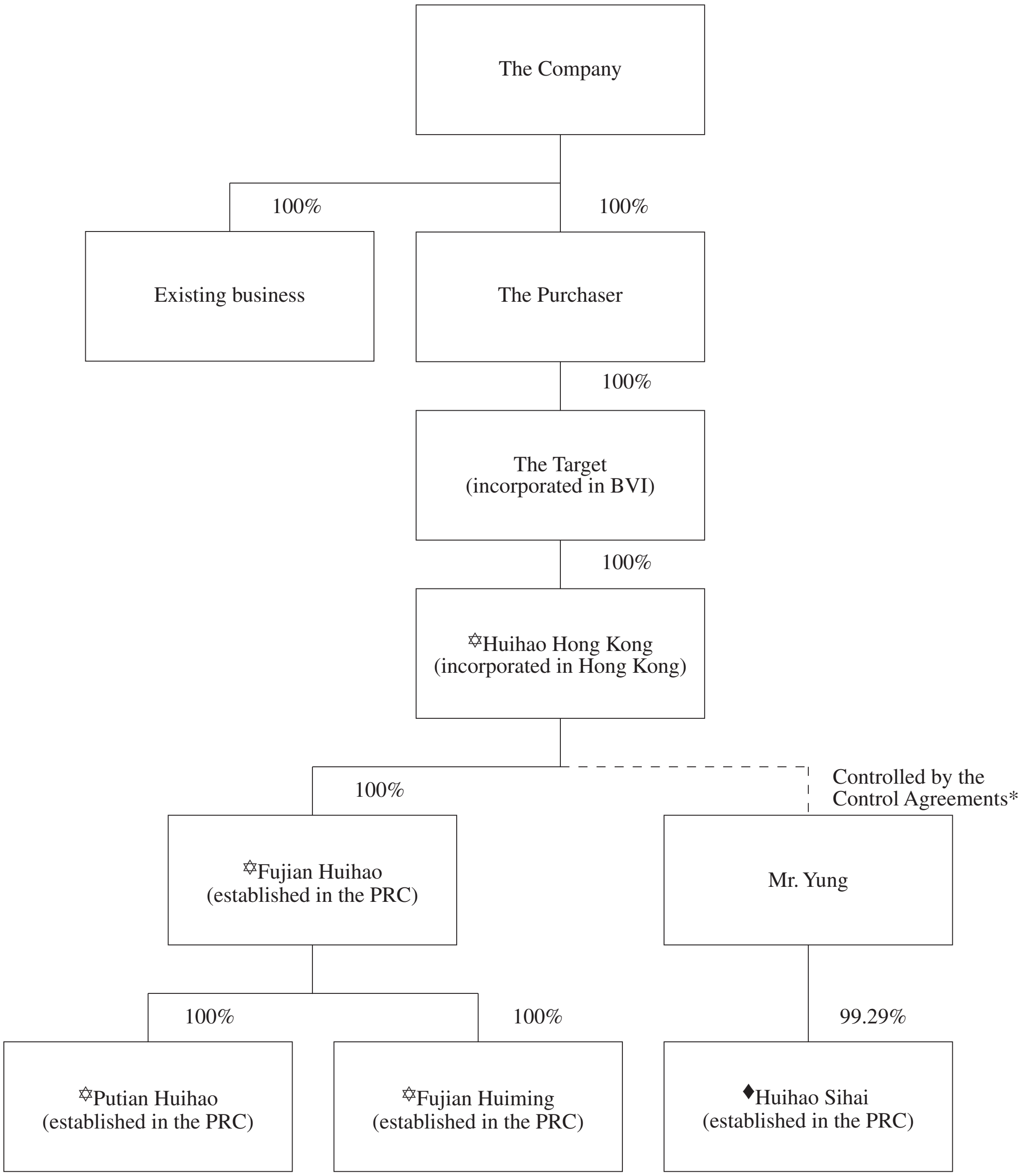
Notes:

✡ *These companies are principally engaged in pharmaceutical wholesale and distribution business in Fujian, the PRC.*

♦ *This company is principally engaged in pharmaceutical retail chain business in Fujian, the PRC.*

* *Huihao Hong Kong, Mr. Yung and Huihao Sihai entered into the Control Agreements on 20 December 2009 for the purpose of securing an effective control on Huihao Sihai by the Target Group.*

The diagram below shows the structure of the Target Group and their ultimate beneficial shareholder immediately after Completion:



✡ *These companies are principally engaged in pharmaceutical wholesale and distribution business in Fujian, the PRC.*

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INFORMATION OF THE TARGET GROUP

Key Financial Information

Set out below is the key financial information of (i) the Target for the period from the date of incorporation to 30 September 2009; (ii) the Huihao Medicine Wholesale Group for the three years ended 31 March 2007, 31 March 2008 and 31 March 2009 respectively; and (iii) Huihao Sihai for the three years ended 31 March 2007, 31 March 2008 and 31 March 2009 respectively:

(i) The Target

	For the period from the date of incorporation to 30 September 2009
	Audited
	(HK$)
Loss before taxation	6,300
Loss after taxation	6,300
Net liability value	6,300

(ii) The Huihao Medicine Wholesale Group

	For the year ended 31 March 2007	**For the year ended 31 March 2008**	**For the year ended 31 March 2009**
	Audited	Audited	Audited
	(HK$)	*(HK$)*	*(HK$)*
Profit/(Loss) before taxation	(3,000)	(13,000)	3,753,000
Profit/(Loss) after taxation	(3,000)	(13,000)	3,294,000
Net asset value	988,000	975,000	4,407,000

(iii) Huihao Sihai

	For the year ended 31 March 2007	**For the year ended 31 March 2008**	**For the year ended 31 March 2009**
	Audited	Audited	Audited
	(RMB)	*(RMB)*	*(RMB)*
Profit/(Loss) before taxation	(593,000)	1,101,000	(1,667,000)
Profit/(Loss) after taxation	(593,000)	1,026,000	(1,732,000)
Net asset value	10,638,000	11,664,000	9,932,000

History and development

(1) Huihao Hong Kong

Huihao Hong Kong was incorporated in Hong Kong on 1 March 2004 with an issued share capital of HK$1 million, the equity interests of which were owned by Mr. Yung and Mrs. Yung, as to 70% and 30% respectively. On 15 January 2010, the Target acquired the entire equity interests of Huihao Hong Kong from Mr. Yung and Mrs. Yung, Huihao Hong Kong became the wholly-owned subsidiary of the Target.

(2) Fujian Huihao

On 9 July 2008, Fujian Huihao was established in the PRC with a registered capital of RMB10 million, the equity interests of which were owned by Mr. Weng Guomin（翁國民）, a younger brother of Mr. Yung and Mr. Weng Jiale（翁加樂）, a nephew of Mr. Yung.

By entering into of a share transfer agreement dated 13 October 2008 between Huihao Hong Kong and the original shareholders of Fujian Huihao, Huihao Hong Kong agreed to acquire and the original shareholders of Fujian Huihao agreed to dispose of their entire equity interests in Fujian Huihao at a value equivalent to the registered capital of Fujian Huihao. Upon completion of such share transfer agreement, Fujian Huihao became the wholly-owned subsidiary of Huihao Hong Kong.

On 3 November 2009, Huihao Hong Kong decided to increase its investment in Fujian Huihao by RMB20 million. The registered capital of Fujian Huihao was then increased from RMB10 million to RMB30 million.

On 9 November 2009, Fujian Huihao received the increased registered capital of RMB20 million from Huihao Hong Kong.

(3) Putian Huihao

On 11 July 2008, Putian Huihao was established in the PRC with a registered capital of RMB5 million, the equity interests of which were owned by an Independent Third Party and Mr. Weng Jiale（翁加樂）, a nephew of Mr. Yung.

By entering into of two share transfer agreements both dated 16 November 2008 between Fujian Huihao and each of the original shareholders of Putian Huihao, Fujian Huihao agreed to acquire and the original shareholders of Putian Huihao agreed to dispose their entire equity interests in Putian Huihao at a value equivalent to registered capital of Putian Huihao. Upon completion of such share transfer agreements, Putian Huihao became the wholly-owned subsidiary of Fujian Huihao.

(4) Fujian Huiming

On 10 July 2008, Fujian Huiming was established in the PRC with a registered capital of RMB5 million, the equity interests of which were owned by Mr. Weng Jiale（翁加樂）, a nephew of Mr. Yung and Mr. Weng Guomin（翁國民）, a younger brother of Mr. Yung and other Independent Third Parties.

By entering into of a share transfer agreement dated 16 November 2008 between Fujian Huihao and the original shareholders of Fujian Huiming, Fujian Huihao agreed to acquire and the original shareholders of Fujian Huiming agreed to dispose their entire equity interests in Fujian Huiming at a value equivalent to registered capital of Fujian Huiming. At the completion of such share transfer agreement, Fujian Huiming became the wholly-owned subsidiary of Fujian Huihao.

(5) Huihao Sihai

Huihao Sihai was formally known as Fujian Sanming Sihai Pharmaceutical Chain Company Limited#（福建三明四海醫葯連鎖有限責任公司）("Sanming Sihai") and was established in Sanming, Fujian Province, the PRC on 30 November 2001 as one of the investment companies of Fujian Sanming Medicine Group#（福建三明醫藥股份有限公司）. At its establishment, there were a total of 33 shareholders who contributed a total fund of RMB13,118,350 as registered capital of Sanming Sihai.

On 1 August 2002, by an unanimous approval of all shareholders of Sanming Sihai, shareholders agreed to increase the registered capital of Sanming Sihai by RMB2,738,000 to RMB15,856,350.

On 20 May 2008, at the shareholders' meeting of Sanming Sihai, it was resolved that the company name was changed from Sanming Sihai to Fujian Huihao Sihai Pharmaceutical Chain Company Limited# ("Huihao Sihai"). It was further resolved that the registered address of Huihao Sihai was changed from Sanming to Fuzhou.

By entering into of a share transfer agreement dated 10 February 2009 between Mr. Yung and the then shareholders of Huihao Sihai (save and except for Mr. Lin Shaowan（林紹綰）), Mr. Yung acquired 99.29% equity interests in Huihao Sihai from the then shareholders of Huihao Sihai (save and except for Mr. Lin Shaowan（林紹綰）) at the then assessed value of Huihao Sihai by the valuer. Mr. Lin Shaowan（林紹綰）, an Independent Third Party, remained as a 0.71% shareholder of Huihao Sihai.

On 20 December 2009, Huihao Hong Kong, Mr. Yung and Huihao Sihai entered into the Control Agreements, details of the Control Agreements are set out in the previous section headed "THE CONTROL AGREEMENTS" in this letter.

(6) The Target

The Target was established in the BVI on 16 July 2009 and Mr. Yung acquired the Target on 5 November 2009 with a registered capital of US$1. It was established for the sole purpose of investment in relation to the Proposed Acquisition. On 15 January 2010, the Target acquired the entire equity interests in Huihao Hong Kong from Mr. Yung and Mrs. Yung and Huihao Hong Kong became its wholly-owned subsidiary.

The Huihao Medicine Wholesale Group commenced its distribution and wholesale business since August 2008, while Huihao Sihai commenced its business since January 2002. Huihao Sihai has gone through a period of consolidation of business during the past years and there are 85 retail drug stores as at the Latest Practicable Date.

Business overview

The Directors has performed due diligence work on the Target Group including discussion with Mr. Yung and senior management of the Target Group, site visit to the operation of distribution centre and retail drug stores of the Target Group, and making reference to other market participants of the Target Group. As advised and discussed with Mr. Yung, the Directors are of the view that, the Huihao Group is one of the leading distributors and providers of supply chain services for, pharmaceutical and healthcare products in Fujian Province, the PRC in terms of scale of operation, distribution network and retail chain and operates the largest national pharmaceutical distribution centre in Fujian Province, the PRC in terms of scale of operation and centre area as detailed below.

The Huihao Group has integrated operations in the following business segments, namely:

(1) ***Pharmaceutical wholesale and distribution and direct sales to hospitals.*** The Huihao Medicine Wholesale Group maintains solid business connections with thousands of drug manufacturers on a provincial basis, and has formed strategic cooperation with other major pharmaceutical corporations in six neighborhood provinces in the PRC. Currently, the Huihao Medicine Wholesale Group is the first-tier distribution agent for over 100 pharmaceutical products from well-renowned overseas and local medicine manufacturers in Fujian Province, the PRC. The Huihao Medicine Wholesale Group has more than 1,900 distribution customers in Fujian Province, the PRC, including more than 110 distributors and more than 1,000 clinics and pharmacies. The direct sales to hospitals deliver a broad range of pharmaceutical products to more than 100 hospitals.

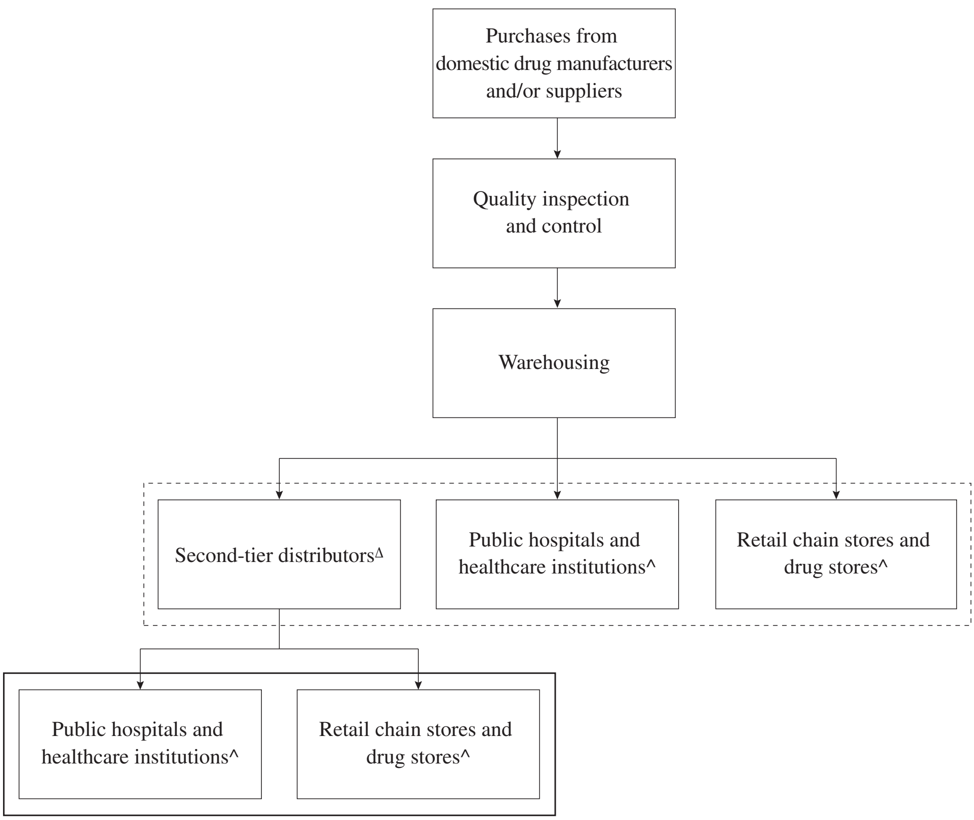
(2) ***Pharmaceutical retail chain.*** Major business of Huihao Sihai is the retailing of pharmaceutical products. Its pharmaceutical retail chain operation is the leader in pharmaceutical retail chains in Fujian Province, the PRC in terms of number of retail drug stores. As at the Latest Practicable Date, there are 85 direct drug stores located in major cities in Fujian Province, the PRC under the brand name “Huihao Sihai”. To the best knowledge, information and belief of the Directors, this pharmaceutical retail chain complies with GSP standards and provides a broad range of pharmaceutical products to the general public in Fujian Province, the PRC.

(1) Pharmaceutical wholesale and distribution and direct sales to hospitals

Set out below is the business overview of the pharmaceutical wholesale and distribution as well as direct sales to hospitals.

(a) The operating process

The following diagram illustrates the core operating process of the pharmaceutical distribution and direct sales to hospitals:



Keys:

Dotted borderline: first-tier distribution by the Huihao Medicine Wholesale Group
Bold borderline: second-tier distribution by the Huihao Medicine Wholesale Group
∆ within Fujian Province, the PRC and its six neighbourhood provinces
^ in Fujian Province, the PRC

The pharmaceutical distribution and direct sales to hospital operations of the Huihao Medicine Wholesale Group involve several integrated procedures to allow for enhanced efficiency and to ensure a high degree of quality control of its pharmaceutical products in accordance with the GSP requirements at every stage of operations, from procurement to delivery to customers. Each of the members of the Huihao Medicine Wholesale Group purchases products from domestic suppliers and such products are subject to a quality control inspection in accordance with the GSP requirements. The Huihao Medicine Wholesale Group warehouses all products in its warehouse with a climate-controlled environment until the receipt of customer orders, during which time the Huihao Medicine Wholesale Group arranges for the required logistics services and the timely delivery of its products to its customers. The distribution customers of the Huihao Medicine Wholesale Group include (1) second-tier distributors in Fujian Province, the PRC and its neighbourhood provinces; (2) public hospitals and healthcare institutions in Fujian Province, the PRC; and (3) retail chain stores and drug stores in Fujian Province, the PRC.

In consideration of the provision of a comprehensive range of products, the Huihao Medicine Wholesale Group plays the role of either the first-tier distributor or the second-tier distributor depending on the types of pharmaceutical products and its relationship with the pharmaceutical manufacturers. As a first-tier distributor, each of the Huihao Medicine Wholesale Group distributes its products to second-tier distributors, public hospitals and healthcare institutions and the retail chain stores based on the network and resources of both the pharmaceutical manufacturers and the Huihao Medicine Wholesale Group itself. As a second-tier distributor, each of the members of the Huihao Medicine Wholesale Group distributes its products to public hospitals and healthcare institutions and the retail chain stores based on its network and resources.

(b) Distribution network

As at the Latest Practicable Date, the Huihao Medicine Wholesale Group operates a logistics centre and warehouse in Fujian Province, the PRC and distributes its products to its customers in Fujian Province, the PRC and its six neighbourhood provinces namely Guangdong, Hunan, Hubei, Jiangxi, Anhui and Zhejiang. The gross floor area of the warehouse is approximately 16,200 sq.m. and has been built in accordance with the GSP standards. The major functions of the logistics centre and warehouse include processing the products received from the suppliers, quality inspection and control on the products received and delivered, distributing the products ordered by the customers on a timely and speedy basis as well as storage and warehousing of products. All these functions have been carried out through a computerized system known as Enterprise Resource Planning (ERP) System.

(c) Sales and marketing

As at the Latest Practicable Date, the Huihao Medicine Wholesale Group has approximately 140 sales and marketing representatives to carry out the sales and marketing functions including the day-to-day sales and marketing activities, maintenance of customer relationship and collection of accounts receivables.

The Huihao Medicine Wholesale Group selects its distribution customers based on a variety of criteria, such as their credit record, customer portfolio, distribution network and the amount of purchase orders. Distribution customers are generally invoiced at the time of delivery either on a cash delivery basis or on a 30 to 90 days basis. The sales and distribution agreements usually last for one year and under normal circumstances, they are renewable on mutual agreement between the Huihao Medicine Wholesale Group and customers.

The direct sales to public hospitals and healthcare institutions are primarily channeled through the provincial collective hospital tendering process, through which a hospital solicits public bids from pharmaceutical manufacturers as part of its pharmaceutical procurement process. As advised by the management of the Huihao Medicine Wholesale Group, the provincial collective hospital tendering process in Fujian Province, the PRC is subject to certain reforms which will ultimately only allow the supply of a particular type of medicine to the hospitals on an exclusive basis by one pharmaceutical manufacturer and each pharmaceutical manufacturer can only assign one distributor to deliver a particular type of medicine to it also on an exclusive basis. Normally, the term of the tender is for one and a half year or for a longer period. After the tendering process, the Huihao Medicine Wholesale Group distributes products of the pharmaceutical manufacturers that win bids upon purchase orders provided by the hospitals, which will specify the brand, volume and types of pharmaceutical products. As advised by the management of the Huihao Medicine Wholesale Group, the pricing of these pharmaceutical products will be determined in accordance with the collective hospital bidding process and will be subject to a profit margin limit of 5% – 8% in the near future. The major terms of distribution agreements for direct sales to hospitals are determined according to the bids and the regulatory requirements.

For the six-month period ended 30 September 2009, the top five distribution customers include Fujian Province Putian City Pharmaceutical Company Limited# (福建省莆田市醫藥有限公司), Fujian Province Sanming City First Hospital# (福建省三明市第一醫院), Yongan City Xinxing Pharmaceutical Company Limited# (永安市新興醫藥有限責任公司), Puning City Jin Yong Shun Pharmaceutical Company Limited# (普寧市金永順醫藥有限公司) and Fujian Province You Xi Pharmaceutical Company Limited# (福建省尤溪醫藥有限責任公司), all of them are Independent Third Parties. The sales to these top five customers accounted for approximately 6.35%, 5.99%, 4.22%, 3.61% and 3.24% of the total sales of the Huihao Medicine Wholesale Group for the six-month period ended 30 September 2009 respectively.

For the six-month period ended 30 September 2009, the top five distribution suppliers include Fujian Tongchun Medicament Stock Company# (福建同春藥業股份有限公司), Fujian Jointown Pharmaceutical Company Limited# (福建九州通醫藥有限公司), Fujian Province Xiamen Medical Purchase and Supply Station# (福建省廈門醫藥採購供應站), Guangdong Cheng Xin Pharmaceutical Company Limited# (廣東誠信藥業有限公司) and Zhangzhou Pientzehuang Pharmaceutical Company Limited# (漳州片仔癀藥業股份有限公司), all of them are Independent Third Parties. The purchases from these top five suppliers accounted for approximately 9.74%, 9.58%, 7.27%, 3.9% and 3.54% of the total purchases of the Huihao Medicine Wholesale Group for the six-month period ended 30 September 2009 respectively.

In general, the marketing strategy of the Huihao Medicine Wholesale Group is to capitalize on its strong distribution network and sales team force within the province and capital resources to distribute products on behalf of its pharmaceutical suppliers at a cost-effective way and to continuously increase their distribution coverage to reach a broad end-user base. In this way, the range and variety of pharmaceutical products can be enlarged and obtained at a competitive price. On the other side, based on its close relationship with key suppliers, a broad range of products can be obtained for distribution and channeled to its distribution customers to satisfy their needs.

(d) Product offerings

The products offered by the Huihao Medicine Wholesale Group can be divided into three categories, namely pharmaceutical products, non-pharmaceutical products and medical supplies products. According to the estimates of the management of the Huihao Medicine Wholesale Group, over 90% of its distribution sales belongs to the sales of pharmaceutical products.

For the pharmaceutical products, they are mainly divided into prescription products and over-the-counter pharmaceutical products. All of the pharmaceutical products are supplied by the GMP certified suppliers. There are over 4,000 different types of pharmaceutical products provided by the Huihao Medicine Wholesale Group. 100% of its pharmaceutical products are obtained from the domestic suppliers in the PRC.

(e) Product pricing

The product selling price of the Huihao Medicine Wholesale Group for its downstream distribution and hospital clients are mainly determined by the selling price specified or suggested by the pharmaceutical manufacturers which is ultimately subject to price ceilings or other forms of price control set by the PRC government.

On the other hand, the Huihao Medicine Wholesale Group determines its selling price of products to the retail chain stores and pharmacy stores with reference to the suggested price set by the pharmaceutical manufacturers and the market supply and demand forces. However, the ultimate selling prices to retail customers are still subject to price ceilings or other forms of price control set by the PRC government.

In general, the pricing negotiation process with the pharmaceutical manufacturers will take into account a variety of factors including the price stability, extensive distribution network, bargaining power, government policies, customer preference and other market considerations.

(f) Competitive landscape of the major products, market share and competitive advantages

According to the statistics provided by the China Association of Pharmaceutical Commerce, in 2008, the top three pharmaceutical distributors in the PRC captured a revenue of RMB94.38 billion which represent approximately 20.09% of the total market share. According to the South Medicine Economics Research Institute, there are more than 9,500 distributors in the PRC currently. The entry level of revenue to the top 100 distributors is RMB740 million in 2008. This has demonstrated the fragmented nature of the industry and intense market competition.

In Fujian Province, the PRC, the Huihao Medicine Wholesale Group has established a leading position in terms of its distribution business and is the top three distributors in the market in terms of scale of operation and distribution network. According to the estimates of the management of the Huihao Medicine Wholesale Group, the sales of the Huihao Medicine Wholesale Group is approximately 1% – 2% of the total market share in Fujian Province, the PRC. The Huihao Medicine Wholesale Group differentiates itself from its competitors of other provinces in terms of localized services, geographical coverage, strength of its supply chain services and logistics services and other value-added services. On a provincial basis, the Huihao Medicine Wholesale Group differentiates itself from other local or regional competitors in terms of scale of operation, operation efficiency, geographical coverage, wide spectrum of products, services and delivery, logistics, value-added services and financial strength.

As there are more stringent regulatory requirements, price control measures as imposed by the PRC Government and a series of healthcare reform measures, those less competitive distributors, especially those with a small-scale operation and with less resources to meet up with the regulatory requirements will eventually be eliminated. At the same time, those governmental policies and measures facilitates the growth of large-scale operators in the field. According to the management of the Huihao Medicine Wholesale Group, the business model of the Huihao Group with a provision of comprehensive distribution and retail services, operation scale and financial strength allow the Huihao Medicine Wholesale Group to strive for excellence in the field and maintain a leading position in the Fujian, expand outward to other provinces and therefore benefit from the business growth of the pharmaceutical industry in the PRC.

(g) Working capital commitment

For the Huihao Medicine Wholesale Group, other than the operating lease commitments as set out in the Accountants' Report of Huihao Hong Kong as referred to Appendix III to this circular, there are no other working capital commitment noted for the Huihao Medicine Wholesale Group as at the Latest Practicable Date.

(h) Any claim, litigation, arbitration or adverse findings on its products and services by the relevant government authorities in the PRC

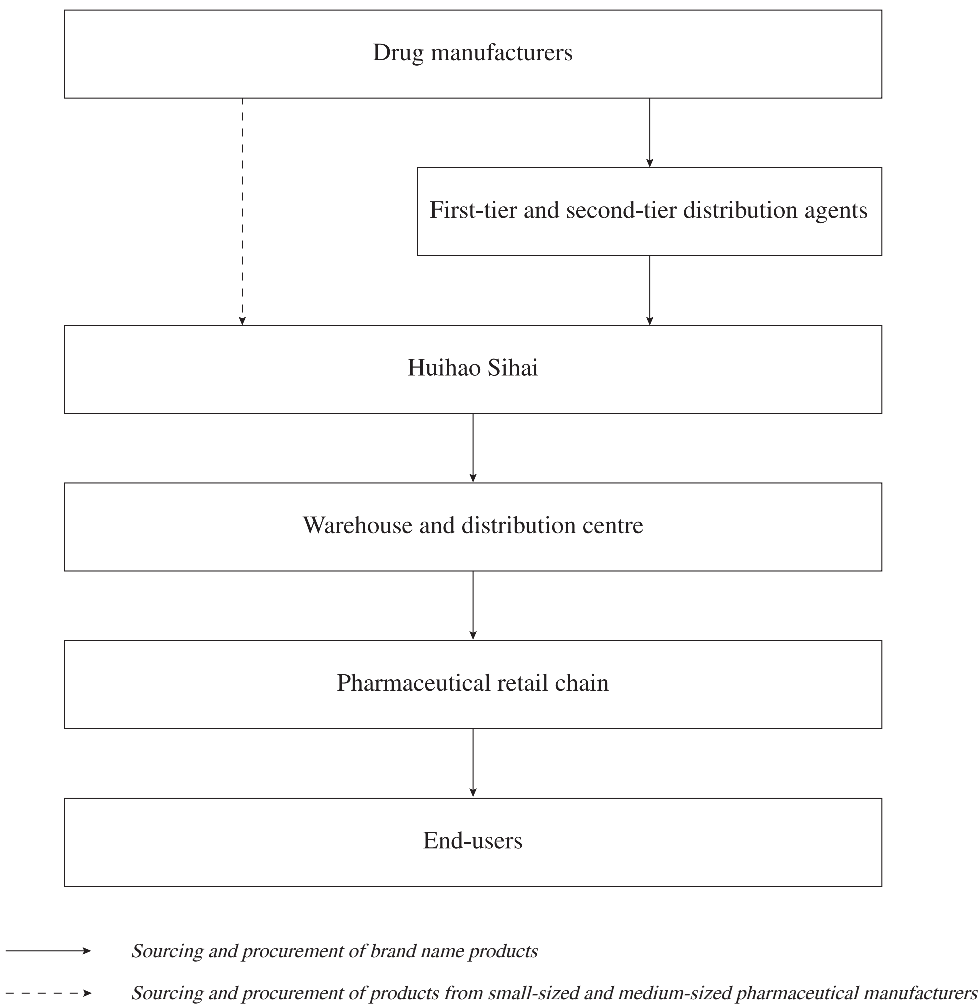
As advised and confirmed by the PRC legal advisers, as at the Latest Practicable Date and during the Track Record Period, there are no claim, litigation, arbitration or adverse findings by the relevant government authorities in the PRC noted on its products and services offered by the Huihao Medicine Wholesale Group.

(2) Pharmaceutical Retail Chain

Huihao Sihai is another operating subsidiary of the Huihao Group established in the PRC. It is principally engaged in the business of retailing of pharmaceutical in Fujian Province, the PRC. Set out below are the information on its business overview.

(a) The operating process

The operating process of Huihao Sihai is as follows:



Huihao Sihai currently sources its merchandises from both domestic pharmaceutical manufacturers, first-tier and second-tier wholesalers or distributors.

To the best knowledge, information and belief of the Directors, all the pharmaceutical retail chain operation of Huihao Sihai complies with national GSP standards. Huihao Sihai places strong emphasis on quality control on the overall operating process covering merchandise sourcing, warehousing, distribution to pharmacies, pharmacies operation, sales and return of sold items.

Three levels of quality control measures are implemented by Huihao Sihai to ensure products and services quality and full compliance with regulatory requirements. Firstly, there is a quality control department at the head office, which sets up practice guidelines for different operating process according to the requirement of GSP requirements and other rules and regulations. The department is responsible to oversee the full operating process from warehouse distribution, drug stores, storage, to sales activities. The department also regularly performs inspection, examination and documentation to ensure quality control practices are in place. Secondly, a quality control officer is assigned at each stage of operation to conduct inspection, review daily operation, produce report findings, conduct sample checking and provide suggestions to the head office. Thirdly, at the shop operation level, there are designated staff with proper qualification and experience to oversee every aspects of store operation such as the examination of merchandise source, proper storage condition and sales activities. The stores are staffed with at least one in-store qualified pharmacist who is responsible for the sales of prescription drugs. In addition, Huihao Sihai carries out ongoing training programs on medicine information, nutritional information, selling skills for Huihao Sihai staff and pharmacists to enhance continuous up-to-standard service quality.

(b) Retail network

Huihao Sihai has built an extensive retail network in the Fujian Province, the PRC. As at the Latest Practicable Date, there are 85 Huihao Sihai retail drug stores with an aggregate store areas of over 12,600 sq.m. in the Fujian Province, the PRC, covering major cities namely Nanping, Sanming, Fuzhou, Putian, Quanzhou and Putian in the province. All retail stores have obtained all required licenses and permits before commencement of business.

Retail network and number of Huihao Sihai retail drug stores in Fujian Province, the PRC:

The following table sets forth the changes in the number of Huihao Sihai retail drug stores during the Track Record Period:

	Year ended 31 March			Period ended 30 September
	2007	2008	2009	2009
At the commencement of year/period	26	26	24	109
Additions of new retail drug stores	–	–	85	1
Termination of existing retail drug stores	–	2	–	21
Net increase/(decrease) in retail drug stores	–	(2)	85	(20)
At the end of year/period	26	24	109	89

Due to the relocation of stores to desirable location for better customer base and customers' visibility and convenience and for better operation efficiency and geographical distribution in Fujian Province, the PRC, the number of retail drug stores has been increased as a whole as shown in the above table during the Track Record Period. As at the Latest Practicable Date, the number of stores has been decreased from 89 to 85 because four of them were closed after 30 September 2009. Moreover, Huihao Sihai has formed strategic alliances with two regional supermarket chain operators to gain first priority to locate Huihao Sihai drug stores in their supermarkets.

3 out of the 85 retail drug stores are owned by the Target Group as at the Latest Practicable Date while the remaining retail drug stores are leased properties.

As at the Latest Practicable Date, Huihao Sihai has obtained 85 pharmaceutical operation permits for its entities engaged in the retail operation of pharmaceutical products, each of which is currently valid.

As at the Latest Practicable Date, Fujian Huihao, Putian Huihao, Fujian Huiming and Huihao Sihai have obtained 4 GSP certificates for its wholesale and distribution operations of pharmaceutical products.

(c) Sales and marketing

All Huihao Sihai's retail drug stores are operated under the brand name "Huihao Sihai". The standardisation of uniform, distinct layout, color scheme and design specifications of the brand name in the drug stores and the central management of retail drug chain promote the corporate image, customers' awareness and recognition of the brand.

Most of the sales of Huihao Sihai are made to the end-user customers directly through the retail network. The sales transactions are settled in cash, by credit cards and medical insurance cards. As at the Latest Practicable Date, 62 Huihao Sihai drug stores out of the total were designated stores under the PRC national medical insurance program where the customers can make payment by means of medical insurance cards. Huihao Sihai obtains reimbursements from the government social security bureaus on a monthly basis, for sales made by Huihao Sihai to eligible participants in the national medical insurance program.

Huihao Sihai offers various free after-sale services to its customers, including measure of blood pressure and glucose levels, computerized record of prescription history, delivery services and serving of Chinese herbal soups. Huihao Sihai will also launch membership scheme in the near future to retain customers' loyalty.

For the six-month period ended 30 September 2009, the top five retail customers include Fujian Dexin Shifeng Jiankang Property Company Limited# (福建德馨世風健康產業有限公司), Fujian Province Electricity Supervision and Design Institute# (福建省電力勘測設計院), Shanghai East Mongkok Food & Beverage Management Company Limited# (上海東旺角餐飲管理有限公司), Fuzhou Electricity Plant Retirement Management Institute# (福州電廠離退休職工管理所) and The People's Bank of China Xiamen Branch# (中國人民銀行廈門分行), all of them are independent Third Parties. The sales to top five customers accounted for approximately 0.87%, 0.35%, 0.22%, 0.17% and 0.15% of the total sales of Huihao Sihai for the six-month period ended 30 September 2009 respectively.

For the six-month period ended 30 September 2009, the top five suppliers include Fujian Huihao (福建省福州市惠好藥業有限公司) (one of the members of the Target Group), Yongan City Xinxing Pharmaceutical Company Limited# (永安市新興醫藥有限公司), Fujian Huiming (福建省惠明醫藥有限公司) (one of the members of the Target Group), Fujian Province You Xi Pharmaceutical Company Limited# (福建省尤溪醫藥有限公司) and Shautou City Chuangmei Pharmaceutical Company Limited# (汕頭市創美藥業有限公司), other than Fujian Huihao and Fujian Huiming, all of them are Independent Third Parties. The purchases from the top five suppliers accounted for approximately 62.86%, 6.03%, 5.28%, 5.26% and 4.40% of the total purchases of Huihao Sihai for the six-month period ended 30 September 2009 respectively.

(d) Product offerings

Huihao Sihai provides its customers with high-quality, professional and convenient pharmacy services and offers wide variety of products under the pharmaceutical retail chain operation for customers which can be categorized into the following categories:

Prescription medicines

Prescription medicines are medicines which may only be prescribed by qualified medical practitioners. Huihao Sihai currently offers approximately 1,293 types of prescription medicine. Its qualified in-store pharmacists verify every prescription form written by physicians and other licensed healthcare service providers as provided by customers on its validity, accuracy and completeness before sales are made to the customers.

Over-the-counter medicines

Huihao Sihai offers approximately 2,197 different types of over-the-counter medicines, including Western medicines and Chinese medicines. Unlike prescription medicine, the over-the-counter medicines are shown on shelf for consumers' easy access and selection.

Consumer healthcare and personal care products

Huihao Sihai offers approximately 785 types of personal healthcare products, including a variety of nutritional supplements, vitamins, minerals and dietary products.

Chinese pharmaceutical products

Huihao Sihai offers 955 Chinese pharmaceutical products such as valuable Chinese medicines and Chinese herb.

Medical supplies and other medical devices

Huihao Sihai offers approximately 823 types of medical supplies and other medical devices for home use purpose.

Others

Huihao Sihai offers 81 daily supplies and 4 food items.

(e) Product pricing

Huihao Sihai generally prices the products by a cost-plus method or by a fixed retail price agreed with the manufactures or suppliers. Under the cost-plus method, retail prices are determined by adding an appropriate markup to the total costs of purchase. Nevertheless, the retail prices of certain pharmaceutical products are subject to the price controls published and enforced by the PRC government in the form of fixed prices or price ceilings. The retail price of those controlled products will not be higher than the price allowed by the PRC government. Huihao Sihai also makes reference to the retail prices offered by its competitors in the region in order to maintain competitive pricing. Huihao Sihai has a dedicated team to set the retail price and to oversee the compliance with relevant price control enforced from time to time.

(f) Competitive landscape of its major products, market share and competitive advantages

There is keen competition in the pharmaceutical retail chain business in the PRC market. There is a trend that small pharmacies are being consolidated and operated under retail chain. Given the similarity in products offered among competitors in the market, the management of Huihao Sihai is of the view that apart from maintaining competitive pricing, other aspects like centralized management and logistic facilities, strategic location of the retail chain, service quality and expertise of our staff that Huihao Sihai always puts emphasis on and strives to distinguish itself from its competitors are also very important.

The management of Huihao Sihai believes that Huihao Sihai is the leader in pharmaceutical retail chain operator in Fujian Province, the PRC in terms of its number of retail drug stores. The wide brand recognition of Huihao Sihai in Fujian Province, the PRC, the experienced and competent management and its established market position are the competitive advantages of Huihao Sihai. The long established position of Huihao Sihai together with the pharmaceutical wholesale and distribution business operated under the Huihao Medicine Wholesale Group also strengthen the competitive advantages of Huihao Sihai in the Fujian Province, the PRC.

The existing marketing competition, the established leading position of retail chain, and the entrance requirements imposed by rules and regulations, such as the GSP standards and the capital required are the barrier of entrance for new competitors. The future opportunities of the retail chain business lie with the government support, such as the addition of more medicine items for reimbursement under the national medical insurance program and separation of dispensary from hospitals are expected to drive the sales of the medicine retailing market. Leverage on the growth of Chinese economy and population, together with increasing living standards and health consciousness, the management of Huihao Sihai is confident about the future prospects of its business.

(g) Working capital commitment

For Huihao Sihai, other than the operating lease commitments as set out in the Accountants' Report of Huihao Sihai as referred to in Appendix IV to this circular, there are no other working capital commitment noted for Huihao Sihai as at the Latest Practicable Date.

(h) Any claim, litigation, arbitration or adverse findings on its products and services by the relevant government authorities in the PRC

As advised and confirmed by the PRC legal advisers, as at the Latest Practicable Date and during the Track Record Period as shown in the Accountants' Report of Huihao Sihai, there are no claim, litigation, arbitration or adverse findings by the relevant government authorities in the PRC noted on its products and services offered by Huihao Sihai.

FINANCIAL AND TRADING PROSPECTS

The Group

The Directors expect that the global economic environment will remain challenging for the year 2010. The management of the Group will continue to adapt to the changing business environment with effective and efficient measures and continue to keep focus on its core healthcare business in the PRC. The Directors remain optimistic about the promising healthcare sector in the PRC in the long-run including but not limited to possible future investments in or co-operations with hospitals in the PRC (including but not limited to taking equity interests in hospitals in the PRC which the Directors believe will have growth potentials). At the same time, the implementation of the healthcare reform measures and the government-dictated improvement of the healthcare standards on a national basis will lead to seamless cooperation between hospital management enterprises and distributors of pharmaceutical products in the PRC, thus increasing the business opportunities for the Group as a whole. After taking into account such factors and undertaking those businesses which are complementary to the existing business of the Group as a further step, the Proposed Acquisition would benefit the Group from the growth in the healthcare sector and enhance shareholders' returns in the long-run.

Upon Completion, the Directors expect that those hospitals under the management of the Group will consider to make purchases of pharmaceutical products from the Target Group first given same terms could be obtained from the Target Group to maximize the synergetic effect in the overall operation of the Enlarged Group.

The Target Group

Set out below is the brief description of the tentative business plan of the Target Group for the following three and a half years from 1 October 2009 to 31 March 2013.

Period/ Year ending	**Tentative Business plan**
Six-month ending 31 March 2010	– To focus on the direct sales to hospitals in Fujian by allocating more resources on the public tender projects
	– To continue to capture more business opportunities, optimize its operating efficiency for its wholesale and distribution business
	– To focus on sales and marketing of products with high profit margin for its retail business
Year ending 31 March 2011	– To focus on the direct sales to hospitals in Fujian by allocating resources on the public tender projects
	– To increase the variety of pharmaceutical products to satisfy the needs of the customers
	– To continue to improve the working capital turnover rate and to increase working capital efficiency for the wholesale and distribution business
	– To continue to expand the retail store areas on its own resources

Year ending 31 March 2012	–	To capture more business opportunities by allocating more resources of the Target Group on wholesale and distribution business and expand its wholesale and distribution business to obtain economies of scale
	–	To strengthen the direct sales to hospitals business by continuous improvement on quality of services and working capital efficiency
	–	To strengthen the retail business by allocating resources of the Target Group on retail business and opening new retail drug stores
Year ending 31 March 2013	–	To capture more business opportunities by allocating more resources of the Target Group on wholesale distribution business and expand its wholesale distribution business to obtain economies of scale
	–	To strengthen the direct sales to hospitals business by continuous improvement on quality of services and working capital efficiency
	–	To strengthen the retail business by allocating resources of the Target Group on retail business and opening new retail drug stores

As most of the subsidiaries of the Target Group were established in 2008 and in 2009, they have gone through a period of business consolidation. Therefore, the management of the Target Group believes that the year of 2010 will be challenging for further business development of the Target Group. As reflected from the Accountants' Report as detailed in Appendices III and IV to this circular, the audited turnovers of both Huihao Hong Kong and Huihao Sihai during the six-month ended 30 September 2009 on an annualized basis have shown a tremendous growth as compared to the annual figures for the year ended 31 March 2009. Moreover, the Target Group will continue to strengthen its business in the following aspects in order to achieve a continuous business growth and profitability in the coming years:

– To strengthen its sourcing and procurement, to reduce procurement costs and to increase working capital efficiency;

– To increase the retail drug store areas in an organic way given no new external funding is expected in order to achieve a more diverse distribution in Fujian and strengthen its brand;

– To strengthen operating efficiency of the retail business, enlarge the products variety and improve its quality in order to increase the profit margin and overall profitability;

– To improve the overall inventory management and increase the variety of pharmaceutical products;

– To capture the business opportunities in the wholesale business by exploring new marketing network inside and outside Fujian especially under the favourable socio-economic environment and supportive government and provincial policies;

– To achieve optimal economies of scale and maintain a leading position within Fujian;

– To strengthen the central management by continuous enhancement and update of computerized system;

– To further integrate the resources of the Target Group for better utilization, to reduce the costs of sales and to increase the earnings from direct sales to hospitals in the aspect of more efficient sourcing and procurement of pharmaceutical products; and

– To explore the opportunities to manage the pharmacy departments under the hospitals in order to increase sales of the Target Group without the need to open retail drug stores.

The Directors are optimistic about the diversification of business into pharmaceutical retail chain, wholesale and distribution business contemplated under the Proposed Acquisition. The Directors consider that the Proposed Acquisition will (i) increase the competitiveness of the Group under the ever-changing business environment facing the Group; (ii) achieve an economies of scale under existing operation; (iii) create new business opportunities for the Group; (iv) enhance the assets base of the Group; (v) broaden the revenue base of the Group; and (vi) provide synergetic effect to the existing business of the Group.

The Directors consider that the business plan of the Target Group has been devised after having taken into account (i) the business opportunities in the healthcare sector in the PRC as disclosed in the section "OVERVIEW OF THE PHARMACEUTICAL WHOLESALE AND DISTRIBUTION AND PHARMACEUTICAL RETAIL CHAIN BUSINESS IN THE PRC & FUJIAN PROVINCE, THE PRC"; (ii) business overview as disclosed in the section "INFORMATION OF THE TARGET GROUP"; and (iii) financial and trading prospects of the Target Group as described above. Moreover, the business plan of the Target Group also forms the basis of the Profit Guarantee. Therefore, given those favourable socio-economic environment, supportive government and provincial policies and the effective enforcement of such business plan of the Target Group as described above, the Directors are of the view that the business models of the Target Group are commercially viable, the Profit Guarantee is achievable and the Proposed Acquisition is worth pursuing.

FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

The financial impact of the Proposed Acquisition is set out in Appendix V to this circular. Please refer to the Appendix V to this circular for basis of preparing the pro forma financial information on the Enlarged Group and the pro forma financial information on the Enlarged Group after Completion.

Following Completion, all the members of the Huihao Medicine Wholesale Group will become wholly-owned subsidiaries of the Group and Huihao Sihai will be held by the Group as to 99.29% equity interests, and the accounts of the Target Group will be consolidated into the accounts of the Group.

Earnings

The Group recorded an audited turnover of approximately HK$170,087,000 and loss for the year of approximately HK$190,460,000. As shown in the pro forma financial information of the Enlarged Group contained in the Appendix V to this circular, the turnover of the Enlarged Group on a consolidated basis will be increased by the amount of approximately HK$246,547,000 to HK$416,634,000. Therefore, given the historical financial performance of the Target Group, the Proposed Acquisition is expected to enhance the revenue base of the Enlarged Group.

As shown in the pro forma financial information of the Enlarged Group contained in Appendix V to this circular, the Enlarged Group recorded a loss for the year on a consolidated basis of the amount of approximately HK$203,297,000, representing an increase of approximately HK$12,837,000 as compared to loss for the year of the Group. The increase is mainly due to the loss for the year recorded by the Target Group. However, given the business plan of the Target Group as described in the previous section headed "FINANCIAL AND TRADING PROSPECTS", the Target Group will enhance the earnings potential of the Enlarged Group in the near future.

Assets

The Group has an audited total assets of approximately HK$394,977,000 as at 31 March 2009. The Proposed Acquisition would increase the total assets of the Enlarged Group by the amount of approximately HK$831,301,000 to approximately HK$1,226,278,000 as shown in the pro forma financial information of the Enlarged Group contained in the Appendix V to this circular. The increase is mainly due to (i) goodwill arising from the Proposed Acquisition of approximately HK$497,830,000; (ii) increase in trade and other receivables and deposits of approximately HK$217,143,000; and (iii) increase in inventories of approximately HK$76,859,000.

The Group has an audited net asset value of approximately HK$356,062,000 as at 31 March 2009. The Proposed Acquisition would increase the net asset value of the Enlarged Group by the amount of HK$290,000,000 to approximately HK$646,062,000 as shown in the pro forma financial information of the Enlarged Group contained in the Appendix V to this circular. The increase is mainly due to the issue of consideration shares pursuant to the Formal Agreement in the amount of HK$290,000,000.

Liabilities

The Group has an audited total liabilities of approximately HK$38,915,000 as at 31 March 2009. The Proposed Acquisition would increase the total liabilities of the Enlarged Group by the amount of approximately HK$541,301,000 to approximately HK$580,216,000 as shown in the pro forma financial information of the Enlarged Group contained in the Appendix V to this circular. The increase is mainly due to (i) increase of trade and other payables of approximately HK$295,503,000; and (ii) issue of promissory note in relation to the payment for part of the Consideration for the Proposed Acquisition of approximately HK$199,583,000.

REASONS FOR AND THE BENEFITS OF THE PROPOSED ACQUISITION

The Group is principally engaged in the provision of general hospital and healthcare and hospital management services in the PRC.

The Proposed Acquisition will enable the Group to diversify into the pharmaceutical wholesale and distribution and pharmaceutical retail chain business in the PRC.

With the fast economic growth, large population and increasing health consciousness of the people in the PRC, the PRC pharmaceutical industry has been growing rapidly. According to the figures published by China Association of Pharmaceutical Commerce (中國醫藥商業協會), the total sales in the PRC pharmaceutical industry in the year 2008 increased by about 57% as compared to RMB300 billion in 2003.

Majority of the Target Group's business activity is currently conducted in Fujian Province and its neighborhood provinces. According to the China Statistics Yearbook of 2008, the population of Fujian Province, the PRC was about 36.04 million. The average annual income in the Fujian urban cities had attained a double digit growth in the past consecutive five years, ranging from about 10.3% to about 15.8% per annum and reached RMB17,961 per capita in 2008. With the sizeable population base, increasing income levels, increasing health consciousness, and the supportive regulation on the healthcare sector, the Directors believe that there will be upside potential in the pharmaceutical wholesale and distribution and pharmaceutical retail chain business of the Target Group and the diversification into the pharmaceutical business is a promising opportunity that will benefit the Company and Shareholders in the long run.

The Directors (including the independent non-executive Directors) consider that the Proposed Acquisition is a vertical expansion of the business of the Company. As at the Latest Practicable Date, the Company has no intention to dispose of its existing business.

MANAGEMENT EXPERTISE

The Company has no intention to introduce any major changes to the existing operation and business of the Target Group upon Completion. Upon Completion, the Directors intend to appoint Mr. Yung and Mr. Weng Jiaxing as directors to the Target Group. Upon such appointment and nomination of directors, the Group expects to have effective and efficient management of the Target Group.

Biographical details of such directors are set out as below:

Mr. Yung, aged 45, the Chairman of the Board, being a registered economist in the Fujian Province in the PRC, has over 20 years' of experience in corporate management and investment in the healthcare and environmental protection sectors in the PRC. Mr. Yung is currently the chairman of Hong Kong Putian Co. and the honorable chairman of Hong Kong Puxian Native Association. Mr. Yung is also currently the vice-chairman of the National Committee of the Health, the Health Insurance Association of Fujian and the committee member of Putian City, Fujian Committee of Chinese Political Consultative Conference.

Mr. Weng Jiaxing（**翁加興**）, aged 34, holds a bachelor degree in finance. Mr. Weng has over 10 years of managerial experience in retail chain, healthcare and pharmaceutical. Mr. Weng was once an executive Director during the period from 25 April 2006 to 1 August 2007.

Save for the nomination of directors to the Target Group mentioned above, there will not be any material changes to the continued employment of the management and employees of the Target Group as a result of the Proposed Acquisition. Meanwhile, the Group will consider to appoint other suitable candidates to the Target Group.

Biographical details of the vice-chairman, chief executive officer and general managers of the Target Group are set out as below:

Fujian Huihao

Mr. Weng Jiaxing（**翁加興**）, aged 34, the vice-chairman of Fujian Huihao. He has a bachelor's degree in finance. Mr. Weng has over 10 years of managerial experience in retail chain, healthcare and pharmaceutical. He is responsible for overseeing overall pharmaceutical business of Fujian Huihao.

Mr. Yang Wang Chao（**楊旺朝**）, aged 48, the chief executive officer of Fujian Huihao. He is a graduate of Commercial in The Open University of Fujian（福建廣播電視大學）. He is a registered economist and pharmacist in charge in the PRC. He has over 20 years of experience in pharmaceutical sales and corporate management. He is responsible for overseeing overall pharmaceutical business of Fujian Huihao.

Fujian Huiming

Ms. Xiang Zheng（**項征**）, aged 48, was appointed as the general manager of Fujian Huiming in August 2008. She is a graduate of Business Administration in The Open University of Fujian（福建廣播電視大學）. She is a registered pharmacist in the PRC. Ms. Xiang has been working with the Sanming Medical Centre#（三明醫藥站）before joining the company. She has over 17 years of experience in pharmaceutical sales and corporate management. She is responsible for overall management of Fujian Huiming.

Putian Huihao

Mr. Chen Bing（**陳兵**）, aged 38, was appointed as the general manager of Putian Huihao in December 2008. He is a graduate of marketing in Northwest Minorities University（西北民族學院）. Mr. Chen has been working with the Zhangzhou Biochemical Pharmacy Group Co., Ltd.（漳州生物化學製藥集團）before joining the company. He has over 15 years of experience in pharmaceutical sales and corporate management. He is responsible for the overall management of Putian Huihao.

Huihao Sihai

Mr. Chen Yong（**陳勇**）, aged 38, was appointed as the general manager of Huihao Sihai in August 2008. He has a master degree of Business Administration in Fudan University（上海復旦大學）. Mr. Chen has over 10 years of experience in enterprise management. He is responsible for the overall management of Huihao Sihai.

RISKS RELATING TO THE TARGET GROUP'S BUSINESS OPERATIONS

(a) The Target Group may not be able to sufficiently and promptly respond to rapid changes in government regulations in the PRC pharmaceutical industry, which may adversely affect its business, financial condition and results of operations.

The pharmaceutical industry in China is under extensive regulation and supervision of the PRC government. Any new rules and regulations introduced and implemented in future may result in increase in costs, decrease in demand of services and the prices the customers of the Target Group are willing to pay and may have adverse effect on the Target Group's business, and financial condition. In addition, it is uncertain as to whether the PRC government will continue to adopt policies supporting the pharmaceutical industry. The Target Group cannot assure that it will be able to adapt to such changes, and further cannot assure that its business, financial condition and results of operations will not be adversely affected by the changes of any of the rules and regulations.

(b) The Target Group's wholesale and distribution operations are subject to certain risks, which may affect its business, results of operations and financial condition.

The Target Group is subject to certain risks in its wholesale and distribution operations, including but not limited to:

- the inability to achieve or maintain its quality of service to its customers;
- the removal or exclusion of its supplier's products in the medical insurance catalog, which can materially and adversely affect the commercial success of its wholesale and distribution operations, and thus its revenue, as it will affect the number of pharmaceutical items distributed by the Target Group to the hospitals;
- the inability to obtain and maintain governmental or regulatory permits, approvals and clearances, or to pass the PRC Government inspections or audits or to adhere to, or comply with, relevant PRC laws and regulations; and
- the possibility of accidents affecting certain of its distribution processes and products that the Target Group's stores or transports, which may result in fires, explosions and other potentially dangerous situations.

The occurrence of any such risks in the wholesale and distribution operations of the Target Group may affect its business, reputation, results of operations and financial condition.

(c) The retail pharmacy operations are subject to certain risks, which may affect the Target Group's business, results of operations and financial condition.

The Target Group is subject to certain risks in its pharmaceutical retail chain operations, including but not limited to:

- the incapability to successfully implement effective advertising, marketing and promotional programs, including pricing strategies to maintain competitive pressure and demand relating to the pharmaceutical retail chain operations;
- the inability to implement effective pricing and other strategies in response to competitive pressures in the pharmaceutical retail chain industry and the state-imposed price controls;
- the inability to respond to changes in consumer demand;

- the inability to secure and renew leases and properties for retail pharmacies in quality locations at competitive prices;
- the inability to stock an adequate supply of pharmaceutical products and related merchandise that are desired by customers on the shelves of the pharmaceutical retail chain;
- the inability to adhere to, or comply with, any relevant PRC retail, health, employment and labour laws and regulations;
- the inability to obtain and maintain regulatory or governmental permits, approvals and clearances, or to pass the PRC Government inspections or audits;
- the risk of, and resulting liability from, any contamination, injury or other harm caused by any use and misuse involving its retail products; and
- possible disputes over properties, lease and buildings in which the pharmaceutical retail chain operations are situated.

In case of any of such risks occurs in the pharmaceutical retail chain operations, it may affect the Target Group's business, reputation, results of operations and financial condition.

(d) The Target Group may not be able to maintain its supplier relationships in its pharmaceutical distribution operations.

The pharmaceutical distribution operations of the Target Group depends on a number of domestic suppliers for a steady supply of pharmaceutical and healthcare products. The Target Group typically distributes products pursuant to annual agency or distribution agreements entered into directly between itself and its suppliers or upstream distributors or pharmaceutical suppliers, under which its suppliers provide the Target Group with a series of economic incentives and other support. As a market practice, the terms of the agreements with its suppliers usually last for one year. The Target Group cannot assure that manufacturers and suppliers will continue to sell products to the Target Group on commercially reasonable terms. The Target Group also cannot assure that it will be able to establish new manufacturers and supplier relationships, or extend existing relationships with suppliers when its agreements with them expire. Its annual agency or distribution agreements with suppliers may be terminated from time to time due to various reasons beyond its control. Moreover, the annual agency or distribution agreements for some of its products are not exclusive, and it cannot assure that its competitors will not obtain the distribution rights of certain of its products.

(e) The Target Group may not be able to maintain proper inventory levels for its pharmaceutical distribution operations.

The diverse product variety, changes of customer's preference and the volatile economic environment add challenges to the accurate projection of suitable inventory level. Any shortage in the stock level will affect the business operation of the Target Group while excess inventory will induce increased inventory holding cost and inventory write-down, which will affect its business operation.

(f) The Target Group may incur losses resulting from product liability, personal injury or wrongful death claims or product recalls.

The pharmaceutical distribution and pharmaceutical retail chain operation of the Target Group are exposed to inherited risks in the packaging, marketing and distribution of pharmaceutical and healthcare products, such as unsafe, ineffective or defective products, improper filling of prescriptions, labeling of prescriptions, adequacy of warnings and unintentional distribution of counterfeit products. In the event that the use or misuse of its products distributed results in personal injury or death, product liability claims may be brought against the Target Group for damages and the Target Group may be subject to product recalls. In the event that there is a successful substantial claim or a substantial number of claims, it would have a material adverse effect on the business, financial condition and results of operations of the Target Group. Though the Target Group may have the right to recover from the relevant manufacturers for compensation to its customers, the Target Group cannot assure that it will be able to recover in full or substantial part of that compensation from the relevant manufacturers.

(g) The Target Group may not be able to optimize the management of its distribution network or be successful in expanding its distribution network.

The Target Group's revenue is mainly derived from pharmaceutical wholesale and distribution, direct sales to hospitals and pharmaceutical retail chain in Fujian and nearby provinces. Its ability to meet customer demand may be significantly limited if the Target Group does not successfully organize as an agent in the logistics facilities as well as efficiently conduct its distribution activities, or if one or more of the logistics facilities fails or shuts down for any reason, including as a result of a natural disaster. Any disruption in the operation of its distribution network could result in higher costs or longer lead-times associated with distributing its products. In addition, as it is difficult to predict accurate sales volumes in its industry, the Target Group may be unable to optimize its distribution activities, which may result in excess or insufficient inventory, warehousing, fulfillment of logistics or value-added services, or distribution capacity. In addition, failure to effectively control product damage or spoilage during the distribution process could decrease its operating margins and reduce its profitability.

(h) The Target Group' s operations could be adversely affected by the departure of any of the senior management members of the Target Group.

The continued success of the Target Group in future relies on the continued service of the management of the Target Group who possesses the necessary expertise and industry experience in the new business the Group is proposed to invest in. The Target Group may be unable to attract or retain the personnel required subsequent to Completion to achieve its business objectives and execute its business strategy, and failure to do so could severely disrupt the business and prospects of the Enlarged Group. The competition for personnel from other pharmaceutical distributors would cause the Target Group to offer higher compensation and benefits to retain key members of the management team, which could materially and adversely affect the financial condition and results of operations of the Target Group.

(i) The Target Group depends on the continued service of, and on the ability to attract, motivate and retain a sufficient number of qualified and skilled staff.

Under the PRC regulations, it is required that every pharmacy should have at least one onsite qualified pharmacist to supervise dispensing of prescription medicines and advise customers on prescription medicines. In the event the Target Group is not be able to hire and retain sufficient number of qualified staff, it may limit the ability of the Target Group to open additional pharmacies, increase its revenue or deliver high quality customer service. The competition for these qualified individuals amongst its industrial competitors could cause the Target Group to offer higher compensation and other benefits in order to attract and retain them, which could materially and adversely affect the financial condition and results of operations of the Target Group.

(j) The Target Group's expansion strategy may not be materialized.

There is no assurance that the business plan of the Target Group as set out in the previous section headed "FINANCIAL AND TRADING PROSPECTS" in this letter can be materialized given the intensive competition and the ever-changing business environment facing the Target Group although the Target Group will continue to leverage its management team and business experience to strive for success. Moreover, there is no assurance that the Enlarged Group will have the readily available capital resources to materialize the Target Group's future plan. Therefore, the Target Group cannot assure you that the expansion strategy will be successful and any unsuccessful expansion or acquisition may have a material adverse effect on the Target Group's business and financial condition.

RISKS RELATING TO PHARMACEUTICAL INDUSTRY IN THE PRC

(a) The PRC healthcare industry is highly regulated, and the regulatory framework, requirements and enforcement trends may constantly change.

The healthcare industry including the pharmaceutical industry in China is highly regulated. The Target Group is required to obtain certain permits and licenses from governmental authorities. The Target Group has obtained or maintained all required licenses, permits and certifications to carry on its business. The permit and license are generally valid for a term of 5 years and is subject to periodic renewal. The Target Group intends to apply for the renewal of these permits, licenses and certifications when required by applicable laws and regulations. In the event the Target Group fails to obtain and maintain all licenses, permits and certifications necessary to carry on the business or to adjust its business strategies at any time could have a material adverse effect on the business, financial condition and results of operations of the Target Group. Further, if the interpretation or implementation of existing laws and regulations changes or new regulations come into effect requiring the Target Group to obtain any additional permits, licenses or certifications that were previously not required to operate its existing businesses, the Target Group cannot assure that it may successfully obtain such permits, licenses or certifications.

(b) The Target Group bears the risks from actions taken by its employees, its affiliates and itself that constitute violations of the applicable PRC laws governing the sales of medicine in the PRC. In any case if the Target Group fails to comply with the rules and regulation, it is subject to a material adverse effect on the reputation, results of operations and business prospects of the Target Group.

The Target Group bears the risks from actions taken by its employees, its affiliates or itself that constitute violations of the applicable PRC laws governing the sales of medicines in the PRC. The Target Group may be required to pay damages or fines for its employees, or its affiliates selling unauthorized goods and medicines to customers. The Target Group cannot assure that none of its employees, its affiliates or itself will not violate these laws, rules or regulations. If the Target Group fails to comply with the rules and regulations, the operation of the Target Group may be suspended, or, in the case of the pharmaceutical retail chain operation of the Target Group, outstanding claims from government security bureaus for reimbursement of purchases using medical insurance cards could be rejected, any of which could materially and adversely affect the reputation, the business prospects, financial condition and results of operations of the Target Group.

(c) Competition in the retail drugstore market in China may also intensify. Industry reforms aimed to meet China's commitments under WTO may foster increased competition from multinational pharmacy chains at the expense of China-based pharmacy chains.

As China's commitments under the WTO, China has lowered tariffs on certain imported pharmaceutical products and opened its pharmaceutical distribution market to foreign participation. Many of the foreign investors may establish entities and ties with existing domestic pharmaceutical distributors in China to distribute pharmaceutical products in the domestic market. As a result, the action may foster increased competition from multinational pharmacy chains at the expense of China-based pharmacy chains.

CONTINUING CONNECTED TRANSACTIONS UNDER RULE 20.41 OF THE GEM LISTING RULES

Transaction with Mr. Yung

(1) Provision of personal guarantee by Mr. Yung

Mr. Yung has entered into a personal guarantee agreement dated 15 June 2009 with Shanghai Pudong Development Bank (上海浦東發展銀行) to secure bills payables on behalf of Fujian Huihao (the "Personal Guarantee Agreement") for a term of one year. The Personal Guarantee Agreement provided by Mr. Yung will sustain after Completion. Since Mr. Yung is a Director and a substantial Shareholder, he is a connected person of the Company. The continuance of the Personal Guarantee Agreement after Completion will constitute a continuing connected transaction on the part of the Enlarged Group under Rule 20.41 of the GEM Listing Rules.

Transactions with Fujian Huihao Pharmaceutical Company Limited# (福建惠好藥業有限公司) and Fujian Huihao Pharmaceutical Chain Company Limited# (福建惠好醫藥連鎖有限公司)

Fujian Huihao Pharmaceutical Company Limited# (福建惠好藥業有限公司) ("FHP Company") is held as to 55% by Mr. Weng Jiale, who is a nephew of Mr. Yung and as to 45% by an Independent Third Party.

Fujian Huihao Pharmaceutical Chain Company Limited# (福建惠好醫藥連鎖有限公司) ("FHP Chain") is held as to 50% by Mr. Weng Jiale and as to 50% by other Independent Third Parties.

The Target Group has entered into agreements to acquire certain trademarks from FHP Company and FHP Chain and the Target Group has also entered into rental agreements with FHP Chain. These agreements will continue after Completion. Details of the agreements are set out below.

(1) Rental agreements

Fujian Huihao has entered into two rental agreements both dated 28 December 2009 with FHP Chain for the rental of premises with an aggregate area of 8,974 sq.m which is used as office and warehouse of Fujian Huihao. The two rental agreements were both with a term of five years commencing from 1 January 2010 to 31 December 2014 with an aggregate rental fees of RMB146,634 per quarter. The rental fees were agreed after arm's length negotiation between Fujian Huihao and FHP Chain with reference to the prevailing market rental.

Huihao Sihai has entered into a rental agreement with FHP Chain dated 28 December 2009 for the rental of premises with an aggregate area of 3,919.2 sq.m which is used as office and warehouse of Huihao Sihai. The rental agreement was with a term of five years commencing from 1 January 2010 to 31 December 2014 with a rental fee of RMB 64,188 per quarter. The amount of rental fee were agreed after arm's length negotiation between Huihao Sihai and FHP Chain with reference to the prevailing market rental in the vicinity.

By virtue of his being the nephew of Mr. Yung, Mr. Weng Jiale is an associate of Mr. Yung as defined in accordance with the GEM Listing Rules. The continuance of the rental agreements entered into between FHP Chain and the Target Group after Completion will constitute continuing connected transactions under Rule 20.41 of the GEM Listing Rules on the part of the Company.

(2) Trademarks license and transfer agreements

The Target Group has entered into trademarks licence agreements and trademarks transfer agreement with FHP Company and FHP Chain.

(i) Trademarks Licence Agreement I and Trademarks Transfer Agreement I with FHP Company

Trademarks License Agreement I

On 31 July 2008, FHP Company, Fujian Huihao, Huihao Sihai, Fujian Huiming and Putian Huihao entered into the Trademarks Licence Agreement I. Pursuant to which FHP Company has granted a licence to each of Huihao Sihai, Fujian Huihao, Putian Huihao and Fujian Huiming to use the following five trademarks at nil consideration on an non-exclusive basis for an initial term of five years commencing from 1 August 2008 to 31 July 2013:

No.	Trademark	Place of Registration	Class	Registration Number	Expiry Date	Products Covered
1		PRC	39	4830087	13 February 2019	Cargo transportation, marine transportation, motor vehicle transportation, aviation transportation, car rental, cargo storage, wet suit rental, liquefied gas station, mail postage, travel agency (excluding advanced hotel booking)
2	惠好 HUIHAO	PRC	42	4830084	6 March 2019	Intellectual property licencing, research in technological research projects, crude oil extraction analysis, cosmetics research, biological research, materials testing, modeling (industrial products exterior design), interior decoration design, clothing design, establishing and maintaining websites for others

No.	Trademark	Place of Registration	Class	Registration Number	Expiry Date	Products Covered
3		PRC	42	4830086	27 March 2019	Intellectual property licencing, research in technological research projects, crude oil extraction analysis, cosmetics research, biological research, materials testing, modeling (industrial products exterior design), interior decoration design, clothing design, establishing and maintaining websites for others
4	惠好 HUIHAO	PRC	44	4830083	6 March 2019	Clinic, hospital, healthcare, dental, nursing (medical), pharmaceutical consultancy, beauty parlour, animal breeding, gardening, hygienic equipment rental
5		PRC	44	4830085	27 March 2019	Clinic, hospital, healthcare, dental, nursing (medical), pharmaceutical consultancy, beauty parlour, animal breeding, gardening, hygienic equipment rental

The Trademarks License Agreement I will be terminated upon its expiration or upon the completion of the Trademarks Transfer Agreement I, whichever is earlier.

Trademarks Transfer Agreement I

On 30 November 2009, Huihao Sihai as transferee entered into the Trademarks Transfer Agreement I (as supplemented by a supplemental agreement dated 22 December 2009) with FHP Company, as transferor, to acquire the above five trademarks conditional upon the following: (i) the continual use of the trademarks by FHP Company in its own capacity within the scope as mentioned under the Trademarks Transfer Agreement I; and (ii) no consideration for the use of trademarks by FHP Company. As at the Latest Practicable Date, such transfer of the trademarks is pending the approval from the relevant authority.

(ii) Trademarks Licence Agreement II and Trademarks Transfer Agreement II with FHP Chain

Trademarks Licence Agreement II

On 31 July 2008, FHP Chain, Fujian Huihao, Huihao Sihai, Fujian Huiming, Putian Huihao entered into the Trademarks Licence Agreement II. Pursuant to which FHP Chain has granted to a licence to each of Huihao Sihai, Fujian Huihao, Putian Huihao and Fujian Huiming to use the following six trademarks at nil consideration on an non-exclusive basis for an initial term of five years commencing from 1 August 2008 to 31 July 2013:

No.	Trademark	Place of Registration	Class	Registration Number	Expiry Date	Products Covered
1	惠好 HUIHAO	PRC	10	3870765	20 January 2016	Dental equipment, feeding bottle, non-chemical contraceptive tools, surgical transplanting materials (artificial materials), orthopaedics products, stitching materials
2	HUIHAO	PRC	10	3870763	20 January 2016	Medical machinery and apparatus, clinical gloves, clinical band, special clinical furniture, operating gown, oxygen bladder, masks, clinical fumigation equipment, clinical use sport activity equipment
3	HUIHAO	PRC	30	3870762	6 January 2016	Non-clinical nutrition fluid, non-clinical nutrition ointment, non-clinical nutrition powder, non-clinical nutrition capsule, honey, non-clinical royal jelly, tortoise, plastron, spirulina (non-clinical nutrition product), essence of chicken and cordyceps, ice-sugar bird's nest
4	HUI HAO	PRC	35	3397997	13 July 2014	Promotion (for others), import/export agency, outdoor advertising, advertising, advertising and promotion, employment agency, advertising media, sample distribution, commercial information, cost pricing analysis
5	惠好	PRC	35	3405460	20 July 2014	Promotion (for others)

No.	Trademark	Place of Registration	Class	Registration Number	Expiry Date	Products Covered
6	惠好 HUIHAO	PRC	40	3870764	6 April 2016	Medicinal material processing, food fumigation, food and beverages storage, toxic material purification, chemical reagent processing and treatment, air purification, water purification, material administration information, stripping processing, energy production

The Trademarks License Agreement II will be terminated upon its expiration or upon the completion of the Trademark Transfer Agreement II , whichever is earlier.

Trademarks Transfer Agreement II

On 30 November 2009, Huihao Sihai (as transferee) entered into the Trademarks Transfer Agreement II (as supplemented by a supplemental agreement dated 22 December 2009) with FHP Chain (as transferor), pursuant to which FHP Chain has agreed to transfer the title of the above six trademarks and the one trademark below conditional upon following: (i) the continual use of the trademarks by FHP Chain in its own capacity within the scope as mentioned under the Trademarks Transfer Agreement II; (ii) the continual use of the trademarks by the 14 individuals (as disclosed under the Franchise Agreements); and (iii) no consideration for the use of trademarks by FHP Chain and the 14 individuals under the Franchise Agreements (as disclosed below). Pursuant to the supplemental agreement dated 22 December 2009, FHP Chain further agreed to grant the licence to use the following trademark by Huihao Sihai. As at the Latest Practicable Date, the transfer of these trademarks is pending the approval from the relevant authority.

No.	Trademark	Place of Registration	Class	Registration Number	Expiry Date	Products Covered
1	HUIHAO	PRC	5	3689464	13 February 2016	Human use drugs, refrigerant, clinical pills, pharmaceutical capsule, tablet, tincture, aqueous solutions, ointment, Chinese patent medicine, pill in capsule

By virtue of Mr. Weng Jiale being an associate of Mr. Yung as defined in accordance with the GEM Listing Rules, the entering into of the above licence and transfer agreements between the Target Group and FHP Company and between Target Group and FHP Chain will constitute continuing connected transactions on the part of the Company upon Completion under Rule 20.41 of the GEM Listing Rules.

In the event there is any variation or renewal of the above licence agreements, the Company will comply in full with all applicable reporting, disclosure and independent Shareholders' (if necessary) approval requirements of Chapter 20 of the GEM Listing Rules.

FURTHER INFORMATION ON THE TRADEMARK

Trademark owned by the Target Group

As at the Latest Practicable Date, in addition to the use and transfer of twelve trademarks set out under the section headed "CONTINUING CONNECTED TRANSACTIONS UNDER RULE 20.41 OF THE GEM LISTING RULES", Huihao Sihai currently owns the following trademark:

No.	Trademark	Place of Registration	Class	Registration Number	Expiry Date	Products Covered
1		PRC	35	3039405	20 April 2013	Promotion (for others), promotion (pharmaceutical products) (for others), promotion (healthcare food products) (for others), promotion (medical machinery) (for others), promotion (hygienic products) (for others), promotion (pharmaceutical cosmetics) (for others), promotion (chemical reagent) (for others), promotion (shaped packaging beverages) (for others)

Franchise Agreements of FHP Chain

Prior to the entering into of Trademarks Transfer Agreement II, FHP Chain have entered into 14 franchise agreements (the "Franchise Agreements") with 14 individuals, who are Independent Third Parties for the use of the trademarks in their 14 drug stores. The terms of these Franchise Agreements range from 4 years and three months to 7 years. Depending on the terms of each of the Franchise Agreements, the individuals will pay to FHP Chain an initial franchise fee, an initial information system fee, an annual management fee and a deposit. These Franchise Agreements will continue to be effective after Completion. The last franchise agreement will expire on 31 December 2014.

According to the PRC legal adviser, as at the Latest Practicable Date, no disputes has occurred in relation to either the usage or ownership of the trademarks listed above and the entering into of the above trademarks transfer agreements and trademarks licence agreements for the transfer and usage of the trademarks are legally enforceable and are in compliance with the relevant PRC laws and regulations.

THE PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

As at the Latest Practicable Date, the authorised share capital of the Company is HK$500,000,000 divided into 10,000,000,000 Shares, of which 4,495,111,986 Shares have been issued. To facilitate the issue of the CP Shares and Conversion CP Shares by the Company upon Completion, the Board proposes to increase the authorised share capital of the Company from HK$500,000,000 divided into 10,000,000,000 Shares of HK$0.05 each to HK$1,500,000,000 by the creation of an additional 12,000,000,000 Shares and 8,000,000,000 CP Shares. An ordinary resolution will be sought at the EGM to approve the Capital Increase and the reclassification of the increased authorised capital of the Company into 12,000,000,000 Shares and 8,000,000,000 CP Shares.

The Capital Increase is conditional upon passing of an ordinary resolution by the Independent Shareholders at the EGM.

IMPLICATIONS UNDER THE GEM LISTING RULES

The Proposed Acquisition constitutes a very substantial acquisition on the part of the Company under the GEM Listing Rules. As Mr. Yung is a connected person of the Company, the Proposed Acquisition constitutes a connected transaction on the part of the Company.

The Proposed Acquisition and the Capital Increase are subject to, among others, the approval by the Independent Shareholders at the EGM to be taken by way of poll. Mr. Yung and his associates, who hold approximately 27.25% of the entire issued share capital of the Company as at the Latest Practicable Date, will abstain from voting for the relevant resolution at the EGM to approve the Proposed Acquisition, the Capital Increase and the transactions contemplated thereunder due to their interests in the Proposed Acquisition.

As the Proposed Acquisition is subject to the fulfillment of a number of conditions precedent and may or may not proceed, Shareholders and potential investors should exercise caution when dealing in the Shares.

IBC

The IBC comprising all the independent non-executive Directors had been established to advise the Independent Shareholders as to the fairness and reasonableness of the Formal Agreement, the Capital Increase and the transactions contemplated thereunder. Veda Capital was appointed as independent financial adviser to advise the IBC and the Independent Shareholders in this regard.

RECOMMENDATIONS

Your attention is drawn to (i) the "Letter from the Independent Board Committee" set out on page 76 of this circular containing the recommendation from the Independent Board Committee to the Independent Shareholders regarding the Proposed Acquisition and the Capital Increase; and (ii) the "Letter from Veda Capital" set out on pages 77 to 100 of this circular containing its advice to the Independent Board Committee and the Independent Shareholders regarding the Proposed Acquisition and the Capital Increase.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Formal Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and the Proposed Acquisition and the Capital Increase are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Shareholders to vote in favour of the ordinary resolutions at the EGM in respect of the Proposed Acquisition and the Capital Increase.

EGM

The EGM, the notice of which is set out on pages 436 and 438 of this circular, will be held to consider and, if thought fit, approve the ordinary resolutions to approve the Proposed Acquisition, the Capital Increase and the transactions contemplated thereunder.

There is a form of proxy for use at the EGM accompanying this circular. Whether or not you will be able to attend the EGM or not, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the principal place of business of the Company at Room 1902, 19/F., Sing Pao Building, No. 101 King's Road, North Point, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof.

Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

ADDITIONAL INFORMATION

Your attention is also drawn to the financial information of the Enlarged Group and the other information as set out in the appendices to this circular.

By order of the Board
Hua Xia Healthcare Holdings Limited
Yung Kwok Leong
Chairman

The following is the text of the letter from the IBC setting out its recommendations to the Independent Shareholders in relation to the Proposed Acquisition and the Capital Increase.

HUA XIA HEALTHCARE HOLDINGS LIMITED
華夏醫療集團有限公司*
(incorporated in the Cayman Islands with limited liability)
(Stock Code: 8143)

11 February 2010

To the Independent Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RESPECT OF THE PROPOSED ACQUISITION OF PHARMACEUTICAL RETAIL CHAIN, WHOLESALE AND DISTRIBUTION BUSINESS; AND (2) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

We refer to the circular of the Company dated 11 February 2010 (the "Circular") of which this letter forms part. Unless the context specifies otherwise, capitalised terms used herein have the same meanings as defined in the Circular.

We have been appointed by the Board to advise you as to whether the terms of the Proposed Acquisition and the Capital Increase are fair and reasonable. Veda Capital has been appointed as independent financial adviser to advise you and us in this regard.

Having taken into account the principal reasons and factors considered by, and the advice of, Veda Capital as set out in its letter of advice to you and us on pages 77 to 100 of the Circular, we are of the opinion that the Proposed Acquisition and the Capital Increase are in the interests of the Company and its Shareholders as a whole and the terms of which are fair and reasonable insofar as the Company and the Independent Shareholders are concerned. Accordingly, we recommend you to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Proposed Acquisition and the Capital Increase respectively.

For and on behalf of the Independent Board Committee

Ms Wong Ka Wai, Jeanne	**Prof. Hu Shanlian**	**Prof. Lu Chuanzhen**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

* *For identification purpose only*

The following is the full text of a letter of advice from Veda Capital to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Acquisition and the Capital Increase prepared for the purpose of inclusion in this circular.

VEDA | CAPITAL
智略資本

Veda Capital Limited
Suite 1302
13/F Takshing House
20 Des Voeux Road Central
Hong Kong

11 February 2010

To the Independent Board Committee and the Independent Shareholders of
Hua Xia Healthcare Holdings Limited

Dear Sirs,

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RESPECT OF PROPOSED ACQUISITION OF PHARMACEUTICAL RETAIL CHAIN, WHOLESALE AND DISTRIBUTION BUSINESS; AND (2) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the fairness and the reasonableness of the Proposed Acquisition and the Capital Increase, details of which are set out in the circular to the Shareholders dated 11 February 2010 (the "**Circular**"), of which this letter forms part. Terms used in this letter have the same meanings as defined in the Circular unless the context requires otherwise.

On 26 October 2009, the Company entered into the Framework Agreement with Mr. Yung, Huihao Sihai and Huihao Hong Kong for the Proposed Acquisition. On 13 November 2009, the Purchaser, a wholly owned subsidiary of the Company, entered into the Formal Agreement which supersedes and replaces all the terms and conditions of the Framework Agreement with Mr. Yung for the Proposed Acquisition. Pursuant to the Formal Agreement, the Purchaser has conditionally agreed to acquire the Sale Share and the Sale Loan from Mr. Yung at a consideration of HK$600 million by ways of cash payment, the issue of CP Shares and the Promissory Note.

The Proposed Acquisition constitutes a very substantial acquisition on the part of the Company under the GEM Listing Rules. As Mr. Yung is a connected person of the Company, the Proposed Acquisition constitutes a connected transaction on the part of the Company and will be subject to the approval of the Independent Shareholders at the EGM by way of poll.

The Board also proposed to increase its authorised share capital to facilitate the issue of the CP Shares and Conversion CP Shares upon Completion. The Capital Increase is conditional upon passing of an ordinary resolution by the Independent Shareholders at the EGM.

The Independent Board Committee, comprising Ms. Wong Ka Wai, Jeanne, Prof. Hu Shanlian and Prof. Lu Chuanzhen, has been established to advise the Independent Shareholders as to (i) whether the Proposed Acquisition is in the ordinary and usual course of business of the Group; (ii) whether the terms of the Proposed Acquisition are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Independent Shareholders as a whole; (iii) whether the Capital Increase is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole; and (iv) how the Independent Shareholders should vote in respect of the relevant resolutions to approve the Proposed Acquisition and the Capital Increase respectively at the EGM. The appointment of Veda Capital has been approved by the Independent Board Committee.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied upon accuracy of the information and representations contained in the Circular and information provided to us by the Company, the Director(s) and the management. We have assumed that all statements, information and representations made or referred to in the Circular and all information and representations which have been provided by the Company, the Director(s) and the management, for which they are solely and wholly responsible, were true at the time they were made and continue to be true as at the date of the EGM. We have also assumed that all statements of belief, opinion and intention made by the Director(s) in the Circular were reasonably made after due and careful enquiry and were based on honestly-held opinions.

We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Director(s) and have been confirmed by the Director(s) that no material facts and representations the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, conducted any independent in-depth investigation into the business affairs, financial position or future prospects of the Group, nor have we carried out any independent verification of the information provided by the Director(s) and management of the Company. We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information and representations contained in the Circular and to provide a reasonable basis for our recommendation regarding the Proposed Acquisition and the Capital Increase.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In giving our recommendation to the Independent Board Committee and the Independent Shareholders for the Proposed Acquisition and the Capital Increase, we have taken into consideration the following factors and reasons:

A. The Proposed Acquisition

1. Information on the Target Group

As set out in the Board Letter, as advised and discussed with Mr. Yung, the Directors are of the view that, the Target Group (comprising the Target, Huihao Medicine Wholesale Group and Huihao Sihai) is one of the leading distributors and providers of supply chain services for, pharmaceutical and healthcare products in Fujian Province, the PRC in terms of scale of operation, distribution network and retail chain and operates the largest national pharmaceutical distribution centre in Fujian Province, the PRC in terms of scale of operation and centre area.

The Huihao Medicine Wholesale Group commenced its distribution and wholesale business since August 2008, while Huihao Sihai commenced its business since January 2002. Huihao Sihai has gone through a period of consolidation of business during the past years and there are 85 retail drug stores as at the Latest Practicable Date.

Pharmaceutical wholesale and distribution and direct sales to hospitals

The Huihao Medicine Wholesale Group maintains solid business connections with thousands of drug manufacturers on a provincial basis, and has formed strategic cooperation with other major pharmaceutical corporations in six neighborhood provinces in the PRC. Currently, the Huihao Medicine Wholesale Group is the first-tier distribution agent for over 100 pharmaceutical products from well-renowned overseas and local medicine manufacturers in Fujian Province, the PRC. The Huihao Medicine Wholesale Group has more than 1,900 distribution customers in Fujian Province, the PRC, including more than 110 distributors and more than 1,000 clinics and pharmacies. The direct sales to hospitals deliver a broad range of pharmaceutical products to more than 100 hospitals.

Pharmaceutical retail chain

Major business of Huihao Sihai is the retailing of pharmaceutical products. Its pharmaceutical retail chain operation is the leader in pharmaceutical retail chains in Fujian Province, the PRC in terms of number of retail drug stores. As at the Latest Practicable Date, there are 85 direct drug stores located in major cities in Fujian Province, the PRC under the brand name "Huihao Sihai". To the best knowledge, information and belief of the Directors, this pharmaceutical retail chain complies with GSP standard and provides a broad range of pharmaceutical products to the general public in Fujian Province, the PRC.

Further details of the history and development of each member of the Target Group and the business overview of the Target Group have been set out in the Board Letter.

As set out in the Board Letter, initially, pharmaceutical retail chain carried out by Huihao Sihai is a restricted business in the PRC. Pursuant to the Catalogue for the Guidance of Foreign Investment Industries《外商投資產業指導目錄》issued by the Ministry of Commerce of the PRC, foreign investors are not allowed to hold the entire shareholding interests in a company which is principally engaged in pharmaceutical retail chain business in the PRC. Under CEPA, preferential treatment is granted by the PRC authorities to a natural person who is a Hong Kong permanent resident or a Hong Kong service supplier which is a company having engaged in substantive business operations in Hong Kong for three to five years, to acquire the entire equity interests in the restricted business. As at the Latest Practicable Date, the shareholding structure of Huihao Sihai has been approved by the relevant PRC authorities. As part of the Reorganisation and in order to obtain an effective control on Huihao Sihai, the Target Group have entered into the Control Agreements with Mr. Yung as the Group does not have any suitable vehicle that meet the requirement in order to benefit from CEPA to hold the 99.29% equity interests in Huihao Sihai upon Completion. The Board expects that it will take several years for the Group to get the necessary qualification under CEPA in order to directly hold 99.29% equity interests in Huihao Sihai.

The Control Agreements are designed to provide the Group with an effective control over and the right to enjoy the economic benefits in and/or assets of, Huihao Sihai. Upon Completion, the Company will be able to govern the financial and operating policies of Huihao Sihai because (i) the board of directors of Huihao Sihai will be controlled by Huihao Hong Kong pursuant to the Management Appointment Agreement and the Director's Undertakings; (ii) the general meeting will be controlled by Huihao Hong Kong pursuant to the Shareholder's Undertaking; and (iii) all the benefits arising from 99.29% equity interests in Huihao Sihai will be entirely conveyed to Huihao Hong Kong pursuant to the Share Charge. As advised by the Company, as discussed with the auditors of the Company, subject to the Group having obtained control over Huihao Sihai upon Completion, pursuant to the Control Agreements, Huihao Sihai will be accounted for as a 99.29% subsidiary of the Company in accordance with generally accepted accounting principles in Hong Kong and the financial results of Huihao Sihai will be consolidated with that of Huihao Hong Kong.

As stated in the Board Letter, the Company has been advised by its PRC legal adviser that the Control Agreements are legal, effective and enforceable and in compliance with the relevant rules and regulations of the PRC.

Set out below is the key audited financial data of the Target, Huihao Medicine Wholesale Group and Huihao Sihai as extracted from their respective accountants' reports as set out in Appendices II, III and IV to the Circular.

The Target:

	For the period from 16 July 2009 (date of incorporation) to 30 September 2009 *(HK$)*
Turnover	–
Loss before taxation	6,300
Loss after taxation	6,300

	As at 30 September 2009 (HK$)
Net liabilities	6,300

We noted from Appendix II to the Circular, the auditors even though without qualifying its opinion, had expressed a material uncertainty opinion concerning the going concern basis of the Target because, along with other matters as disclosed in the accountants' report, the Target incurred accumulated losses of HK$6,300 and had net liabilities of approximately HK$6,300 as at 30 September 2009.

Huihao Medicine Wholesale Group:

	For the period from 1 April 2009 to 30 September 2009 (HK$'000)	For the year ended 31 March 2009 (HK$'000)	For the year ended 31 March 2008 (HK$'000)
Turnover	330,716	187,697	–
Profit/(Loss) before taxation	317	3,753	(13)
Profit/(Loss) after taxation	(113)	3,294	(13)

	As at 30 September 2009 (HK$'000)	As at 31 March 2009 (HK$'000)	As at 31 March 2008 (HK$'000)
Net asset	4,289	4,407	975

We noted from Appendix III to the Circular, the auditors even though without qualifying its opinion, had expressed a material uncertainty opinion concerning the going concern basis of Huihao Medicine Wholesale Group because, along with other matters as disclosed in the accountants' report, Huihao Medicine Wholesale Group had net current liabilities of approximately HK$3,394,000 and HK$3,765,000 as at 30 September 2009 and 31 March 2009 respectively.

Huihao Sihai:

	For the period from 1 April 2009 to 30 September 2009 *(RMB'000)*	For the year ended 31 March 2009 *(RMB'000)*	For the year ended 31 March 2008 *(RMB'000)*
Turnover	62,923	72,720	24,653
Profit/(Loss) before taxation	(1,497)	(1,667)	1,101
Profit/(Loss) after taxation	(1,577)	(1,732)	1,026

	As at 30 September 2009 *(RMB'000)*	As at 31 March 2009 *(RMB'000)*	As at 31 March 2008 *(RMB'000)*
Net asset	8,355	9,932	11,664

We noted from Appendix IV to the Circular, the auditors even though without qualifying its opinion, had expressed a material uncertainty opinion concerning the going concern basis of Huihao Sihai because, along with other matters as disclosed in the accountants' report, Huihao Sihai had net current liabilities of approximately RMB7,672,000 and RMB4,743,000 as at 30 September 2009 and 31 March 2009 respectively.

2. Background and Financial information of the Group

The Group is principally engaged in the provision of general hospital and healthcare and hospital management services in the PRC.

According to the Group's 2008/2009 annual report (the "**AR 2009**"), the turnover of the Group was approximately HK$170.09 million for the year ended 31 March 2009, which represented an increase of approximately 25.12% as compared to the turnover for the year ended 31 March 2008 of approximately HK$135.94 million (comprising turnover generated from continuing operations of approximately HK$114.16 million and discontinued operations of approximately HK$21.78 million). As set out in AR 2009, the improvement in revenue for the year ended 31 March 2009 was mainly driven by the contribution in turnover generated from the PRC hospitals acquired during the year.

The loss attributable to Shareholders was approximately HK$200.55 million for the year ended 31 March 2009, which represented an increase in loss attributable to Shareholders of approximately 1,020.94% as compared to the loss attributable to Shareholders for the year ended 31 March 2008 of approximately HK$17.89 million. As set out in AR 2009, such increase in loss was mainly due to the impairment loss on the goodwill which arised during the acquisition of the hospitals in the PRC.

According to the Group's 2009/2010 interim report (the "**IR 2009**"), the turnover of the Group was approximately HK$63.92 million for the six months ended 30 September 2009, represented a decrease of approximately 38.37% as compared to the turnover in the corresponding period in 2008 of approximately HK$103.73 million. As advised by the Company, such decrease in turnover was mainly attributable to the global economic downturn when compared with the corresponding period in 2008.

The Group has recorded loss attributable to Shareholders of approximately HK$1.32 million for the six months ended 30 September 2009 and profit attributable to Shareholders of approximately HK$10.73 million for the six months ended 30 September 2008. As advised by the Company, the loss was mainly due to the decrease in turnover as mentioned above and in the increase in advertising expense for the hospitals.

3. Reasons for the Proposed Acquisition

As stated in the Board Letter, the Proposed Acquisition will enable the Group to diversify into the pharmaceutical wholesale and distribution and pharmaceutical retail chain business in the PRC. With the fast economic growth, large population and increasing health consciousness of the people in the PRC, the PRC pharmaceutical industry has been growing rapidly. According to the figures published by China Association of Pharmaceutical Commerce（中國醫藥商業協會）, the total sales in the PRC pharmaceutical industry in the year 2008 increased by about 57% as compared to RMB300 billion in 2003.

Also stated in the Board Letter, majority of the Target Group's business activity is currently conducted in Fujian Province and its neighborhood provinces. According to the China Statistics Yearbook of 2008, the population of Fujian Province, the PRC was about 36.04 million. The average annual income in the Fujian urban cities had attained a double digit growth in the past consecutive five years, ranging from about 10.3% to about 15.8% per annum and reached RMB17,961 per capita in 2008. With the sizeable population base, increasing income levels, increasing health consciousness, and the supportive regulation on the healthcare sector, the Directors believe that there will be upside potential in the pharmaceutical wholesale and distribution and pharmaceutical retail chain business of the Target Group and the diversification into the pharmaceutical business is a promising opportunity that will benefit the Company and Shareholders in the long run.

The Directors consider that the Proposed Acquisition is a vertical expansion of the business of the Company. As at the Latest Practicable Date, the Company has no intention to dispose its existing business.

We noted from the section headed "OVERVIEW OF THE PHARMACEUTICAL WHOLESALE AND DISTRIBUTION AND PHARMACEUTICAL RETAIL CHAIN BUSINESS IN THE PRC AND FUJIAN PROVINCE, THE PRC" in the Board Letter that, in 2008, the total revenue of the pharmaceutical wholesale and distribution and pharmaceutical retail chain business in the PRC reached approximately RMB469.87 billion, representing an increase of 16.71% from 2007 (Source of information: China Association of Pharmaceutical Commerce（中國醫藥商業協會）) and according to the PRC National Bureau of Statistics, consumer expenditures on healthcare in the PRC's urban and rural areas increased from approximately RMB476.0 and RMB117.8 per person in 2003, respectively, to approximately RMB699.0 and RMB210.2 per person in 2007, respectively. In addition, as part of the Eleventh Five-Year Plan (2006-2010), the PRC government has actively supported the healthcare industry (including the pharmaceutical wholesale and distribution and pharmaceutical retail chain business) by providing a number of incentives and enacting programs, including increased funding for building additional hospitals, research centers and other healthcare facilities, enacting healthcare reforms and standards and subsidizing healthcare services for its citizens. The PRC government has announced it will spend an additional RMB850 billion on healthcare programs from 2009 to 2011, which will significantly bolster the PRC healthcare market including the pharmaceutical wholesale and distribution and pharmaceutical retail chain business. Independent Shareholders are reminded that, as set out in the Board Letter, the section headed

"OVERVIEW OF THE PHARMACEUTICAL WHOLESALE AND DISTRIBUTION AND PHARMACEUTICAL RETAIL CHAIN BUSINESS IN THE PRC AND FUJIAN PROVINCE, THE PRC" contains information and statistics relating to the pharmaceutical wholesale and retail industry in which the Target Group operates. The Directors have derived such information and data partly from publicly available and authoritative sources which have not been independently verified by the Directors or any of their advisers. The Directors make no representation as to the correctness or accuracy of such information provided by those organizations and accordingly such information should not be unduly relied on. The Directors have performed due diligence work to ensure the information is accurate and complete and have taken such care as they consider reasonable in the reproduction and extraction of such information.

We also noted from IR 2009 that the Directors remain optimistic about the promising healthcare sector in the PRC for the long-run including but not limited to possible future investments in or cooperations with hospitals in the PRC (including but not limited to taking equity interests in hospitals in the PRC which the Directors believe will have growth potentials) and to consider undertaking those businesses which are complementary to the existing business as a further step to the acquisition in order to benefit from the growth in the healthcare sector and enhance Shareholders' returns in the long-run.

Having considered (i) the Proposed Acquisition will enable the Group to vertically expand its existing business and enhance its revenue; (ii) the optimistic prospect of the pharmaceutical wholesale and distribution and pharmaceutical retail chain business in the PRC as supported by the PRC government and the increasing healthcare consciousness in the PRC; (iii) the existing extensive retail network of Huihao Sihai in Fujian Province, the PRC and the leading position of Huihao Medicine Wholesale Group in the pharmaceutical distributors business in Fujian Province, the PRC; and (iv) the Proposed Acquisition is aligned with the business strategy of the Group as set out in IR 2009, we agree with the view of the Directors that the Proposed Acquisition is in the ordinary and usual course of business of the Company and in the interests of the Company and the Independent Shareholders as a whole.

4. Consideration for the Proposed Acquisition

(a) Consideration

The Consideration for the Sale Share and the Sale Loan is HK$600 million, representing 12 times of the Guaranteed Profit (further details of the Profit Guarantee has been set out in paragraphs below). The Consideration shall be satisfied as to HK$20.0 million by cash, as to HK$290 million by procuring the Company to allot and issue the CP Shares in favour of Mr. Yung upon Completion and as to HK$290 million by procuring the Company to issue the Promissory Note in favour of Mr. Yung upon Completion.

Pursuant to the Formal Agreement, Mr. Yung has irrevocably guaranteed and warranted to the Company that the Net Profit shall not be less than the Guaranteed Profit of HK$50 million.

In the event that the Net Profit is less than the Guaranteed Profit, Mr. Yung shall pay to the Company, an amount equivalent to the product of 12 times, being the price earning multiple for determining the Consideration and such shortfall, as compensation. In the event there is an audited consolidated net loss for the year ending 31 March 2011, the Net Profit will be deemed to be zero for the purpose of calculating compensation payable to the Group.

The amount of Shortfall will first be set off against the face value of the Promissory Note then outstanding. If the amount of Shortfall exceeds the face value of the Promissory Note then outstanding, Mr. Yung shall pay to the Purchaser the remaining Shortfall in cash. For the avoidance of doubt, (i) the total amount to be set off and payable by Mr. Yung shall not exceed HK$600 million, being the total Consideration; and (ii) if the Net Profit exceeds the Guaranteed Profit, no payment shall be made by the Group to Mr. Yung.

As set out in the Board Letter, the Consideration was on normal commercial terms and arrived at after arm's length negotiations between the parties to the Formal Agreement and by reference to (i) the Profit Guarantee; (ii) the price earning ratio (the "**PER**") of 12 times, after taking into account the lower range of the price earning ratios of other listed companies in Hong Kong engaging in similar business of the Target Group ranging from about 10.1 times to about 67.5 times; (iii) prospects of pharmaceutical business in the PRC; (iv) financial performance of the Target Group; and (v) secured foothold and establishment of the pharmaceutical retail chain under Huihao Sihai brand name in Fujian.

In order to access the fairness and reasonableness of the PER of the Proposed Acquisition, we have identified all comparable companies (the "**Industry Comparables**") being listed companies on the Stock Exchange (on GEM and Main Board) engaging in businesses similar to those of the Target Group. To the best of our knowledge, we have identified 28 Industry Comparables by searching through published information on the Stock Exchange's website. The PERs are based on their respective market capitalizations as at 13 November 2009, being the date of the Formal Agreement, and the profit attributable to the equity holders as set out in their respective latest annual reports (or prospectus for company listed in the Stock Exchange in the year 2009). As the Industry Comparables are engaged in similar business of the Target Group and their respective PERs are determined with reference to the date of the Formal Agreement, we consider the Industry Comparables are fair and representative samples. Independent Shareholders should note that the stated PERs of the Industry Comparables could be sensitive to, amongst other things, each of their particular businesses, financial position and market price performance of the shares of the respective companies and therefore, the PERs of the Industry Comparables listed below are for information and reference purposes only.

Industry Comparables (Stock code)	**Principal business**	**PER** *(times)*
United Gene High-Tech Group Ltd. (399)	Manufacturing and distribution of pharmaceutical products; health supplements in the PRC, and provision of gene testing services.	5.88
Winteam Pharmaceutical Group Ltd. (570)	Production and sale of Chinese medicine and pharmaceutical products.	63.28
Hua Han Bio-Pharmaceutical Holdings Ltd. (587)	Research and development, manufacture and sale of gynecological medicine, feminine medicinal healthcare products and bio-pharmaceutical products in the PRC.	11.26
Shandong Xinhua Pharmaceutical Co. Ltd. – H Shares (719) *(Note)*	Development, production and sale of pharmaceutical raw materials, preparations, chemical products and other products.	12.05

Industry Comparables (Stock code)	Principal business	PER *(times)*
Guangzhou Pharmaceutical Co. Ltd. – H Shares (874) *(Note)*	Manufacture and sales of Chinese Patent Medicine, wholesale, retail, import and export of western and Chinese pharmaceutical products and medical apparatus; research and development of natural medicine and biological medicine.	4.62
Wai Yuen Tong Medicine Holdings Ltd. (897)	Production and sale of Chinese and western pharmaceutical and health food products, bottled birds nest drinks and herbal essence products and property investments and property holding.	Not available because of loss-making
Asia Resources Holdings Ltd. (899)	Manufacture and sales of pharmaceutical products.	Not available because of loss-making
China Pharmaceutical Group Ltd. (1093)	Manufacture and sale of pharmaceutical products.	7.15
Broad Intelligence Int'l Pharmaceutical Holdings Ltd. (1149)	Manufacture, sale, research and development of pharmaceutical products and investment holding.	21.35
Vital Pharmaceutical Holdings Ltd. (1164)	Research and development, selling and manufacturing of pharmaceutical products.	5.08
Sino Biopharmaceutical Ltd. (1177)	Research and development, production and sale of a series of modernised Chinese medicines and chemical medicines.	31.95
Wuyi International Pharmaceutical Co. Ltd. (1889) *(Note)*	Research and development, manufacturing and trading of pharmaceutical products.	5.65
Jiwa Bio-Pharm Holdings Ltd. (2327)	Manufacturing and sale of pharmaceutical and pharmaceutical bulk materials; trading of pharmaceutical and health care products; distributions of pharmaceutical products.	10.12

Industry Comparables (Stock code)	Principal business	PER *(times)*
Dawnrays Pharmaceutical (Holdings) Ltd. (2348) *(Note)*	Development, manufacture and sale of non-patented chemical medicines including cephalosporins in sterile bulk medicine and powder for injection forms, their intermediate pharmaceuticals and system specific medicines.	8.04
China Shineway Pharmaceutical Group Ltd. (2877) *(Note)*	Research and development, manufacture and trading of Chinese pharmaceutical products.	20.84
Longrun Tea Group Co. Ltd. (2898)	Trading, manufacture and distribution of pharmaceutical products.	Not available because of loss-making
United Laboratories International Holdings Ltd. (3933)	Manufacture and sale of antibiotics finished products and the bulk medicine and intermediate products used to produce them, cough syrup, anti-allergy medicine and capsule casings.	10.13
Everpride Biopharmaceutical Co. Ltd. (8019)	Investment holding and the manufacturing and sales of medicines.	Not available because of loss-making
Jilin Province Huinan Changlong Bio-pharmacy Co. Ltd. – H Shares (8049) *(Note)*	Manufacture and distribution of biochemical medicines in the PRC.	3.77
Shandong Luoxin Pharmacy Stock Co. Ltd. – H Shares (8058) *(Note)*	Manufacturing and selling of pharmaceutical products.	4.69

Industry Comparables (Stock code)	Principal business	PER *(times)*
Tong Ren Tang Technologies Co. Ltd. – H Shares (8069) *(Note)*	Manufacturing and sales of Chinese Patent Medicine in the forms of granules, pills, tablets and soft capsules.	6.55
Northeast Tiger Pharmaceutical Co. Ltd. – H Shares (8197) *(Note)*	Development, manufacture and sale of medicine products in the PRC.	5.17
Lee's Pharmaceutical Holdings Ltd. (8221)	Manufacture and sale of self-developed pharmaceutical products, trading of license-in pharmaceutical products.	28.80
Venturepharm Laboratories Ltd. (8225)	Research, development and commercialisation of drug products.	Not available because of loss-making
Biosino Bio-Technology and Science Incorporation – H Shares (8247) *(Note)*	Manufactures, sells and distributes a variety of mono/double diagnostic reagent products; and pharmaceutical products.	3.23
Core Healthcare Investment Holdings Ltd. (8250)	Provision of diagnostic testing and healthcare services; sales of health food and pharmaceutical products; research and development; provision of advertising and public relationship services.	0.56
Lijun International Pharmaceutical (Holding) Co. Ltd. (2005)	Research, development, manufacture and sale of wide range of finished medicines and bulk pharmaceutical through a network independent retailers.	28.39
Sinopharm Group Co. Ltd. – H Shares (1099) *(Note)*	Distributor of, and a provider of supply chain services for, pharmaceutical and healthcare products and operate the national pharmaceutical distribution network in China	27.22
	Maximum	**63.28**
	Minimum	**0.56**
	Mean	**14.16**

Note: For calculation purposes, the profit attributable to equity holders recorded in RMB will be converted into HK$ under the exchange rate of HK$1.13 to RMB1.0.

As indicated in the above table, the PER based on the Guarantee Profit, being 12 times, falls below the mean and within the range of the PERs of the Industry Comparables from approximately 0.56 times to approximately 63.28 times.

We noted from the Board Letter that the original acquisition costs of 100% equity interests in the Huihao Medicine Wholesale Group and 99.29% equity interests in Huihao Sihai to Mr. Yung are approximately HK$35,500,000 and RMB10,957,579 respectively. In aggregate, the total costs of acquisition of the Target Group incurred by Mr. Yung before completion of the Reorganisation is approximately HK$48 million. The acquisition costs were determined based on the then net asset value of the acquired assets and were made in compliance with the relevant law in the PRC.

In light that (i) the PER based on the Guarantee Profit, being 12 times, falls below the mean and within the range of the PERs of the Industry Comparables; (ii) in the event that the Net Profit is less than the Guaranteed Profit, the Consideration will be adjusted with the shortfall thereof times 12, being the price earning multiple for determining the Consideration (the "**Adjustment**"); and (iii) the amount of Shortfall will first be set off against the face value of the outstanding Promissory Note which carry an interest rate of 1% per annum and hence will reduce the interest expense of the Company, we consider the Consideration is fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole. In addition, notwithstanding the Consideration represent a premium to the original acquisition cost of Mr. Yung, taking into account the safeguard from the Profit Guarantee and the Adjustment, we consider such premium is acceptable.

(b) CP Shares

Upon Completion, HK$290 million of the Consideration, will be satisfied by the Purchaser procuring the Company to allot and issue 4,833,333,333 CP Shares in favour of Mr. Yung at an Issue Price of HK$0.06. Details of the principal terms of the CP Shares have been set out under the section headed "CONVERTIBLE PREFERENCE SHARES" in the Board Letter.

The Issue Price per CP Share is HK$0.06 and was determined after arm's length negotiations between the parties to the Formal Agreement with reference to the recent market price of the Shares, which represent

(i) a premium of approximately 7.14% over the closing price of HK$0.0560 per Share as quoted on the Stock Exchange on the Last Trading Day;

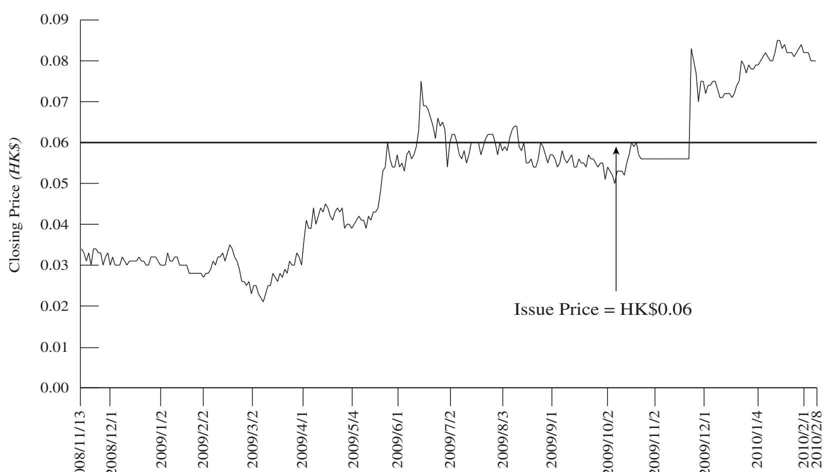
(ii) a premium of approximately 2.74% over the average closing price of HK$0.0584 per Share as quoted on the Stock Exchange on the last five trading days immediately prior to the Last Trading Day;

(iii) a premium of approximately 6.76% over the average closing price of HK$0.0562 per Share as quoted on the Stock Exchange on the last ten trading days immediately prior to the Last Trading Day; and

(iv) a discount of approximately 25.93% to the closing price of HK$0.081 on the Latest Practicable Date.

(i) Historical Price Performance

The graph below illustrates the closing price levels of the Shares during the period from 13 November 2008 (being the 12 calendar months period prior to the date of the Formal Agreement) up to the Latest Practicable Date (the "**Review Period**").



Source: website of the Stock Exchange (www.hkex.com.hk)

Note: Trading in Shares was suspended from 29 December to 30 December 2008 and from 27 October to 23 November 2009.

During the Review Period, the closing price of the Shares recorded lowest closing price of HK$0.021 per Share recorded on 9 March 2009 and highest closing price of HK$0.085 recorded on 15 January and 18 January 2010. As can been seen from the graph above, the Issue Price was above the closing price of the Shares most of the time during the Review Period before publication of the Announcement. The closing prices of the Shares experienced an increasing trend in the second quarter of 2009 before the sharp rise to HK$0.075 on 15 June 2009. As advised by the Company, save for the Company's announcement dated 16 June 2009 in respect of the profit warning for the financial results of the Group for the year ended 31 March 2009, the Directors were not aware of any matters which were price sensitive for such rise in closing price of the Shares. Since then, the closing prices of the Shares fluctuated from HK$0.05 to HK$0.069 until suspension of trading in Shares for the release of the Announcement. The closing price of the Shares surged up to HK$0.083 on 24 November 2009, being the first trading day immediately after upon publication of the Announcement. Thereafter and up to the Latest Practicable Date, the closing prices of the Shares fluctuated between HK$0.07 to HK$0.085.

(ii) Comparable Analyses

In order to assess the fairness and reasonableness of the terms of the CP Shares, to the best of our knowledge, we have looked into companies (the "**CPS Comparables**") listed on the Main Board and GEM of the Stock Exchange which have announced the issue of non-redeemable convertible preference shares from 13 November 2008 up to and including 13 November 2009, being the date of the Formal Agreement, for reference. As the terms of the CPS Comparables are determined under similar market conditions and sentiments as the CP Shares, we consider the CPS Comparables are fair and representative samples.

Date of announcement	CPS Comparables (stock code)	Approximate premium/ (discount) of the issue price over/ to the closing price per share on the last trading day prior to the announcement	Approximate premium/ (discount) of the issue price over/(to) the average closing price for the last five consecutive trading days up to and including last trading day prior to the announcement
14 July 2009	China Data Broadcasting Holdings Limited (8016)	(79.17)	(79.17)
8 July 2009	Green Global Resources Limited (61)	(71.10)	(63.40)
14 May 2009	China Water Industry Group Limited (1129)	(17.65)	(4.01)
11 May 2009	CCT Tech International Limited (261)	0.00	0.00
5 May 2009	iMerchants Limited (8009)	(13.04)	(6.98)
20 April 2009 *(Note)*	CIMC Enric Holdings Limited (formerly known as Enric Energy Equipment Holdings Limited) (3899)	10.70	11.19
10 March 2009	Bright Prosperous Holdings Limited (723)	(57.03)	(46.29)
13 February 2009	United Power Investments Limited (674)	8.90	6.40
	Maximum	**10.70**	**11.19**
	Minimum	**(79.17)**	**(79.17)**
	Average	**(27.30)**	**(22.78)**
	Company	**7.14**	**2.74**

Source: website of the Stock Exchange (www.hkex.com.hk)

Note: The original issue price of the convertible preference shares of HK$4.49 with reference to the company's announcement on 10 September 2008 was amended on 20 April 2009 in light of the market conditions and economic environment.

Based on the above illustration, the premium represented by the Issue Price over the Last Trading Day falls into the range of the premium/discount represented by the issue prices over/to the closing prices per share of the CPS Comparables on the respective last trading day prior to the announcements from the discount of 79.17% to the premium of 10.70% (the "**LTD Range**").

In addition, the premium represented by the Issue Price over the average closing price on the last five trading days immediately prior to the Last Trading Day falls into the range of the premium/discount represented by the issue prices over/to the closing prices per share of the CPS Comparables on the respective average closing prices for the last five consecutive trading days up to and including last trading day prior to the announcements from the discount of 79.17% to the premium of 11.19% (the "**ATD Range**").

In light of the fact that (i) the Issue Price represented a premium to the prevailing market prices around the date of the Formal Agreement; and (ii) the premium represented by the Issue Price over the closing price on the Last Trading Day and the average closing price on the last five trading days immediately prior to the Last Trading Day falls within the LTD Range and the ATD Range respectively, we consider the Issue Price is fair and reasonable so far as the Independent Shareholders are concerned.

(c) Promissory Note

Upon Completion, HK$290 million of the Consideration will be satisfied by the Purchaser procuring the Company to issue the Promissory Note in the principal amount of HK$290 million. The Promissory Note has a coupon rate of 1% per annum and a maturity term of 10 years from the date of issue of the Promissory Note. Details of the principal terms of the Promissory Note have been set out in the Board Letter.

In view that the coupon rate of the Promissory Note is lower than the prime rate of Hongkong and Shanghai Bank which was 5% as at the date of the Formal Agreement, we consider the issue of the Promissory Note is in the interest of the Group and the Independent Shareholders as a whole.

5. Financial effect

(i) Net asset value

As reported in the AR 2009, the audited net asset value of the Group as at 31 March 2009 was approximately HK$356.06 million. As set out in Appendix V of the Circular, upon Completion, the unaudited net assets of the Enlarged Group will increase to approximately HK$646.06 million.

(ii) Earnings

In view of the optimistic prospect of the Target Group, we consider that it is a fair expectation that the Proposed Acquisition will have a positive impact on the earnings position of the Group upon Completion.

In light of the enhancement of the net assets and earnings of the Group, we concur with the Directors that the Proposed Acquisition is fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole.

6. Potential dilution effect

The table showing the effect of the Proposed Acquisition on the shareholding structure of the Company has been set out under the section headed "SHAREHOLDING STRUCTURE OF THE COMPANY BEFORE AND AFTER COMPLETION" in the Board Letter.

As shown in the shareholding table, the shareholding of the Independent Shareholders will be decreased from approximately 72.75% to approximately 35.05% immediately upon Completion under the scenario that all the Conversion CP Shares were issued upon Completion.

As set out in the Board Letter, pursuant to the terms and conditions of the CP Shares, holder(s) of the CP Shares shall have the right to convert the CP Shares provided that any conversion of the CP Shares (i) does not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the holder(s) of the CP Shares and parties acting in concert with any of them; and (ii) the public float of the Shares does not fall below the minimum public float requirements stipulated under the GEM Listing Rules or as required by the Stock Exchange (the "**Restrictions**"). As advised by the Company, the shareholding of the Independent Shareholders immediately upon Completion will not be less than 70.00% under the Restrictions.

Having considered the potential dilution of the interest of the Independent Shareholders immediately upon Completion have been significantly be reduced under the Restrictions and the factors and potential benefits from the Proposed Acquisition, in particular,

(i) the Proposed Acquisition will enable the Group to vertically expand its existing business and enhance its revenue;

(ii) the optimistic prospect of the business of the Target Group as supported by the PRC government and the increasing healthcare consciousness in the PRC;

(iii) the existing extensive retail network of Huihao Sihai in Fujian Province, the PRC and the leading position of Huihao Medicine Wholesale Group in the pharmaceutical distributors business in Fujian Province, the PRC;

(iv) the Proposed Acquisition is aligned with the business strategy of the Group as set out in IR 2009;

(v) the PER based on the Guarantee Profit, being 12 times, falls below the mean and within the range of the PERs of the Industry Comparables and in the event that the Net Profit is less than the Guaranteed Profit, the Consideration will be adjusted with the shortfall thereof times 12, being the price earning multiple for determining the Consideration;

(vi) the Issue Price represented a premium over the prevailing market prices around the date of the Formal Agreement;

(vii) the premium represented by the Issue Price over the closing price on the Last Trading Day and the average closing price on the last five trading days immediately prior to the Last Trading Day falls within the LTD Range and the ATD Range respectively;

(viii) the coupon rate of the Promissory Note is lower than the prime rate of Hongkong and Shanghai Bank which was 5% as at the date of the Formal Agreement; and

(ix) the enhancement of the net assets and earnings of the Group,

we consider the potential dilution of the shareholding of the Independent Shareholders is acceptable so far as the Company and the Independent Shareholders are concerned.

B. The Capital Increase

As stated in the Board Letter, as at the Latest Practicable Date, the authorised share capital of the Company is HK$500,000,000 divided into 10,000,000,000 Shares, of which 4,495,111,986 Shares have been issued. To facilitate the issue of the CP Shares and Conversion CP Shares by the Company upon Completion, the Board proposes to increase the authorised share capital of the Company from HK$500,000,000 divided into 10,000,000,000 Shares of HK$0.05 each to HK$1,500,000,000 by the creation of an additional 12,000,000,000 Shares and 8,000,000,000 CP Shares.

Since we are of the view that the Proposed Acquisition is fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole, we consider the Capital Increase which is for the purpose of facilitating the issue of the CP Shares and Conversion CP Shares by the Company upon Completion is in the interest of the Company and the Independent Shareholders as a whole.

RECOMMENDATION

Having considered the above-mentioned principal factors and reasons, we consider (i) the Proposed Acquisition is in the ordinary and usual course of business of the Group; (ii) the terms of the Proposed Acquisition are normal and commercial, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Independent Shareholders as a whole; and (iii) the Capital Increase is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. We would therefore recommend the Independent Shareholders and advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolutions to approve the Proposed Acquisition and the Capital Increase to be proposed at the EGM.

Yours faithfully,
For and on behalf of
Veda Capital Limited

Hans Wong	**Julisa Fong**
Managing Director	*Executive Director*

I. FINANCIAL SUMMARY AND AUDITORS' REPORTS

A summary of the published results, assets and liabilities of the Group for the three years ended 31 March 2007, 31 March 2008 and 31 March 2009 as extracted from the respective annual reports of the Company is set out below.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 March

	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*
Continuing operations			
Turnover	170,087	114,165	33,697
Cost of sales	(72,750)	(39,574)	(3,373)
Gross profit	97,337	74,591	30,324
Other revenue	422	3,351	498
Other income	2,085	6,901	–
Selling and distribution expenses	(19,426)	(5,692)	(408)
Administrative expenses	(50,416)	(35,602)	(19,524)
Impairment loss on goodwill	(202,547)	(30,318)	–
Loss on disposal of subsidiaries	(3,865)	(14,580)	–
Provision for impairment on trade and other receivables	–	–	(67)
Profit/(Loss) from operations	(176,410)	(1,349)	10,823
Finance costs	(1,822)	(3,405)	(909)
Profit/(Loss) before taxation	(178,232)	(4,754)	9,914
Taxation	(12,228)	(6,176)	(1,227)
Profit/(Loss) for the year from continuing operations	(190,460)	(10,930)	8,687
Discontinued operations			
Profit/(Loss) for the year from discontinued operations	–	3,157	(1,818)
Profit/(Loss) for the year	(190,460)	(7,773)	6,869

	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*
Attributable to:			
Equity holders of the Company	(200,548)	(17,891)	5,981
Minority interest	10,088	10,118	888
	(190,460)	(7,773)	6,869
Dividends	–	–	–
(Loss)/Profit per share for (loss)/profit attributable to the equity holders of the Company during the year			
From continuing and discontinued operations			
– basic	HK(10.35) cents	HK(1.06) cents	HK0.93 cents
– diluted	HK(10.35) cents	HK(1.06) cents	HK0.71 cents
From continuing operations			
– basic	HK(10.35) cents	HK(1.24) cents	HK1.22 cents
– diluted	HK(10.35) cents	HK(1.24) cents	HK0.91 cents

CONSOLIDATED BALANCE SHEET

At 31 March

	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment	43,668	31,418	14,654
Prepaid lease payments	28,989	26,880	–
Available-for-sale investments	–	–	143
Goodwill	206,585	298,052	47,372
	279,242	356,350	62,169
Current assets			
Inventories	3,696	2,621	3,897
Trade and other receivables and deposits	18,275	140,819	77,104
Derivative financial instruments	3	514	–
Amount due from an associate	–	2,999	–
Pledged bank deposits	5,255	5,212	5,048
Cash and bank balances	88,506	78,134	24,758
	115,735	230,299	110,807
Total assets	394,977	586,649	172,976
EQUITY:			
Capital and reserves attributable to the Company's equity holders			
Share capital	224,756	89,902	54,105
Reserves	103,067	387,900	77,201
	327,823	477,802	131,306
Minority interests	28,239	26,682	3,421
Total equity	356,062	504,484	134,727

	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*
LIABILITIES			
Current liabilities			
Trade and other payables	30,607	47,323	12,338
Obligations under finance leases due within one year	–	–	297
Amount due to directors	–	–	736
Amounts due to minority shareholders	540	389	15,323
Secured short-term bank loan	–	–	6,000
Convertible notes	6,469	2,388	–
Tax payable	1,118	510	1,227
	38,734	50,610	35,921
Long-term liabilities			
Convertible notes	–	31,374	2,328
Deferred taxation	181	181	–
	181	31,555	2,328
Total liabilities	38,915	82,165	38,249
Total equity and liabilities	394,977	586,649	172,976
Net current assets	77,001	179,689	74,886
Total assets less current liabilities	356,243	536,039	137,055

II. AUDITED FINANCIAL STATEMENTS

Set out below are the audited financial statements together with the relevant notes thereto as extracted from the annual report of the Company for the year ended 31 March 2009.

CONSOLIDATED BALANCE SHEET

At 31 March 2009

	Notes	2009 HK$'000	2008 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	43,668	31,418
Prepaid lease payments	7	28,989	26,880
Goodwill	10	206,585	298,052
		279,242	356,350
Current assets			
Inventories	13	3,696	2,621
Trade and other receivables and deposits	14	18,275	140,819
Derivative financial instruments	15	3	514
Amount due from an associate	8	–	2,999
Pledged bank deposits	32	5,255	5,212
Cash and bank balances	9	88,506	78,134
		115,735	230,299
Total assets		394,977	586,649
EQUITY:			
Capital and reserves attributable to the Company's equity holders			
Share capital	16	224,756	89,902
Reserves		103,067	387,900
		327,823	477,802
Minority interests		28,239	26,682
Total equity		356,062	504,484

	Notes	2009 HK$'000	2008 HK$'000
LIABILITIES			
Current liabilities			
Trade and other payables	18	30,607	47,323
Amounts due to minority shareholders	19	540	389
Convertible notes	20	6,469	2,388
Tax payable		1,118	510
		38,734	50,610
Long-term liabilities			
Convertible notes	20	–	31,374
Deferred taxation	35	181	181
		181	31,555
Total liabilities		38,915	82,165
Total equity and liabilities		394,977	586,649
Net current assets		77,001	179,689
Total assets less current liabilities		356,243	536,039

BALANCE SHEET
At 31 March 2009

	Notes	2009 HK$'000	2008 HK$'000
ASSETS			
Non-current assets			
Interests in subsidiaries	12	377,011	259,739
Current assets			
Prepayment, deposits and other receivables	14	279	26,979
Derivative financial instruments	15	3	514
Cash and bank balances		26,057	63,248
Amounts due from subsidiaries	12	71,314	140,735
		97,653	231,476
Total assets		474,664	491,215
EQUITY:			
Capital and reserves attributable to the Company's equity holders			
Share capital	16	224,756	89,902
Reserves	17	219,611	325,978
Total equity		444,367	415,880
LIABILITIES			
Current liabilities			
Accruals and other payables		550	1,240
Financial guarantee contracts		746	1,074
Convertible notes	20	6,469	2,388
Amounts due to subsidiaries	12	22,351	39,078
		30,116	43,780
Long-term liabilities			
Convertible notes	20	–	31,374
Deferred taxation	35	181	181
		181	31,555
Total liabilities		30,297	75,335
Total equity and liabilities		474,664	491,215
Net current assets		67,537	187,696
Total assets less current liabilities		444,548	447,435

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2009

	Notes	2009 HK$'000	2008 HK$'000
Continuing operations			
Turnover	22	170,087	114,165
Cost of sales		(72,750)	(39,574)
Gross profit		97,337	74,591
Other revenue	22	422	3,351
Other income	24	2,085	6,901
Selling and distribution expenses		(19,426)	(5,692)
Administrative expenses		(50,416)	(35,602)
Impairment loss on goodwill	10	(202,547)	(30,318)
Loss on disposal of subsidiaries	34	(3,865)	(14,580)
Loss from operations	24	(176,410)	(1,349)
Finance costs	27	(1,822)	(3,405)
Loss before taxation		(178,232)	(4,754)
Taxation	28	(12,228)	(6,176)
Loss for the year from continuing operations		(190,460)	(10,930)
Discontinued operations			
Profit for the year from discontinued operations	23	–	3,157
Loss for the year		(190,460)	(7,773)
Attributable to:			
Equity holders of the Company		(200,548)	(17,891)
Minority interest		10,088	10,118
		(190,460)	(7,773)
Dividends	31	–	–
Loss per share for loss attributable to the equity holders of the Company during the year			
From continuing and discontinued operations			
– basic	30	HK(10.35) cents	HK(1.06) cents
– diluted	30	HK(10.35) cents	HK(1.06) cents
From continuing operations			
– basic	30	HK(10.35) cents	HK(1.24) cents
– diluted	30	HK(10.35) cents	HK(1.24) cents

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2009

	Attributable to the equity holders of the Company											
	Share capital HK$'000	Share premium HK$'000	Warrant reserve HK$'000 (Note (c))	Special reserve HK$'000 (Note (a))	Translation reserve HK$'000	Share-based payment reserve HK$'000	Convertible notes reserve HK$'000	Statutory enterprise expansion fund HK$'000	Statutory reserve HK$'000 (Note (b))	Accumulated losses HK$'000	Minority interests HK$'000	Total equity HK$'000
Total equity at 1 April 2007	54,105	152,381	1,837	(38,645)	1,607	5,000	69	149	149	(45,346)	3,421	134,727
Exchange difference on translation of financial statements of overseas subsidiaries	–	–	–	–	10,050	–	–	–	–	–	–	10,050
Net income recognised directly in equity	–	–	–	–	10,050	–	–	–	–	–	–	10,050
Loss for the year	–	–	–	–	–	–	–	–	–	(17,891)	10,118	(7,773)
Total income for the year	–	–	–	–	10,050	–	–	–	–	(17,891)	10,118	2,277
Issue of shares	35,746	278,086	–	–	–	–	–	–	–	–	–	313,832
Issuing expenses	–	(7,840)	–	–	–	–	–	–	–	–	–	(7,840)
Exercise of share options	375	3,450	–	–	–	–	–	–	–	–	–	3,825
Transfer to share premium upon exercise of share options	–	288	–	–	–	(288)	–	–	–	–	–	–
Equity component of convertible notes	–	–	–	–	–	–	25,125	–	–	–	–	25,125
Special reserve arise on acquisition of subsidiaries	–	–	–	31,910	–	–	–	–	–	–	–	31,910
Increase in minority interest resulting from acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	13,143	13,143
Warrant reserve transferred to accumulated losses upon expiry of warrants	–	–	(1,837)	–	–	–	–	–	–	1,837	–	–
Release upon disposal of subsidiaries	–	–	–	–	(10,196)	–	–	(149)	(149)	–	–	(10,494)
Cancellation on repurchase of shares	(324)	(1,196)	–	–	–	–	–	–	–	–	–	(1,520)
Deferred taxation arising from issue of convertible notes	–	–	–	–	–	–	(501)	–	–	–	–	(501)
Lapsed of share option	–	–	–	–	–	(54)	–	–	–	54	–	–
Transfer to reserve	–	–	–	–	–	–	–	–	753	(753)	–	–
Total equity at 31 March 2008 and 1 April 2008	89,902	425,169	–	(6,735)	1,461	4,658	24,693	–	753	(62,099)	26,682	504,484
Exchange difference on translation of financial statements of overseas subsidiaries	–	–	–	–	6,438	–	–	–	–	–	704	7,142
Net income recognised directly in equity	–	–	–	–	6,438	–	–	–	–	–	704	7,142
Loss for the year	–	–	–	–	–	–	–	–	–	(200,548)	10,088	(190,460)
Total loss for the year	–	–	–	–	6,438	–	–	–	–	(200,548)	10,792	(183,318)
Issue of shares	44,952	–	–	–	–	–	–	–	–	–	–	44,952
Bonus issue of shares	89,902	(89,902)	–	–	–	–	–	–	–	–	–	–
Increase in minority interests resulting from acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	4,705	4,705
Dividend paid	–	–	–	–	–	–	–	–	–	–	(13,940)	(13,940)
Release upon redemption of convertible notes	–	–	–	–	–	–	(20,245)	–	–	19,424	–	(821)
Transfer to reserve	–	–	–	–	–	–	–	–	534	(534)	–	–
Total equity at 31 March 2009	224,756	335,267	–	(6,735)	7,899	4,658	4,448	–	1,287	(243,757)	28,239	356,062

Notes:

(a) Included in the special reserve amounting to approximately HK$2,935,000 of the Group represents the difference between the nominal amount of the shares issued by the Company and the aggregate amount of the share capital of a subsidiary acquired pursuant to a group reorganisation in 2001.

The decrease in special reserve amounting to approximately HK$41,580,000 of the Group represents the difference between the fair value and the contracted value of the consideration shares paid for acquisition of subsidiaries during the year ended 31 March 2007.

The increase in special reserve amounting to approximately HK$31,910,000 of the Group represents the difference between the fair value and the contracted value of consideration shares paid for acquisition of subsidiaries during the year ended 31 March 2008.

(b) As stipulated by the relevant PRC laws and regulations, the subsidiaries of the Company established in the PRC shall set aside 10% of its net profit after taxation for the statutory surplus reserve fund (except where the reserve balance has reached 50% of the subsidiaries' paid-up capital). The reserve fund can only be used, upon approval by the board of directors and by the relevant authority, to offset accumulated losses or increase capital.

(c) On 18 May 2006, the Company entered into conditional warrant placing agreements with two independent third parties, Triumph Sky Finance Limited and Happy Woodstock Limited, to issue 103,414,000 warrants at a price of HK$0.02 per warrant for cash consideration by way of a private placement. Each warrant entitles the holder to subscribe for one ordinary share of the Company at an initial subscription price of HK$0.62 (subject to adjustment) from the date of issue to 4 December 2007. Any ordinary shares falling to be issued upon the exercise of the subscription right to the warrants will rank pari passu in all respects with the existing fully paid ordinary shares in issue of the Company on the relevant subscription date. All warrants were expired during the year ended 31 March 2008.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2009

	2009	2008
	HK$'000	*HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before taxation	(178,232)	(1,589)
Adjustments for:		
Interest income	(422)	(2,642)
Interest expenses	1,822	3,465
Impairment loss on goodwill	202,547	30,318
Amortisation of prepaid lease payments	962	727
Depreciation of property, plant and equipment	10,629	6,329
Loss on disposal of property, plant and equipment	10	580
Gain on disposal of subsidiaries	–	(4,634)
Loss on disposal of subsidiaries	3,865	14,580
Provision for impairment of trade and other receivables	1,381	–
Provision for obsolete inventories	–	592
Reversal of trade and other payables	–	(142)
Fair value change in derivative financial instruments	511	–
Derecognition of derivative financial instruments	–	188
Share-based payment expenses	–	–
Operating cash inflows before movements in working capital	43,073	47,772
(Increase)/decrease in inventories	(522)	2,188
Decrease/(increase) in trade and other receivables and deposits	121,373	(92,044)
Decrease/(increase) in amount due from an associate	2,999	(2,999)
Decrease in trade and other payables	(31,274)	(28,876)
Increase/(decrease) in amount due to minority shareholders	149	(3,410)
Decrease in amount due to directors	–	(736)
Net cash generated from/(used in) operations	135,798	(78,105)
Overseas tax paid	(11,620)	(7,221)
Net cash generated from/(used in) operating activities	124,178	(85,326)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	379	2,642
Purchase of property, plant and equipment	(13,636)	(11,858)
Proceeds from disposal of property, plant and equipment	–	–
Net cash outflow from acquisition of subsidiaries	(105,480)	(68,444)
Net cash inflow from disposal of subsidiaries	1,550	12,215
Increase in pledged bank deposits	–	(164)
Dividend paid	(13,940)	–
Net cash used in investing activities	(131,127)	(65,609)

	2009	2008
	HK$'000	*HK$'000*
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	(585)	(1,121)
Proceeds from issue of shares	44,952	218,884
Issue costs of shares	–	(7,840)
Proceeds from exercise of share options	–	3,825
Payment for repurchase of shares	–	(1,520)
Repayment of promissory notes	–	(12,097)
Repayment of finance leases	–	(297)
Redemption of convertible notes	(29,000)	–
Repayment of short-term bank loans	–	(6,000)
Net cash generated from financing activities	15,367	193,834
Net increase in cash and cash equivalents	8,418	42,899
Cash and cash equivalents at the beginning of the year	78,134	24,758
Effect of foreign currency exchange rate changes	1,954	10,477
Cash and cash equivalents at the end of the year	88,506	78,134
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	88,506	78,134

NOTES TO THE FINANCIAL STATEMENTS

31 March 2009

1. Corporate information

The Company was incorporated in the Cayman Islands on 28 May 2001 as an exempted company with limited liability. The shares of the Company are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681 GT George Town, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company in Hong Kong is located at Room 1902, 19/F., Sing Pao Building, No. 101 King's Road, North Point, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars, which is the functional currency of the Company.

The Company acts as in investment holding company while its subsidiaries are principally engaged in provision of general hospital services and healthcare and hospital management services in the PRC.

2. Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 April 2008. A summary of the new HKFRSs are set out as below:

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction

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

The Company has not early adopted the following new HKFRSs that have been issued but are not yet effective. The Company is in the process of assessing the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs will have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

HKFRSs (Amendment)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendment)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combination[3]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[3]

1 *Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.*

2 *Effective for annual periods beginning on or after 1 January 2009.*

3 *Effective for annual periods beginning on or after 1 July 2009.*

4 *Effective for annual periods beginning on or after 1 July 2008.*

5 *Effective for annual periods beginning on or after 1 October 2008.*

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and financial position of the Company.

3. Summary of significant accounting policies

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosure provisions of the GEM Listing Rules of the Stock Exchange and Hong Kong Companies Ordinance.

A summary of significant accounting policies followed by the Group and the Company in the preparation of the financial statements is set out below:

Basis of preparation

The measured basis used in the preparation of the financial statements is historical cost convention and modified by the revaluation of financial assets and liabilities at fair value through profit or loss (including derivative financial instruments), which are carried at fair value.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries for the year ended 31 March 2009. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest 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.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on acquisitions prior to 1 January 2006

Goodwill arising on an acquisition of a subsidiary or a jointly controlled entity for which the agreement date is before 1 January 2006 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary or the relevant jointly controlled entity at the date of acquisition.

For previously, capitalised goodwill arising on acquisitions of subsidiaries, the Group has discontinued amortisation from 1 January 2006 onwards, and such goodwill (net of cumulative amortisation as at 31 December 2006) is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policies below).

Goodwill arising on acquisitions on or after 1 January 2006

Goodwill arising on an acquisition of a subsidiary or an associate for which the agreement date is on or after 1 January 2006 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each assets in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Subsidiaries

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

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Revenue recognition

Revenue from sales of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Revenue from provision of hospital service, healthcare and hospital management service is recognised when the services are provided.

Interest income is recognised on a time-proportion basis using effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Leasing

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance assets are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the consolidated income statement.

Rentals payable under operating leases are charged to the consolidated income statement on a straight-line basis over the terms of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Property, plant and equipment

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

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is provided to write off the cost of property, plant and equipment, using the straight line method, over their estimated useful lives. The principal annual rates are as follows:

Building	Over the lease terms
Leasehold improvements	Over the lease terms
Plant and machinery	20%
Furniture, fixtures and equipment	20% to $33^1/_3$%
Motor vehicles	20%
Office equipment	20%

The gain or loss arising from disposal of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs necessary to make the sale.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision 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 provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the consolidated income statement.

Impairment of assets (other than goodwill, intangible assets with indefinite lives)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable and 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 amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liabilities 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, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of the other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of 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 realised. Deferred tax is charged or credited to consolidated income statement except when it relates to items charged or credited directly or equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the entity intends to settle its current tax assets and liabilities on a net basis.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Group becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated income statement.

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. All regular purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in consolidated income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment losses were recognised, subject to a restriction that the carrying amount of the asset at the date the impairment losses reversed do not exceed what the amortised cost would have been had the impairment losses not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories under HKAS 39. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in consolidated income statement. Any impairment losses on available-for-sale financial assets are recognised in consolidated income statement. Impairment losses on available-for-sale equity investments will not be reversed in subsequent years.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in consolidated income statement when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not be reversed in subsequent years.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost, using the effective interest method.

Convertible bond

Convertible bond issued by the Company that contain both financial liability and equity components are classified separately in respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible bond and the fair value assigned to the liability component, respecting the embedded call option for the holder to convert the bond into equity, is included in equity (convertible bond – equity reserve).

In subsequent periods, the liability component of the convertible bond is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible bond – equity reserve until the embedded option is exercised (in which case the balance stated in convertible bond – equity reserve will be transferred to share capital and share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bond – equity reserve will be released to the retained profits. No gain or loss is recognised in the consolidated income statement upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible bond are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transactions costs relating to the equity component are charged directly to convertible bond – equity reserve. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bond using the effective interest method.

Equity instruments

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

Financial guarantee contract

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of debt instrument. A financial guarantee contract issued by the Company and not designed as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in consolidated income statement.

Financial liabilities are removed from the Group's balance sheet when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in consolidated income statement.

Foreign currencies

i. Functional and presentation currency

Items included in the financial statements of each of the companies now comprising the Group are measured using the currency of the primary economic environment in which the company operates (the "functional currency"). The combined financial statements are presented in Hong Kong dollars, which is the functional and presentation currency of the Company and the Group.

ii. Transactions and balances

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

Translation differences on non-monetary financial assets and liabilities are reported as part of their fair value gain or loss.

iii. Group companies

The results and financial positions of all the companies now comprising the Group (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) Assets and liabilities are translated at the closing rate;

(b) Income and expenses are translated at average exchange rates; and

(c) All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to owners' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

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.

Current assets and liabilities

Current assets are expected to be realised within twelve months of the balance sheet date or in the normal course of the Group's operating cycle. Current liabilities are expected to be settled within twelve months of the balance sheet date or in the normal course of the Group's operating cycle.

Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprises of cash in hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, the amount of a provision is the present value at the balance sheet date of the expenditures expected to be required to settle the obligation.

Employee benefits

i. Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii. Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and to the state-managed retirement benefits schemes for the employees of the Group's overseas entities are recognised as an expense in the consolidated income statement as incurred.

iii. 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.

iv. *Share-based payment expenses*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at the grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

Borrowing costs

Borrowing costs are interests and other costs incurred in connection with the borrowing of funds. All borrowing costs are charged to the consolidated income statement in the period in which the costs are incurred.

Segments reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or 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.

Inter-segment pricing is based on similar terms as those available to other external parties.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment and those that can be allocated on a reasonable basis to that segment. 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.

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

Unallocated items mainly comprise financial and corporate assets, borrowings, corporate and financial expenses, and corporate revenue.

4. Key sources of estimation uncertainty

In the process of applying the Group's accounting policies which are described in note 3, management has made certain key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that may have a significant risk in causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

(a) Estimated impairment of goodwill

The Group performs annual tests on whether there has been impairment of goodwill in accordance with the accounting policy stated in note 3. The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations.

(b) Impairment of trade receivables

The aged debt profile of trade debtors is reviewed on a regular basis to ensure that the trade debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of trade debtor balances are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the consolidated income statement. Changes in the collectability of trade receivables for which provisions are not made could affect our results of operations.

(c) Useful lives of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also perform annual reviews on whether the assumptions made on useful lives continue to be valid.

(d) Impairment of non-current assets

If a triggering event occurs indicating that the carrying amount of an asset may not be recoverable, an assessment of the carrying amount of that asset will be performed. Triggering events include significant adverse changes in the market value of an asset, changes in the business or regulatory environment, or certain legal events. The interpretation of such events requires judgment from management with respect to whether such an event has occurred. Upon the occurrence of triggering events, the carrying amounts of non-current assets are reviewed to assess whether their recoverable amounts have declined below their carrying amounts. The recoverable amount is the present value of estimated net future cash flows which the Group expects to generate from the future use of the asset, plus the assets residual value on disposal. Where the recoverable amount of non-current assets is less than its carrying value, an impairment loss is recognised to write the assets down to its recoverable amount.

(e) Income taxes and deferred taxation

The Group is subject to income taxes in different jurisdictions. Significant judgement is required in determining the provision for income tax. 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.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(f) Measurement of convertible notes

On issuance of convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible note; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in the convertible notes reserve, net of transaction costs. The splitting of the liability and equity components requires an estimation of the market interest rate.

(g) Measurement of fair value of equity-settled transactions

The Company operates share option schemes under which employees (including directors) of the Group receive remuneration in the form of share-based payment transactions. The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted, using assumptions including expected volatility and risk free interest rate. Such cost is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

5. Segment information

Segment information is presented by way of two segments formats: (i) on a primary segment reporting basis, by geographical segment; and (ii) on a secondary segment reporting basis, by business segment.

Geographical segments

The Group's operations are located in Hong Kong and the PRC, representing the basis on which the Group reports its primary segment information. The following table provides an analysis of the Group's geographical segment information.

	Turnover		Results	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Continuing operations				
Hong Kong	–	653	–	(3,741)
PRC	170,087	113,512	(157,118)	12,086
	170,087	114,165	(157,118)	8,345
Discontinued operations				
PRC	–	15,572	–	2,148
Korea	–	6,206	–	1,017
	–	21,778	–	3,165
	170,087	135,943	(157,118)	11,510
Unallocated other revenue			422	3,351
Unallocated other income			2,085	6,901
Unallocated corporate expenses			(21,799)	(19,946)
(Loss)/profit from operations			(176,410)	1,816
Finance costs			(1,822)	(3,405)
Loss before taxation			(178,232)	(1,589)
Taxation			(12,228)	(6,184)
Loss for the year			(190,460)	(7,773)

Consolidated balance sheet

	Segment assets		Segment liabilities	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	41,991	154,894	11,999	24,159
PRC	352,986	431,755	26,916	58,006
	394,977	586,649	38,915	82,165
Unallocated	–	–	–	–
	394,977	586,649	38,915	82,165

Other information

	Capital additions		Depreciation and amortisation	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Continuing operations				
Hong Kong	2,475	–	543	162
PRC	11,161	64,532	11,048	5,371
	13,636	64,532	11,591	5,533
Discontinued operations				
PRC	–	–	–	1,290
Korea	–	–	–	233
	–	–	–	1,523
	13,636	64,532	11,591	7,056

	Loss on disposal of property, plant and equipment		Provision for impairment loss on trade and other receivables	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Continuing operations				
PRC	10	229	1,381	–
Hong Kong	–	–	–	–
	10	229	1,381	–
Discontinued operations				
PRC	–	351	–	–
	10	580	1,381	–

	Impairment of goodwill	
	2009	**2008**
	HK$'000	*HK$'000*
Continuing operations		
PRC	202,547	30,318
Discontinued operations		
Korea	–	–
	202,547	30,318

Business segments

The Group is engaged in: (1) manufacture and sales of environmental protection products; (2) provision of general hospital services; and (3) provision of healthcare and hospital management service. During the year ended 31 March 2008, the Group had disposed its installation, engineering and management of wastewater treatment systems and environmental facilities, provision of environmental analyses and measurement services business and manufacture and sale of melamine and its related products business.

2009

	Manufacture and sales of environmental protection products *HK$'000*	Provision of general hospital services *HK$'000*	Provision of healthcare and hospital management services *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Segment revenue	–	155,719	14,368	–	170,087
Segment assets	–	315,218	37,768	41,991	394,977
Capital additions	–	10,679	482	2,475	13,636

2008

	Continuing operations			Discontinued operations			
	Manufacture and sales of environmental protection products *HK$'000*	Provision of general hospital services *HK$'000*	Provision of healthcare and hospital management services *HK$'000*	Installation, engineering and management of wastewater treatment systems and environmental facilities, provision of environmental analyses and measurement related products *HK$'000*	Manufacture and sales of melamine and its related products *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Segment revenue	653	67,759	45,753	6,206	15,572	–	135,943
Segment assets	1,674	402,846	14,119	–	–	168,010	586,649
Capital additions	–	64,532	–	–	–	–	64,532

6. Property, plant and equipment

The Group

	Building HK$'000	Furniture and fixtures HK$'000	Leasehold improvements HK$'000	Machinery and equipment HK$'000	Motor vehicles HK$'000	Office equipment HK$'000	Total HK$'000
Cost							
At 1 April 2007	–	1,205	1,425	12,898	2,122	3,027	20,677
Additions	–	1,340	3,010	3,702	2,948	858	11,858
On acquisition of subsidiaries	4,802	1,492	7,742	15,521	1,142	1,818	32,517
Disposals of subsidiaries	–	(1,390)	(792)	(14,001)	(1,253)	(1,878)	(19,314)
Exchange difference	–	510	(60)	742	127	14	1,333
Disposals	–	(302)	–	–	(490)	–	(792)
At 31 March 2008 and at 1 April 2008	4,802	2,855	11,325	18,862	4,596	3,839	46,279
Additions	–	69	2,916	5,619	3,288	1,744	13,636
On acquisition of subsidiaries	–	17	1,279	5,438	775	1,090	8,599
Disposals of subsidiaries	–	–	(1,247)	(946)	–	(174)	(2,367)
Exchange difference	548	299	1,021	1,556	479	226	4,129
Disposals	–	(12)	–	–	–	–	(12)
At 31 March 2009	5,350	3,228	15,294	30,529	9,138	6,725	70,264
Depreciation and impairment							
At 1 April 2007	–	759	712	1,511	675	2,366	6,023
On acquisition of subsidiaries	36	777	1,819	4,213	559	918	8,322
Disposals of subsidiaries	–	(869)	(608)	(2,887)	(259)	(1,264)	(5,887)
Provided for the year	139	445	900	4,032	516	297	6,329
Written back on disposals	–	(73)	–	–	(139)	–	(212)
Exchange difference	–	13	5	246	19	3	286
At 31 March 2008 and at 1 April 2008	175	1,052	2,828	7,115	1,371	2,320	14,861
On acquisition of subsidiaries	–	1	306	392	31	75	805
Disposals of subsidiaries	–	–	(538)	(375)	–	(64)	(977)
Provided for the year	161	628	1,916	5,400	1,565	959	10,629
Written back on disposals	–	(2)	–	–	–	–	(2)
Exchange difference	19	102	254	709	87	109	1,280
At 31 March 2009	355	1,781	4,766	13,241	3,054	3,399	26,596
Net book values							
At 31 March 2009	4,995	1,447	10,528	17,288	6,084	3,326	43,668
At 31 March 2008	4,627	1,803	8,497	11,747	3,225	1,519	31,418

The building was held outside Hong Kong under medium term lease.

7. Prepaid lease payments

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
The Group's prepaid lease payments comprise:		
Land outside Hong Kong under medium term lease	29,961	27,752
Analysed for reporting purposes as:		
Current assets (include in trade and other receivables and deposits)	972	872
Non-current assets	28,989	26,880
	29,961	27,752

8. Interest in associates

	2009	**2008**
	HK$'000	*HK$'000*
Unlisted shares, at cost	–	–

	2009	**2008**
	HK$'000	*HK$'000*
Amount due from an associate	–	2,999

The amount due from an associate was unsecured, interest free and has no fixed terms of repayment.

Particulars of the Group's principal associates at 31 March 2008 are as follows:–

Name of associate	Place of incorporation/ registration	Percentage of equity interest attributable to the Group	Issued and fully paid share capital or registered capital	Principal activities
United First Investment Limited	British Virgin Islands	40%	100 shares of US$1 each	Provision of dental services
福建康華企業管理咨詢有限公司	PRC	40%	HK$5,500,000	Dormant

The summarised financial information in respect of the Group's associates is set out below:

	2009	2008
	HK$'000	*HK$'000*
Total assets	–	7,894
Total liabilities	–	(7,615)
Net assets	–	279
Group's share of net assets of associates	–	–
Turnover	–	–
Loss for the year	–	(32)
Group's share of result of associates for the year	–	–

9. Cash and bank balances

As at 31 March 2009, the cash and bank balances of the Group included currencies denominated in Renminbi ("RMB") amounted to approximately HK$54,032,000 (2008: HK$14,308,000) which is not freely convertible into other currencies.

10. Goodwill

	The Group
	HK$'000
Cost	
At 1 April 2007	37,741
Arising from acquisition of subsidiaries during the year	309,576
Disposal of subsidiaries	(17,054)
At 31 March 2008	330,263
Arising from acquisition of subsidiaries during the year	114,945
Disposal of subsidiaries	(3,865)
At 31 March 2009	441,343
Impairment	
At 1 April 2007	1,893
Impairment loss recognised	30,318
At 31 March 2008	32,211
Impairment loss recognised	202,547
At 31 March 2009	234,758
Carrying value	
At 31 March 2009	206,585
At 31 March 2008	298,052

Notes:

During the year ended 31 March 2009, the Group assessed the recoverable amount of goodwill, and determined that goodwill associated with the Group's provision of general hospital and healthcare services in PRC was impaired by approximately HK$202,547,000. The recoverable amount of the operations was assessed by reference to value in use. A discount factor of 13.29% per annum was applied in the value in use model.

During the year ended 31 March 2009, the Group disposed of the entire issued share capital of a subsidiary, United First Investment Limited *(Note 34)*, which was one of the cash generating units of the Group's provision of healthcare services.

Particulars regarding impairment testing on goodwill are disclosed in Note 11 to the financial statements.

11. Impairment testing on goodwill

For the purpose of impairment testing, goodwill set out in Note 10 has been allocated to the following cash generating units (CGUs). The carrying amount of goodwill (net of accumulated impairment losses) as at 31 March 2009 is allocated as follows:

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Provision of hospital services in PRC	206,585	298,052

Provision of general hospital services in PRC

The recoverable amount of this CGU is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five year period, and a discount rate of 13.29% per annum. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of this CGU. Management determined the budgeted gross margin based on past performance and its expectations for the market development.

12. Interests in subsidiaries

	The Company	
	2009	**2008**
	HK$'000	*HK$'000*
Unlisted shares, at costs	377,011	261,266
Less: Impairment in value	–	(1,527)
	377,011	259,739
Advance to a subsidiary	–	13,000
Less: Impairment loss recognised on advance to a subsidiary	–	(13,000)
	–	–
	377,011	259,739

The advance to a subsidiary is unsecured, interest free and has no fixed terms of repayment.

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

Details of the Company's principal subsidiaries at 31 March 2009 are set out in Note 42 to the financial statements.

13. Inventories

	The Group	
	2009	2008
	HK$'000	*HK$'000*
Finished goods	3,696	3,213
Less: Provision for obsolete inventories	–	(592)
	3,696	2,621

14. Trade and other receivables and deposits

	The Group		The Company	
	2009	2008	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	2,135	6,625	–	–
Deposits paid under a conditional sale and purchase agreement	–	68,600	–	–
Deposits paid	181	19,604	170	685
Prepayments	13,228	10,406	108	124
Prepaid lease payments	972	872	–	–
Other receivables	1,759	34,712	1	26,170
	18,275	140,819	279	26,979

Payment terms with customers from the manufacture and sales of environmental protection products are mainly on credit together with deposits and receivable by instalments basis. Invoices are normally payable from 30 to 90 days of issuance, except for certain well established customers and receivables by instalment basis where it is normally payable from 1 to 3 years of issuance. Payments terms with customers from general hospital and healthcare and hospital management services are normally payable from 0 to 30 days. The following is an aged analysis of trade receivables at the balance sheet date:

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
0 to 90 days	1,382	5,761
91 to 180 days	542	381
181 to 365 days	106	–
Over 365 days	1,701	698
	3,731	6,840
Less: Allowance for doubtful debts	(1,596)	(215)
	2,135	6,625

Movements in the allowance for doubtful debts

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
At 1 April	215	991
Amounts written off as uncollectible	–	(776)
Impairment losses recognised on receivables	1,381	–
At 31 March	1,596	215

Ageing of impaired trade receivables

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Over 365 days	1,596	215

15. Derivative financial instruments

The Group and the Company

	Redemption option contract
	HK$'000
At 1 April 2007	–
Arising on issuance of convertible notes for acquisition of subsidiaries *(Note (a))*	514
Arising on issuance of promissory notes for acquisition of subsidiaries *(Note (b))*	188
Derecognised upon repayment of promissory notes	(188)
At 31 March 2008 and at 1 April 2008	514
Fair value changes	(511)
At 31 March 2009	3

Notes:

(a) Pursuant to the agreement in relation to the issuance of convertible notes of HK$33,000,000 as consideration of acquisition of the entire issued share capital of Hero Vision Enterprises Limited, a redemption option is held by the Company. The Company may at any time six months from the date of issue of the convertible notes up to the date immediately before the maturity date of the convertible notes, redeem the convertible notes (in whole or in part) at the principal amount of the convertible note to be redeemed.

(b) Pursuant to the agreement in relation to the issuance of promissory notes of HK$12,097,360 as consideration of acquisition of the entire issued share capital of Hero Vision Enterprises Limited, a redemption option is held by the Company. The Company may at any time three months from the date of issue of the promissory notes up to the date immediately before the maturity date of the promissory notes, redeem the promissory notes (in whole or in part) at the principal amount of the promissory note to be redeemed. The promissory note was redeemed during the year ended 31 March 2008.

(c) The fair values of derivative financial instruments are determined in accordance with generally accepted pricing model. The fair values are estimated using Black-Scholes option pricing model.

16. Share capital

	Number of ordinary share	Amount
		HK$'000
Authorised:		
Ordinary shares of HK$0.05 each		
– at 1 April 2007, 31 March 2008 and 1 April 2008	5,000,000,000	250,000
– increase in authorised share capital *(Note (a))*	5,000,000,000	250,000
Ordinary shares of HK$0.05 each		
– at 31 March 2009	10,000,000,000	500,000
Issued and fully paid:		
Ordinary shares of HK$0.05 each		
– at 1 April 2007	1,082,097,200	54,105
– issue of new share on subscription *(Note (b),(c),(d),(e))*	714,927,595	35,746
– exercise of share options *(Note 21)*	7,500,000	375
– repurchase of shares *(Note (f))*	(6,480,000)	(324)
– at 31 March 2008 and 1 April 2008	1,798,044,795	89,902
– issue of new share on subscription *(Note (g))*	899,022,397	44,952
– bonus issue of shares *(Note (g))*	1,798,044,794	89,902
– at 31 March 2009	4,495,111,986	224,756

Notes:

(a) Pursuant to the ordinary resolution passed by the shareholders in the special general meeting held on 16 February 2009, the authorised share capital of the Company increased from HK$250,000,000 divided into 5,000,000,000 Shares of HK$0.05 each to HK$500,000,000 divided into 10,000,000,000 Shares of HK$0.05 each.

(b) On 13 March 2007, the Company entered into a placing agreement with the placing agent in relation to the placing of 200,000,000 shares at an issue price of HK$0.352 per share. The placing was completed on 24 April 2007. The net proceeds from the placing of approximately HK$68,359,000 will be used for partial payment of the consideration of the acquisition of Hero Vision Enterprises Limited ("Hero Vision"), future business development of the Group and general working capital of the Group. For further details, please refer to the Company's announcements dated 20 March 2007 and 24 April 2007 respectively.

(c) On 9 May 2007, a wholly owned subsidiary of the Group, Wisdom Rise Group Limited ("Wisdom Rise"), acquired the entire issued share capital of Hero Vision for a consideration of approximately HK$157,300,000 and part of the consideration of HK$59,952,640 was settled by issue of 170,320,000 ordinary shares of HK$0.05 each in the share capital of the Company, which were allotted, issued and credited as fully paid at the price of HK$0.352 each.

(d) On 15 May 2007, the Company entered into a subscription agreement in relation to the subscription of 256,000,000 shares at an issue price of HK$0.58 per share. The subscription was completed on 28 May 2007. The net proceeds from the placing of approximately HK$143,258,000 will be used for future investment in healthcare section in PRC and general working capital of the Group. For further details, please refer to the Company's announcements dated 17 May 2007 and 28 May 2007 respectively.

(e) On 8 October 2007, a wholly owned subsidiary of the Group, Mega Mix Group Limited ("Mega Mix"), acquired the entire issued share capital of Merry Sky Investments Limited ("Merry Sky"), loan from shareholders and subscription of 8,999 shares of Merry Sky for a consideration of approximately HK$80,850,000 and part of the consideration of HK$35,000,000 was settled by issue of 88,607,595 ordinary shares of HK$0.05 each in the share capital of the Company, which were allotted, issued and credited as fully paid at the price of HK$0.395 each.

(f) During the year ended 31 March 2008, the Company repurchased its own shares through the Stock Exchange of Hong Kong Limited as follows:

Date of repurchase	No. of ordinary shares at HK$0.05 each	Price per share Highest	Price per share Lowest	Aggregate consideration paid
	'000	*HK$*	*HK$*	*HK$'000*
13 November 2007	420	0.2650	0.2650	111
22 November 2007	1,420	0.2600	0.2500	362
26 November 2007	480	0.2500	0.2500	120
27 November 2007	300	0.2460	0.2450	74
28 November 2007	360	0.2500	0.2400	89
29 November 2007	200	0.2500	0.2500	50
6 December 2007	140	0.2470	0.2460	35
10 December 2007	460	0.2340	0.2300	107
11 December 2007	100	0.2300	0.2300	23
13 December 2007	400	0.2270	0.2260	91
14 December 2007	300	0.2140	0.2140	64
21 December 2007	100	0.2230	0.2230	22
24 December 2007	200	0.2500	0.2500	50
11 January 2008	300	0.2060	0.2060	62
14 January 2008	100	0.2040	0.2040	20
15 January 2008	1,200	0.2001	0.2001	240

The above shares were cancelled upon repurchase. None of the Company's subsidiaries repurchased, sold or redeemed any of the Company's listed shares during the year ended 2008.

(g) On 12 March 2009, the Company issued 899,022,397 offer shares by an open offer at a subscription price of HK$0.05 per offer share on the basis of one offer share for every two shares held on record date and 1,789,044,794 bonus shares in the proportion of two bonus shares for every offer share taken up under the open offer. The proceeds of approximately HK$44,952,000 will be used to finance future investments in the promising healthcare sector in the PRC, business development of the Group and towards general working capital.

All the shares issued during the year rank pari passu with the then existing shares in all respects.

17. Reserves

The Company

	Share premium HK$'000	Share-based payment reserve HK$'000	Warrant reserve HK$'000	Contributed surplus HK$'000	Convertible notes reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2007	152,381	5,000	1,837	1,452	69	(106,706)	54,033
Premium arising on issue of shares	278,086	–	–	–	–	–	278,086
Issuing expenses	(7,840)	–	–	–	–	–	(7,840)
Equity component of convertible notes	–	–	–	–	25,125	–	25,125
Premium arising on exercise of share options	3,450	–	–	–	–	–	3,450
Transfer to share premium upon exercise of share option	288	(288)	–	–	–	–	–
Warrant reserve transferred to accumulated losses upon expiry of warrants	–	–	(1,837)	–	–	1,837	–
Deferred taxation arising from issue of convertible notes	–	–	–	–	(501)	–	(501)
Cancellation on repurchase of shares	(1,196)	–	–	–	–	–	(1,196)
Lapsed of share option	–	(54)	–	–	–	54	–
Loss for the year	–	–	–	–	–	(25,179)	(25,179)
At 31 March 2008 and 1 April 2008	425,169	4,658	–	1,452	24,693	(129,994)	325,978
Bonus issue of shares	(89,902)	–	–	–	–	–	(89,902)
Release upon redemption of convertible notes	–	–	–	–	(20,245)	19,424	(821)
Loss for the year	–	–	–	–	–	(15,644)	(15,644)
At 31 March 2009	335,267	4,658	–	1,452	4,448	(126,214)	219,611

(a) The contributed surplus of the Company represents the difference between the aggregate net assets of the subsidiaries acquired by the Company under the group reorganisation in 2001 and the nominal amount of the Company's shares issued for the acquisition.

(b) On 18 May 2006, the Company entered into conditional warrant placing agreements with two independent third parties, Triumph Sky Finance Limited and Happy Woodstock Limited, to issue 103,414,000 warrants at a price of HK$0.02 per warrant for cash consideration by way of a private placement. Each warrant entitles the holder to subscribe for one ordinary share of the Company at an initial subscription price of HK$0.62 (subject to adjustment) from the date of issue to 4 December 2007. Any ordinary shares falling to be issued upon the exercise of the subscription right to the warrants will rank pari passu in all respects with the existing fully paid ordinary shares of the Company. All warrants were expired during the year ended 31 March 2008.

(c) The Company had distributable reserves of approximately HK$209,053,000 as at 31 March 2009 (2008: HK$295,175,000). Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium account of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debt as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends shall be distributed out of the retained profits or other reserves, including the share premium account, of the Company.

18. Trade and other payables

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Trade payables	12,453	21,919
Accruals and other payables	18,154	25,404
	30,607	47,323

The following is an aged analysis of trade payables at the balance sheet date:

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
0 to 90 days	5,687	4,192
91 to 180 days	6,271	17,421
181 to 365 days	82	–
Over 365 days	413	306
	12,453	21,919

19. Amounts due to minority shareholders

Amounts due to minority shareholders are unsecured, interest free and have no fixed terms of repayment.

20. Convertible notes

(a) On 25 November 2005, the Company entered into a placing agreement with an independent placing agent, Hantec Capital Limited (the "Placing Agent"), to place on a best endeavours basis of certain unsecured convertible notes in the aggregate principal amount of more than HK$15,000,000 and up to HK$20,000,000 to placees (the "Placing Agreement").

On 11 January 2006, completion of the Placing Agreement took place. An aggregate principal amount of HK$18,000,000 (the "Convertible Notes 1") have been placed through the Placing Agent and issued by the Company to 13 independent placees (the "Notes Holder"). The Convertible Notes 1 matures at the third anniversary of the issue date.

The Convertible Notes 1, if fully subscribed for and issued, are convertible into a total of approximately 67,164,179 new ordinary shares of the Company at the initial conversion price of HK$0.268 per ordinary share (subject to adjustments).

On 11 April 2006, the Company completed the issue of 172,465,166 rights shares. Pursuant to the terms of the Convertible Notes 1, the conversion prices of the Convertible Notes 1 were adjusted accordingly. The new conversion price per share and the number of conversion shares after the rights issue subject to the Convertible Notes 1 was 86,956,521 shares exercisable at HK$0.207 each.

On 16 February 2007, the Company completed the open offer of 355,523,083 offer shares. Pursuant to the terms of the Convertible Notes 1, the conversion prices of the Convertible Notes 1 were adjusted accordingly. The new conversion price per share and the number of conversion shares after the open offer subject to the Convertible Notes 1 was 33,816,425 shares exercisable at HK$0.161 each.

The Convertible Notes 1 contains two components, liability and equity elements. The equity element is presented in equity heading "Convertible notes reserve". The effective interest rate of the liability component is 6.73%.

The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, was included in shareholders' equity in convertible notes reserve.

The Convertible Notes 1 recognised in the balance sheet was calculated as follows:

	The Group and the Company *HK$'000*
Face value of Convertible Notes 1 issued on 11 January 2006	18,000
Equity component	(499)
Liability component on initial recognition at 11 January 2006	17,501
Transaction costs	(827)
Amortised cost on initial recognition 11 January 2006	16,674
Interest expense	246
Interest payable	(158)
Amortised cost at 31 March 2006 and at 1 April 2006	16,762
Interest expense	623
Interest payable	(406)
Converted into Company's shares	(14,651)
Amortised cost at 31 March 2007 and at 1 April 2007	2,328
Interest expense	160
Interest payable	(100)
Amortised cost at 31 March 2008 and at 1 April 2008	2,388
Interest expense	191
Interest payable	(79)
Repayment upon maturity	(2,500)
Amortised cost at 31 March 2009	–

Convertible Notes 1 were fully repaid during the year ended 31 March 2009.

Interest expense on the convertible notes is calculated using the effective interest method by applying the effective interest rate of 6.73% to the liability component.

(b) On 9 May 2007, the Group acquired the entire issued share capital of Hero Vision at a consideration of HK$157,300,000, the consideration of HK$33,000,000 were satisfied by the issue of convertible notes (the "Convertible Notes 2"). The Convertible Notes 2 matures at the second anniversary of the issue date.

The Convertible Notes 2, if fully subscribed for and issued, are convertible into a total of approximately 93,750,000 new ordinary shares of the Company at the initial conversion price of HK$0.352 per ordinary share (subject to adjustments).

On 12 March 2009, the Company completed the Open Offer. Pursuant to the terms of the Convertible Notes 2, the conversion prices of the Convertible Notes 2 were adjusted accordingly. The new conversion price per share after the Open Offer was HK$0.211 per ordinary share.

The Convertible Notes 2 contains three components, redemption option, liability and equity elements. The equity element is presented in equity heading "Convertible notes reserve". The effective interest rate of the liability component is 6.816%.

The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, was included in shareholders' equity in convertible notes reserves.

The Convertible Notes 2 recognised in the balance sheet was calculated as follows:

	The Group and the Company
	HK$'000
Fair value of Convertible Notes 2 issued on 9 May 2007	54,750
Less: Derivative financial instruments	514
Equity component	(25,125)
Liability component on initial recognition and amortised cost at 9 May 2007	30,139
Interest expense	1,828
Interest payable	(593)
Amortised cost at 31 March 2008 and at 1 April 2008	31,374
Interest expense	1,631
Interest payable	(506)
Redemption during the year	(26,030)
Amortised cost at 31 March 2009	6,469

As at 31 March 2009, the outstanding principal amount of Convertible Note 2 was HK$6,500,000 and principal amount of HK$26,500,000 was repaid during the year ended 31 March 2009.

Interest expense on the convertible notes is calculated using the effective interest method by applying the effective interest rate of 6.816% to the liability component.

21. Share option scheme

(a) Pre-listing share options

Pursuant to the pre-listing share option scheme adopted by the Company on 20 April 2002, the Company may grant options at HK$1 per offer to any directors, employees, consultants, and advisors of the Company or its subsidiaries, for the primary purpose of providing incentives to them, to subscribe for shares in the Company. All of these options have duration of 10 years from and including 10 May 2002 subject to the terms of the scheme.

Details of the movements in the number of share options during the year under the Company's pre-listing share options scheme which are exercisable in three equal trenches from 10 November 2002, 10 May 2003 and 10 May 2004, respectively, to 9 May 2012 at an exercise price of HK$0.245 (2008: HK$0.409) per share are as follows:

	Number of share options			
Type of participants	**Outstanding at 31 March 2008**	**Adjustment during the year** *(Note)*	**Outstanding at 31 March 2009**	**Date of grant**
Advisor	821,293	549,763	1,371,056	25 April 2002
Former employees	547,529	362,785	910,314	25 April 2002
Total	1,368,822	912,548	2,281,370	

(b) Post-listing share options

Pursuant to the post-listing share option scheme also adopted by the Company on 20 April 2002, the Company may grant options at HK$1 per offer to any directors, employees, any supplier of goods or services, any customers, any person or entity that provides research, development or other technical support or any shareholder of the Group or any investee or any holder of any securities issued by any member of the Group or any investee, for the primary purpose of providing incentives to them, to subscribe for shares in the Company. The total number of shares in respect of which options may be granted under the post-listing share option scheme shall not exceed 10% of the issued share capital of the Company from time to time. No participant shall be granted an option, if exercise in full, would result in the total number of shares already issued under all the options granted to him or her that are for the time being subsisting and unexercised in any 12-month period would exceed 1% of the total number of shares in issue. The exercise price of the share will be determined at the higher of the average of closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options; the closing price of the shares on the Stock Exchange on the date of grant; and the nominal value of the shares. The share options are exercisable for a period not later than 10 years from the date of grant.

Details of the movements in the number of share options during the year are as follows:

Type of participants	Outstanding at 31 March 2008	Granted during the year	Exercised during the year	Adjustment during the year	Lapsed during the year	Outstanding at 31 March 2009	Date of grant	Exercise price per share	Exercise period
	Number of share options								
Directors									
Mr. Yung Kwok Leong	3,242,085	–	–	2,164,264	–	5,406,349	13 July 2006	HK$0.376	13 July 2006 to 12 July 2016
	5,800,000	–	–	3,866,667	–	9,666,667	21 March 2008	HK$0.306	21 March 2007 to 22 March 2017
	–	17,000,000	–	–	–	17,000,000	30 March 2009	HK$0.05	30 March 2009 to 29 March 2019
Ms. Shum Ngai Pan	3,705,240	–	–	2,473,444	–	6,178,684	13 July 2006	HK$0.376	13 July 2006 to 12 July 2016
	7,100,000	–	–	4,733,333	–	11,833,333	21 March 2008	HK$0.306	21 March 2007 to 22 March 2017
	–	15,000,000	–	–	–	15,000,000	30 March 2009	HK$0.05	30 March 2009 to 29 March 2019
Mr. Zheng Gang	–	17,000,000	–	–	–	17,000,000	30 March 2009	HK$0.05	30 March 2009 to 29 March 2019
Mr. Chen Jin Shan	6,881,160	–	–	4,593,540	–	11,474,700	13 July 2006	HK$0.376	13 July 2006 to 12 July 2016
	3,900,000	–	–	2,600,000	–	6,500,000	21 March 2008	HK$0.306	21 March 2007 to 22 March 2017
	–	17,000,000	–	–	–	17,000,000	30 March 2009	HK$0.05	30 March 2009 to 29 March 2019
Dr. Jiang Tao	6,881,160	–	–	4,593,540	–	11,474,700	13 July 2006	HK$0.376	13 July 2006 to 22 March 2016
	3,900,000	–	–	2,600,000	–	6,500,000	21 March 2008	HK$0.306	21 March 2007 to 22 March 2017
	–	8,000,000	–	–	–	8,000,000	30 March 2009	HK$0.05	30 March 2009 to 29 March 2019
	41,409,645	74,000,000	–	27,624,788	–	143,034,433			
Employees	18,989,355	–	–	7,127,462	–	26,116,817	13 July 2006	HK$0.376	13 July 2006 to 12 July 2016
	16,475,085	–	–	10,652,565	–	27,127,650	24 July 2006	HK$0.372	24 July 2006 to 23 July 2016
	71,800,000	–	–	47,866,667	–	119,666,667	21 Mar 2008	HK$0.306	21 March 2007 to 22 Mar 2017
	–	97,000,000	–	–	–	97,000,000	30 March 2009	HK$0.05	30 March 2009 to 29 March 2019
	148,674,085	171,000,000	–	93,271,482	–	412,945,567			

Notes:

(i) The Group recognises the fair value of share options granted as an expense in the consolidated income statement when they were granted with a corresponding increase being recognised in share-based payment reserve. The employee share-based payment reserve is transferred to share capital and share premium, together with the exercise price, when the option holder exercises its rights. As a transitional provision, the cost of share option granted after 7 November 2002 and had not yet vested on 1 January 2005 were expensed retrospectively in the income statement of the respective periods.

(ii) Share options granted under the pre-listing share options scheme are not expensed as the options were all granted and vested before 7 November 2002 and not subject to requirements of HKFRS 2.

(iii) The estimated fair value of each option granted on 7 July 2005, 13 July 2006, 24 July 2006, 21 March 2008 and 30 March 2009 are approximately HK$0.0299, HK$0.0226, HK$0.0188, HK$0.0384 and range from HK$0.123 to HK$0.021 respectively.

The fair values were calculated using the Binomial Option pricing model. The inputs into the model were as follows:

	Share options grant date				
	7 July	**13 July**	**24 July**	**21 March**	**30 March**
Date of grant	**2005**	**2006**	**2006**	**2007**	**2009**
Stock asset price	HK$0.102	HK$0.83	HK$0.82	HK$0.51	HK$0.03
Exercise price	HK$0.079	HK$0.627	HK$0.62	HK$0.51	HK$0.05
Expected volatility	10.23%	57.06%	44.89%	119.62%	100.13%
Expected life	10 years	0.25 years	0.25 years	0.25 years	0.25 years
Risk-free rate	3.130%	3.984%	3.830%	3.682%	1.62%
Expected dividend yield	0%	0%	0%	0%	0%

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily prices over the one year immediately preceding the grant date. The above calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares set out as above.

Because the Binomial Option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

(iv) On 12 March 2009, the Company completed the open offer. Pursuant to the terms of the pre-listing and post-listing share options schemes, the exercise prices of the share options were adjusted accordingly. The new exercise price per share and the number of shares subject to the outstanding share options after the open offer under the pre-listing and post-listing share option schemes are 2,281,370 shares exercisable at HK$0.245 each and 60,651,250 shares exercisable at HK$0.376 each (granted on 13 July 2006), 27,127,650 shares exercisable at HK$0.372 each (granted on 24 July 2006) and 154,166,667 shares exercisable at HK$0.306 (granted on 21 March 2007) respectively.

(v) As at 31 March 2009, 241,945,567 share options are exercisable.

(vi) In accordance with the term's of share-based arrangement, the share options granted on 30 March 2009 are exercisable in the following manner:

(a) up to 40% of the share options granted to each grantee shall be exercisable on or after 30 September 2009 to 30 March 2010;

(b) up to further 30% of the share options granted to each grantee shall be exercisable on or after 31 March 2010 to 30 March 2011; and

(c) all the remaining 30% of the share options granted to each grantee shall be exercisable on or after 31 March 2011 to 30 March 2012, and in each case, not later than 29 March 2019.

22. Turnover and revenue

Turnover represents the aggregate of the net amounts received and receivable from third parties in connection with the manufacture and sales of environmental protection products, provision of general hospital services and healthcare and hospital management services. An analysis of the Group's turnover and other revenue, for both continuing and discontinued operations, is as follows:–

	2009	**2008**
	HK$'000	*HK$'000*
Continuing operations		
Turnover:		
Manufacture and sales of environmental protection products	–	653
Provision of general hospital services	155,719	67,759
Provision of healthcare and hospital management services	14,368	45,753
	170,087	114,165
Discontinued operations		
Turnover:		
Manufacture and sales of melamine and its related products	–	15,572
Installation, engineering and management of wastewater treatment systems and environmental facilities, provision of environmental analyses and measurement services	–	6,206
	–	21,778
	170,087	135,943
Continuing operations		
Other revenue:		
Interest income	422	2,555
Sundry income	–	796
	422	3,351
Discontinued operations		
Other revenue:		
Interest income	–	87
	422	3,438

23. Discontinued operations

(a) Disposal of installation, engineering and management of wastewater treatment systems and environmental facilities, provision of environmental analyses and measurement services business

On 31 October 2007, the Company entered into a sale agreement to dispose of the Group's installation, engineering and management of wastewater treatment systems and environmental facilities, provision of environmental analyses and measurement services business. The disposal was completed on 12 December 2007.

(b) Disposal of manufacture and sale of melamine and its related products business

On 15 February 2008, the Company entered into a sale agreement to dispose of the Group's manufacture and sale of melamine and its related products business. The disposal was completed on 28 March 2008.

	2009	**2008**
	HK$'000	*HK$'000*
Loss for the year from discontinued operations		
Revenue	–	21,865
Expenses	–	(23,334)
Loss before taxation	–	(1,469)
Taxation	–	(8)
	–	(1,477)
Gain on disposal of operations (including approximately HK$6,491,000 reversal of translation reserve on disposal of subsidiaries)	–	4,634
Profit for the year from discontinued operations	–	3,157
Cash flows from discontinued operations		
Net cash flows from operating activities	–	73,758
Net cash flows from investing activities	–	(327)
Net cash flows from financing activities	–	(149)
Net cash flows	–	73,282

24. Loss from operations

Loss from operations has been arrived at after charging:

	Continuing operations		Discontinued operations		Consolidated	
	2009	2008	2009	2008	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Directors' remuneration *(Note 25)*	2,380	2,004	–	–	2,380	2,004
Other staff's retirement benefits scheme contributions	2,604	88	–	–	2,604	88
Other staff costs	11,637	7,831	–	2,449	11,637	10,280
	16,621	9,923	–	2,449	16,621	12,372
Auditors' remuneration	1,048	880	–	–	1,048	880
Provision for impairment losses of trade and other receivables	1,381	–	–	–	1,381	–
Provision for obsolete inventories	–	592	–	–	–	592
Cost of goods sold	–	473	–	17,784	–	18,257
Amortisation of prepaid lease payments	962	727	–	–	962	727
Depreciation of property, plant and equipment owned by the Group	10,629	4,806	–	1,523	10,629	6,329
Loss on disposal of property, plant and equipment	10	229	–	351	10	580
Operating lease rentals in respect of land and buildings	6,211	2,315	–	–	6,211	2,315
Derecognition of derivative financial instruments	–	188	–	–	–	188
Loss on disposal of subsidiaries	3,856	14,580	–	–	3,856	14,580
and after crediting:						
Other income:						
Gain on disposal of subsidiaries	–	–	–	4,634	–	4,634
Net exchange gain	2,085	6,759	–	–	2,085	6,759
Reversal of trade and other payables	–	142	–	–	–	142
	2,085	6,901	–	4,634	2,085	11,535

25. Directors' remuneration

The remuneration of every director for the year ended 31 March 2009 and 2008 are set out below:

	Fees		Salaries and other benefits		Performance related incentive payments		Retirement benefits scheme contributions		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors										
Yung Kwok Leong	–	–	708	708	–	–	12	12	720	720
Sham Ngai Pan (appointed on 25 April 2006)	–	–	171	171	–	–	9	9	180	180
Weng Jiaxing (resigned on 1 August 2007)	–	–	–	31	–	–	–	1	–	32
Chen Jin Shan (appointed on 25 April 2006)	–	–	60	60	–	–	–	–	60	60
Jiang Tao (appointed on 3 January 2007)	–	–	360	215	–	–	–	–	360	215
Zheng Gang (appointed on 1 August 2007)	–	–	748	489	–	–	12	8	760	497
	–	–	2,047	1,674	–	–	33	30	2,080	1,704
Non-Executive Directors										
Wong Yu Man, James (appointed on 20 March 2007)	–	–	114	115	–	–	6	5	120	120
Independent Non-Executive Directors										
Chan Ping Kuen, Francis (resigned on 1 November 2007)	–	35	–	–	–	–	–	–	–	35
Hsu William Shiu Foo	60	60	–	–	–	–	–	–	60	60
Wong Ka Wai, Jeanne (appointed on 1 November 2007)	60	25	–	–	–	–	–	–	60	25
Yu Chai Mei	60	60	–	–	–	–	–	–	60	60
	180	180	–	–	–	–	–	–	180	180
	180	180	2,161	1,789	–	–	39	35	2,380	2,004

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

26. Employees' emoluments

Three executive directors of the Company included in the aggregate emoluments of the five highest paid individuals (2008: three). The aggregate emoluments of the two (2008: two) highest paid individual is as follows:

	2009	**2008**
	HK$'000	*HK$'000*
Basic salaries and allowances	2,140	497
Retirement benefits scheme contributions	39	21
	2,179	518

None of the above five highest paid individuals received emoluments in excess of HK$1 million.

27. Finance costs

	Continuing operations		**Discontinued operations**		**Consolidated**	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Interest on:						
– bank borrowings wholly repayable within five years	–	306	–	–	–	306
– finance leases	–	–	–	60	–	60
	–	306	–	60	–	366
Imputed interest on convertible notes	1,822	1,988	–	–	1,822	1,988
Imputed interest on promissory notes	–	1,111	–	–	–	1,111
	1,822	3,405	–	60	1,822	3,465

28. Taxation

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group incurred a taxation loss for the year. Provision on profits assessable elsewhere has been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Continuing operations		Discontinued operations		Consolidated	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Current taxation:						
Provision for the year						
– PRC	12,228	6,496	–	8	12,228	6,504
Deferred tax recognised during the year	–	(320)	–	–	–	(320)
	12,228	6,176	–	8	12,228	6,184

The charge for the year is reconciled to the (loss)/profit before taxation per the consolidated income statement as follows:

For the year ended 31 March 2009

	Hong Kong		PRC		Total	
	HK$'000		*HK$'000*		*HK$'000*	
(Loss)/profit before taxation	(223,134)		44,902		(178,232)	
Tax at applicable income tax rate	(36,817)	(16.5%)	11,226	25%	(25,591)	(14.4%)
Tax effect of expenses and income not deductible or taxable for tax purposes	33,748	15.1%	1,002	2.2%	34,750	19.5%
Tax effect of tax losses not recognised	3,069	1.4%	–	–	3,069	1.7%
Tax charge and effective tax rate for the year	–	–	12,228	27.2%	12,228	6.8%

For the year ended 31 March 2008

	Hong Kong		PRC		Korea		Total	
	HK$'000		*HK$'000*		*HK$'000*		*HK$'000*	
(Loss)/profit before taxation								
– Continuing operations	(17,808)		13,054		–		(4,754)	
– Discontinued operations	–		2,148		1,017		3,165	
	(17,808)		15,202		1,017		(1,589)	
Tax at applicable income tax rate	(3,116)	(17.5%)	3,801	25.0%	145	14.3%	830	52.2%
Tax effect of expenses and income not deductible or taxable for tax purposes	127	0.7%	777	5.1%	(145)	(14.3%)	759	47.9%
Tax effect of decrease in applicable tax rate	–	–	1,926	12.7%	–	–	1,926	121.2%
Tax effect of tax losses not recognised	2,669	15.0%	–	–	–	–	2,669	167.9%
Tax charge and effective tax rate for the year	(320)	(1.8%)	6,504	42.8%	–	–	6,184	389.2%

29. Loss attributable to equity holders of the company

For the year ended 31 March 2009, net loss of approximately HK$15,644,000 (2008: HK$25,179,000) has been dealt with in the financial statements of the Company.

30. Loss per share

From continuing and discontinued operations

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

	2009	2008
	HK$'000	*HK$'000*
Loss attributable to equity holders of the Company	(200,548)	(17,891)
Interest expense on convertible notes (net of tax)	–	–
Loss for the purpose of diluted loss per share	(200,548)	(17,891)

	2009	2008
Weighted average number of ordinary shares in issue	1,938,440,073	1,694,741,344
Adjustments for assumed exercise of share options	–	–
Adjustments for assumed conversion of convertible notes	–	–
Weighted average number of ordinary shares for the purpose of diluted loss per share	1,938,440,073	1,694,741,344

From continuing operations

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

	2009 *HK$'000*	2008 *HK$'000*
Loss attributable to equity holders of the Company	(200,548)	(17,891)
Add: Profit for the year from discontinued operations	–	(3,157)
	(200,548)	(21,048)
Interest expense on convertible notes (net of tax)	–	–
Loss for the purpose of diluted loss per share	(200,548)	(21,048)

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

From discontinued operations

For the year ended 31 March 2008, basic earnings per share for the discontinued operations is HK0.19 cents per share and diluted earnings per share for the discontinued operations is HK0.19 cents per share, based on the profit for the year from the discontinued operations of approximately HK$3,157,000 and the denominators detailed above for both basic and diluted loss per shares.

The calculation of diluted loss per share for both continuing and discontinued operations did not assume the exercise of the convertible notes and share options existed at 31 March 2009 and 2008 as the exercise of convertible notes and share options would reduce loss per share, therefore anti-dilutive.

31. Dividends

The directors do not recommend the payment of any dividend in respect of the year ended 31 March 2009 (2008: Nil).

32. Pledged assets

At 31 March 2009 and 31 March 2008, certain bank deposits of the Group were pledged as collateral for certain banking facilities. The Company had not pledged any assets at the balance sheet date.

33. Acquisition of subsidiaries

(a) On 14 April 2008, a wholly owned subsidiary of the Company, Reach Crest Investments Limited, entered into an agreement with an independent third party (the "Vendor 1") to acquire 60% of the entire issued share capital of United First Investments Limited for a cash consideration of HK$3,500,000. The aggregate amount of goodwill arising as a result of the acquisition is approximately HK$3,865,000.

	Acquiree's carrying amount before combination and fair value
	HK$'000
Net liabilities acquired:	
Property, plant and equipment	1,886
Inventories	12
Trade and other receivables and deposits	836
Cash and bank balances	2,865
Trade and other payables	(6,207)
Net liabilities	(608)
60% of net liabilities	(365)
Goodwill arising on acquisition *(Note 10)*	3,865
Total consideration at fair value	3,500
Total consideration at fair value satisfied by:	
Cash	3,500
Net cash outflow arising on acquisition:	
Cash consideration paid	(3,500)
Cash and bank balances acquired	2,865
	(635)

Notes:

(i) If the acquisition had been completed on 1 April 2008, total Group turnover for the year would have been approximately HK$179,960,000, and loss for the year would have been approximately HK$195,374,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of turnover and results of the Group that actually would have been achieved had the acquisition been completed on 1 April 2008, nor is it intended to be a projection of future results.

(ii) The subsidiaries acquired during the year contributed approximately HK$1,186,000 to the Group's turnover and loss after tax of approximately HK$1,531,000 for the year.

(iii) Goodwill arose in the business combination because the cost of the combination included a control premium paid to acquire United First Investment Limited. In addition, the Consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of United First Investment Limited. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

(b) On 26 February 2008, a wholly owned subsidiary of the Company, Ally Health International Limited, entered into an agreement with an independent third party (the "Vendor 2") to acquire the entire issued share capital of Large Forever Group Limited for a cash consideration of HK$65,200,000. The acquisition was completed on 5 May 2008. The aggregate amount of goodwill arising as a result of the acquisition is approximately HK$65,492,000.

	Acquiree's carrying amount before combination and fair value
	HK$'000
Net liabilities acquired:	
Property, plant and equipment	5,714
Inventories	539
Trade and other receivables and deposits	41
Cash and bank balances	559
Trade and other payables	(7,145)
Net liabilities	(292)
Goodwill arising on acquisition *(Note 10)*	65,492
Total consideration at fair value	65,200

	Acquiree's carrying amount before combination and fair value
	HK$'000
Total consideration at fair value satisfied by:	
Cash	65,200
Net cash outflow arising on acquisition:	
Cash consideration paid	(65,200)
Cash and bank balances acquired	559
	(64,641)

Notes:

(i) If the acquisition had been completed on 1 April 2008, total Group turnover for the year would have been approximately HK$180,094,000, and loss for the year would have been approximately HK$195,253,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of turnover and results of the Group that actually would have been achieved had the acquisition been completed on 1 April 2008, nor is it intended to be a projection of future results.

(ii) The subsidiary acquired during the year contributed approximately HK$24,448,000 to the Group's turnover and profit after tax of approximately HK$9,134,000 to the Group for the year.

(iii) Goodwill arose in the business combination because the cost of the combination included a control premium paid to acquire Large Forever Group Limited. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Large Forever Group Limited. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

(c) On 12 June 2008, a wholly owned subsidiary of the Company, Famous Fast Limited, entered into an agreement with an independent third party (the "Vendor 3") to acquire the entire issued share capital of Smart Peak Limited for cash consideration of HK$45,500,000. The acquisition was completed on 17 July 2008. The aggregate amount of goodwill arising as a result of the acquisition is approximately HK$45,588,000.

	Acquiree's carrying amount before combination and fair value
	HK$'000
Net liabilities acquired:	
Property, plant and equipment	194
Inventories	2
Trade and other receivables and deposits	322
Cash and bank balances	5,296
Trade and other payables	(5,902)
Net liabilities	(88)
Goodwill arising on acquisition *(Note 10)*	45,588
	45,500
Total consideration satisfied by:	
Cash	45,500
Net cash outflow arising on acquisition:	
Cash consideration paid	(45,500)
Cash and bank balances acquired	5,296
	(40,204)

Notes:

(i) If the acquisition had been completed on 1 April 2008, total Group turnover for the year would have been approximately HK$179,912,000, and loss for the year would have been approximately HK$195,349,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of turnover and results of the Group that actually would have been achieved had the acquisition been completed on 1 April 2008, nor is it intended to be a projection of future results.

(ii) The subsidiary acquired during the year contributed approximately HK$2,431,000 to the Group's turnover and loss after tax of approximately HK$1,479,000 for the year.

(iii) Goodwill arose in the business combination because the cost of the combination included a control premium paid to acquire Smart Peak Limited. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Smart Peak Limited. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

34. Disposal of subsidiaries

On 30 March 2009, the Company entered into a sale and purchase agreement that the Company agreed to sell the entire issued share capital of United First Investment Limited ("United First") and all debts, liabilities and obligations of United First owing or incurred by United First to the Company whether actual, contingent or deferred and irrespective of whether or not the same is due and payable as at the date of completion of the Disposal (the "Sale Loan") for a total consideration of HK$2,000,000. The disposal was completed on 30 March 2009.

Summary of the effects of the disposal of subsidiaries are as follows:

	2009
	HK$'000
Net liabilities disposed of:	
Property, plant and equipment	1,390
Trade and other receivables and deposits	980
Amount due to the Company	9
Cash and bank balances	450
Trade and other payables	(4,694)
	(1,865)
Attributable goodwill	3,865
Total consideration	2,000
Satisfied by:	
Cash	2,000
Net cash inflow arising on disposal:	
Cash consideration	2,000
Cash and bank balances	(450)
Net inflow of cash and cash equivalents	1,550

For the period from 1 April 2008 to the date of disposal, the above subsidiaries were engaged in provision of dental healthcare services. The turnover contributed by the subsidiaries was approximately HK$1,186,000 and loss of approximately HK$1,531,000 has recognised in the Group's loss for the year ended 31 March 2009.

35. Deferred taxation

The following are the major deferred tax balances recognised and movements thereon during the current and prior year:

Deferred tax liabilities:

	Convertible notes
	HK$'000
At 1 April 2007	–
Charge to equity for the year	501
Credit to consolidated income statement for the year	(320)
At 31 March 2008, 1 April 2008 and 31 March 2009	181

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2009	**2008**
	HK$'000	*HK$'000*
Deferred tax assets	–	–
Deferred tax liabilities	(181)	(181)
	(181)	(181)

At the balance sheet date, the Group and the Company has unutilised tax losses of approximately HK$64,313,000 (2008: HK$61,244,000) and HK$19,207,000 (2008: HK$16,138,000) respectively available to set off against future assessable profits. No deferred tax asset has been recognised in respect of the unutilised tax losses due to the unpredictability of future profits streams. These tax losses may be carried forward indefinitely.

36. Operating lease commitments

The Group were committed to make the following future minimum lease payments in respect of land and buildings rented under non-cancellable operating leases which fall due as follows:

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Within one year	5,081	4,737
In the second to fifth years inclusive	18,263	19,376
Over five years	19,777	27,630
	43,121	51,743

37. Commitments

(a)

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Commitments for acquisition of property, plant and equipment	–	1,938

(b) The Company had no other significant commitments at the balance sheet date.

38. Contingent liabilities

(a)

	The Company	
	2009	**2008**
	HK$'000	*HK$'000*
Guarantees given to bank, in respect of banking facilities utilised by subsidiaries	10,000	10,000

(b) Jiaxing City Triumph Electric Company Limited ("Jiaxing Triumph Electric") had taken out action against Jiaxing City Shuguang Western and Chinese Composite Hospital Company Limited ("Jiaxing Shuguang Hospital"), a non-wholly owned subsidiary of the Company, suing for rental payment of an aggregate amount of RMB875,000 for the period from 1 September 2003 to 1 March 2006, which is claimed with reference to annual rental payment of RMB350,000 in respect of the leased property on which Jiaxing Shuguang Hospital is currently occupied and operated (the "Property in Dispute") under a legally binding tenancy agreement entered into with Jiaxing City Xin Kai Yuan Industrial Trading Company Limited ("Jiaxing City Xin Kai Yuan") who has been joined as a third party to the action (the "Shuguang Dispute").

In the Shuguang Dispute, whereas the Property in Dispute is legally registered under the name of Jiaxing City Xin Kai Yuan and a legally binding tenancy agreement has been entered into between Jiaxing Shuguang Hospital and Jiaxing City Xin Kai Yuan. Jiaxing City Triumph Electric alleged that it owns part of the interest in the Property in Dispute and that Jiaxing Shuguang Hospital has a verbal agreement with it whereby Jiaxing Shuguang Hospital has agreed to rent from it the Property in Dispute. As at 31 March 2009 and up to the date of approval of these financial statements, no further action has taken place.

In the opinion of the Company's legal advisor, the Group has a strong defense as the Property in Dispute which is legally registered under the name of Jiaxing City Xin Kai Yuan and that there had been a legally binding tenancy agreement entered into between Jiaxing Shuguang Hospital and Jiaxing City Xin Kai Yuan, which was made in compliance with the relevant PRC law that leasing of property shall be made by way of written agreement, as contrasted with the alleged verbal agreement between Jiaxing Shuguang Hospital and Jiaxing City Triumph Electric.

In the opinion of the directors, the Group has valid grounds to defence the actions and as such, no provision is made in the financial statements of the Group for its exposure to the Shuguang Dispute.

39. Retirement benefits scheme

The Group operates a Mandatory Provident Fund Scheme (the "Scheme") for all qualifying employees in Hong Kong. The assets of the Scheme are held separately from those of the Group in funds under the control of trustee. The Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by employees.

The employees of the Company's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

40. Significant related party transactions

In addition to the transactions and balances detailed elsewhere in the financial statements, during the year, the Group had entered into the following significant transaction with related parties:

(a) Key management personnel

Remuneration for key personnel management, including amount paid to the Company's directors and certain of the highest paid employee, as disclosed in Note 26, is as follows:

	2009	**2008**
	HK$'000	*HK$'000*
Short-term employee benefits	2,410	2,004

41. Subsequent events

(a) On 17 April 2009, a supplemental instrument is executed by way of deed poll to extend the maturity date of the Convertible Notes 2 for one year to 8 May 2010 in relation to the outstanding principal amount of HK$6,500,000. On 5 June 2009, the Company received a notice given by the Convertible Notes 2 noteholder, requesting the Company to extend the maturity date of the Convertible Notes for a period of seven years from 8 May 2010 to 9 May 2017. The proposed modification to the terms of Convertible Notes 2 will be passed by way of ordinary resolution at the Company's forthcoming annual general meeting.

(b) On 5 June 2009, the directors of the Company proposed, subject to the consent of the Optionholders granted under the Share Option Scheme, to surrender the relevant outstanding Options to the Company for cancellation, to cancel the outstanding Options which entitle the holders thereof to subscribe for up to an aggregate of 210,084,734 Shares. The proposed cancellation of the options granted will be passed by way of ordinary resolution at the AGM.

42. Principal subsidiaries

Details of the Company's principal subsidiaries, all of which are limited liability companies, at 31 March 2009 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued and fully paid ordinary share/ registered capital	Percentage of equity interest attributable to the Group	Principal activities
Grandy Environmental (H.K.) Limited#	Hong Kong	HK$3,010,000	100%	Manufacture and sales of environmental protection products and provision of related services
Grandy Trading and Services (H.K.) Limited	Hong Kong	HK$10,000	100%	Sales of environmental protection products
Grand Brilliant Corporation Limited	British Virgin Islands	HK$1	100%	Provision of healthcare and hospital management services
Best Boom Resources Limited	British Virgin Islands	US$1	100%	Provision of hospital management services
Day View Group Limited	British Virgin Islands	US$1,000	76%	Investment holding
Wisdom Rise Group Limited	British Virgin Islands	US$1	100%	Investment holding
Hero Vision Enterprises Limited	British Virgin Islands	US$1,573	100%	Investment holding
Mega Mix Group Limited	British Virgin Islands	US$1	100%	Investment holding

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued and fully paid ordinary share/ registered capital	Percentage of equity interest attributable to the Group	Principal activities
Merry Sky Investments Limited	British Virgin Islands	US$9,000	100%	Investment holding
Long Wider Limited	British Virgin Islands	US$1	100%	Investment holding
Direct Way Group Limited	British Virgin Islands	US$5,300	100%	Investment holding
Fujian Maidsen Enterprises Company Limited#	PRC	RMB40,000,000	100%	Provision of healthcare and hospital management services
Edward Hospital Company Limited#	PRC	RMB40,000,000	55%	Provision of hospital services
Jiaxing City Shuguang Western and Chinese Composite Hospital Company Limited#	PRC	RMB15,000,000	55%	Provision of hospital services
Foshan Qide Hospital Limited#	PRC	RMB3,000,000	70%	Provision of hospital services
Beiyi Renzhi (Beijing) Investment Consultancy Limited#	PRC	RMB6,457,725	70.1%	Provision of healthcare and hospital management services
Shangrao Shi Xiehe Hospital Limited#	PRC	RMB3,000,000	70%	Provision of hospital services
Bengbu City Aomeijia Female Hospital#	PRC	RMB2,000,000	100%	Provision of hospital services

Audited by another firm of Hong Kong Certified Public Accountants

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affect the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

43. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt (which includes convertible notes), cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and accumulated losses.

Gearing ratio

The gearing ratios at 31 March 2009 and 31 March 2008 were as follows:

	2009	**2008**
	HK$'000	*HK$'000*
Debt *(note (a))*	6,469	33,762
Cash and cash equivalents	(93,761)	(83,346)
Net debt	(87,292)	(49,584)
Equity *(note (b))*	327,823	477,802
Gearing ratio	N/A	N/A

Notes:

(a) Debt comprises convertible notes as detailed in notes 20.

(b) Equity includes all capital and reserves of the Group.

44. Financial instruments

(a) Categories of financial instruments

Financial assets

	2009	**2008**
	HK$'000	*HK$'000*
Loans and receivables (including cash and cash equivalents)	112,036	147,286
Derivative financial instruments classified as fair value through profit or loss	3	514

Financial liabilities

	2009	**2008**
	HK$'000	*HK$'000*
Amortised cost	37,616	92,998

(b) Financial risk management objectives and policies

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates.

Market risk exposures are measured using sensitivity analysis.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

Foreign currency risk management

Several subsidiaries of the Group have foreign currency sales and purchases, which expose the Group to foreign currency risk. The management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		**Assets**	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
RMB	12,423	36,047	56,126	60,353

Sensitivity analysis

The Group is mainly exposed to the effects of fluctuation in RMB.

The following table details the Group's sensitivity to a 5% increase and decrease in the Hong Kong dollars against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes outstanding foreign currency denominated monetary items and foreign currency forward contracts, and adjusts their translation at the period end for a 5% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit and other equity where the Hong Kong dollars strengthen 5% against the relevant currency. For a 5% weakening of the Hong Kong dollars against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	Impact of RMB	
	2009	**2008**
	HK$'000	*HK$'000*
Other equity	9,207	1,215

Note:

This is mainly attributable to the exposure outstanding on receivables and payables denominated in respective currencies at the year end.

Interest rate risk management

The Group's cash flow interest rate risk relates primarily to variable-rate borrowings. It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk. As at 31 March 2009, the Group did no have borrowings at floating rate of interests.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR arising from the Group's Hong Kong dollar denominated borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For variable-rate borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease in HIBOR is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 March 2009 would decrease/increase by approximately HK$12,000. This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings during the year ended 31 March 2009.

The Group's sensitivity to interest rates has decreased during the current period mainly due to the reduction in variable rate borrowings.

(ii) Credit risk

As at 31 March 2009, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet; and

- the amount of contingent liabilities in relation to the financial guarantees provided by the Group as disclosed in Note 41.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt and debt investments at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade and other receivables consist of a large number of customers, spread across diverse industries and geographical areas.

(iii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

As at 31 March 2009, the Group has available unutilised overdrafts and short and medium term bank loan facilities of approximately HK$2,000,000 (2008: HK$2,000,000) and HK$8,000,000 (2008: HK$8,000,000) respectively.

The following tables detail the Group's remaining contractual maturity for its financial liabilities as well as derivative and certain non-derivative financial assets which are included in the maturity analysis provided internally to the key management personnel for the purpose of managing liquidity risk. For non-derivative financial assets, the tables have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period. For non-derivative financial liabilities, the tables reflect the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

At 31 March 2009

	Weighted average effective interest rate	**Within 1 year**	**2 to 5 years**	**Over 5 years**	**Total undiscounted cash flows**	**Total carrying amount**
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities						
Trade and other payables	–	18,170	105	–	18,275	18,275
Amounts due to minority shareholders	–	540	–	–	540	540
Convertible notes	6.8%	6,500	–	–	6,500	6,469
		25,210	105	–	25,315	25,284

At 31 March 2008

	Weighted average effective interest rate	**Within 1 year**	**2 to 5 years**	**Over 5 years**	**Total undiscounted cash flows**	**Total carrying amount**
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities						
Trade and other payables	–	47,323	–	–	47,323	47,323
Amounts due to minority shareholders	–	389	–	–	389	389
Convertible notes	6.8%	2,500	33,000	–	35,500	33,762
		50,212	33,000	–	83,212	81,474

(c) Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

(i) the fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

(ii) the fair value of other financial assets and financial liabilities (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input. For an option-based derivative, the fair value is estimated using option pricing model (for example, the Black-Scholes option pricing model and Binomial option pricing model).

The directors consider that the carrying amounts of financial assets and financial liabilities recorded in the consolidated financial statements approximate their fair values.

45. Comparative figures

Certain comparative amounts have been reclassified/restated to conform with the current year's presentation and accounting treatment.

46. Approval of financial statements

The financial statements were approved and authorised for issue by the board of directors on 26 June 2009.

III. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

Set out below are the unaudited consolidated financial statements of the Group for the six months ended 30 September 2009 which are published in the Company's interim report 2009:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and six months ended 30 September 2009

		Three months ended 30 September		Six months ended 30 September	
		2009	**2008**	**2009**	**2008**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
TURNOVER	*3&4*	34,273	56,309	63,921	103,725
Cost of sales		(12,379)	(16,486)	(24,776)	(30,579)
Gross profit		21,894	39,823	39,145	73,146
Other income		37	605	7,850	1,746
Selling and distribution costs		(6,070)	(4,812)	(11,490)	(10,409)
Administrative expenses		(17,040)	(17,840)	(34,271)	(33,918)
(LOSS)/PROFIT FROM OPERATIONS	*5*	(1,179)	17,776	1,234	30,565
Finance costs	*6*	(877)	(279)	(1,003)	(543)
(LOSS)/PROFIT BEFORE TAXATION		(2,056)	17,497	231	30,022
Taxation	*7*	(284)	(5,264)	(881)	(9,517)
(LOSS)/PROFIT FOR THE PERIOD		(2,340)	12,233	(650)	20,505
Other comprehensive (loss)/income:					
Exchange differences arising on translating foreign operations		130	1,954	(211)	3,176
Other comprehensive (loss)/income for the period		130	1,954	(211)	3,176
Total comprehensive (loss)/income for the period		(2,210)	14,187	(861)	23,681

	Notes	Three months ended 30 September 2009 HK$'000 (Unaudited)	Three months ended 30 September 2008 HK$'000 (Unaudited)	Six months ended 30 September 2009 HK$'000 (Unaudited)	Six months ended 30 September 2008 HK$'000 (Unaudited)
(Loss)/profit for the period attributable to:					
Equity holders of the Company		(3,452)	6,597	(1,319)	10,727
Minority interest		1,112	5,636	669	9,778
		(2,340)	12,233	(650)	20,505
Total comprehensive (loss)/income attributable to:					
Equity holders of the Company		(2,344)	13,486	(942)	22,522
Minority interest		134	701	81	1,159
		(2,210)	14,187	(861)	23,681
DIVIDENDS	*13*	–	–	–	–
(LOSS)/EARNINGS PER SHARE					
– Basic *(cents)*	*8*	(0.08)	0.37	(0.03)	0.60
– Diluted *(cents)*		(0.07)	0.33	(0.03)	0.54

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 September 2009

	Notes	30 September 2009 HK$'000 (Unaudited)	31 March 2009 HK$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		43,407	43,668
Prepaid lease payments		28,017	28,989
Goodwill		206,571	206,585
		277,995	279,242
Current assets			
Inventories		3,553	3,696
Trade and other receivables and deposits	9	14,397	18,275
Derivative financial instruments		3	3
Amount due from minority shareholders		605	–
Pledged bank deposits		5,317	5,255
Cash and bank balances		84,513	88,506
		108,388	115,735
Total assets		386,383	394,977
EQUITY:			
Capital and reserves attributable to the Company's equity holders			
Share capital		224,756	224,756
Reserves		103,744	103,067
		328,500	327,823
Minority interest		28,998	28,239
Total equity		357,498	356,062

	Notes	30 September 2009 *HK$'000* (Unaudited)	31 March 2009 *HK$'000* (Audited)
LIABILITIES			
Current liabilities			
Trade and other payables	*10*	21,439	30,607
Amount due to minority shareholders		796	540
Convertible notes		–	6,469
Tax payable		–	1,118
		22,235	38,734
Long-term liabilities			
Convertible notes		6,469	–
Deferred taxation		181	181
		6,650	181
Total liabilities		28,885	38,915
Total equity and liabilities		386,383	394,977
Net current assets		86,153	77,001
Total assets less current liabilities		364,148	356,243

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2009

	Share capital	Share premium	Special reserve	Translation reserve	Share-based payment reserve	Convertible notes reserve	Statutory surplus reserve	Accumulated losses	Total	Minority interest	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note (a))		*(Note (b))*				*(Note (c))*				
At 1 April 2008	89,902	425,169	(6,735)	1,461	4,658	24,693	753	(62,099)	477,802	26,682	504,484
Profit for the period	–	–	–	–	–	–	–	10,727	10,727	9,778	20,505
Increase in minority interest resulting from acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	321	321
Transfer to reserve	–	–	–	888	–	–	–	–	888	–	888
At 30 September 2008	89,902	425,169	(6,735)	2,349	4,658	24,693	753	(51,372)	489,417	36,781	526,198
At 1 April 2009	224,756	335,267	(6,735)	7,899	4,658	4,448	1,287	(243,757)	327,823	28,239	356,062
(Loss) for the period	–	–	–	–	–	–	–	(1,319)	(1,319)	669	(650)
Transfer to reserve	–	–	–	1,226	770	–	–	–	1,996	90	2,086
At 30 September 2009	224,756	335,267	(6,735)	9,125	5,428	4,448	1,287	(245,076)	328,500	28,998	357,498

Notes:

(a) As at 30 September 2009, the number of ordinary shares of HK$0.05 each issued and fully paid were 4,495,111,986 shares (2008: 1,798,044,795 shares).

(b) Included in the special reserve amounting to approximately HK$2,935,000 of the Group represents the difference between the nominal amount of the shares issued by the Company and the aggregate amount of the share capital of a subsidiary acquired pursuant to a group reorganisation in 2001.

The decrease in special reserve amounting to approximately HK$41,580,000 of the Group represents the difference between the fair value and the contracted value of the consideration shares paid for acquisition of subsidiaries during the year ended 31 March 2007.

The increase in special reserve amounting to approximately HK$31,910,000 of the Group represents the difference between the fair value and the contracted value of consideration shares paid for acquisition of subsidiaries during the year ended 31 March 2008.

(c) As stipulated by the relevant PRC laws and regulations, the subsidiaries of the Company established in the PRC shall set aside 10% of its profit after taxation for the statutory surplus reserve fund (except where the reserve balance has reached 50% of the subsidiaries' paid-up capital). The reserve fund can only be used, upon approval by the Board and by the relevant authority, to offset accumulated losses or increase capital.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2009

	Six months ended 30 September	
	2009	**2008**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash (used in)/inflow from operating activities	(3,847)	9,892
Net cash inflow/(used in) investing activities	86	(23,200)
Net cash used in financing activities	(232)	(543)
Net decrease in cash and cash equivalents	(3,993)	(13,851)
Cash and cash equivalents at 1 April	88,506	78,134
Cash and cash equivalents at 30 September	84,513	64,283

NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2009

1. General

The Company was incorporated in the Cayman Islands as an exempted company with limited liability. The shares of the Company are listed on GEM of the Stock Exchange.

The Company acts as an investment holding company while its subsidiaries are engaged in the provision of general hospital and healthcare and hospital management services in the People's Republic of China (the "PRC").

2. Basis of preparation

The unaudited condensed consolidated results have been prepared under the historical cost convention and in accordance with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance and the GEM Listing Rules.

The accounting policies adopted in preparing the unaudited consolidated results for the period ended 30 September 2009 are consistent with those followed in the preparation of the annual financial statements for the year ended 31 March 2009.

The unaudited condensed consolidated results for the six months ended 30 September 2009 have been reviewed by the audit committee of the Company.

3. Turnover

Turnover represents the aggregate of net amounts received and receivable from third parties in connection with the provision of general hospital and healthcare and hospital management services.

4. Segment Information

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (HKAS 14 "Segment Reporting" required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. The adoption of HKFRS 8 did not have significant effect on the Group's reportable segments.

Business segments

An analysis of the Group's business segments information is as follows:

	Three months ended 30 September		Six months ended 30 September	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover				
– Provision of general hospital services	33,819	51,786	63,268	94,463
– Provision of healthcare and hospital management services	454	4,523	653	9,262
	34,273	56,309	63,921	103,725
Results				
– Provision of general hospital services	21,464	35,530	38,525	64,355
– Provision of healthcare and hospital management services	430	4,293	620	8,791
	21,894	39,823	39,145	73,146
Unallocated other income	37	605	7,850	1,746
Unallocated corporate expenses	(23,110)	(22,652)	(45,761)	(44,327)
(Loss)/profit from operations	(1,179)	17,776	1,234	30,565
Finance costs	(877)	(279)	(1,003)	(543)
(Loss)/profit before taxation	(2,056)	17,497	231	30,022
Taxation	(284)	(5,264)	(881)	(9,517)
(Loss)/profit for the period	(2,340)	12,233	(650)	20,505
(Loss)/profit attributable to:				
Equity holders of the Company	(3,452)	6,597	(1,319)	10,727
Minority interest	1,112	5,636	669	9,778
	(2,340)	12,233	(650)	20,505

5. (Loss)/Profit from Operations

	Three months ended 30 September		Six months ended 30 September	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
(Loss)/profit from operations has been arrived at after charging:				
Depreciation of property, plant and equipment	2,348	2,150	4,743	4,098
Operating lease rentals in respect of buildings	1,717	1,523	3,487	3,047
Staff costs (including Directors' remuneration)	6,375	5,841	12,801	10,615
	10,440	9,514	21,031	17,760

6. Finance Costs

	Three months ended 30 September		Six months ended 30 September	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest expenses – Convertible notes	33	191	65	381
Bank interest and charges	74	88	168	162
Share-based payment expense	770	–	770	–
	877	279	1,003	543

7. Taxation

No provision for Hong Kong profits tax has been made in the financial statements as the Group had no assessable profits deriving from Hong Kong's operations during the period (2008: Nil).

Corporate income tax of approximately 25% has been provided for the profit generated from the general hospital and healthcare and hospital management services in the PRC (2008: approximately 32%).

8. (Loss)/Earnings Per Share

The calculation of basic loss per share for the three months ended 30 September 2009 was based on the net loss of approximately HK$(3,452,000) (2008: net profit of approximately HK$6,597,000 and on the weighted average number of 4,495,111,986 shares (2008: 1,798,044,795 shares).

The calculation of basic loss per share for the six months ended 30 September 2009 was based on the net loss of approximately HK$(1,319,000) (2008: net profit of approximately HK$10,727,000) and on the weighted average number of 4,495,111,986 shares (2008: 1,798,044,795 shares).

Diluted loss per share was calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the three months and six months ended 30 September 2009, the Company had two categories of dilutive potential ordinary shares: unlisted convertible notes and share options.

The unlisted convertible notes are assumed to have been converted into ordinary shares and the net loss is adjusted to eliminate the interest expense of the unlisted convertible notes less the tax effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Three months ended 30 September 2009 *HK$'000* (Unaudited)	Six months ended 30 September 2009 *HK$'000* (Unaudited)
Loss attributable to equity holders of the Company	(3,452)	(1,319)
Interest expense on unlisted convertible notes (net of tax)	33	65
Loss used to determine diluted loss per share	(3,419)	(1,254)
Weighted average number of ordinary shares in issue	4,495,111,986	4,495,111,986
Adjustments for assumed conversion of unlisted convertible notes	30,805,687	30,805,687
Adjustments for assumed exercise of share options	205,142,203	205,142,203
Weighted average number of ordinary shares of diluted loss per share	4,731,059,876	4,731,059,876

	Three months ended 30 September 2009	Six months ended 30 September 2009
Diluted loss per share	HK(0.07) cents	HK(0.03) cents

9. Trade and Other Receivables

Payment terms with customers from general hospital and healthcare and hospital management services are normally payable from 0 to 30 days. The following is an aged analysis of trade receivables at the balance sheet date:

	30 September 2009	**31 March 2009**
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	3,786	2,135
Deposits paid	185	181
Prepayments	6,784	13,228
Prepaid lease payments	972	972
Other receivables	2,670	1,759
	14,397	18,275

	30 September 2009	**31 March 2009**
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables		
Age		
0 to 90 days	1,503	1,382
91 to 180 days	575	542
181 to 365 days	57	106
Over 365 days	1,651	1,701
	3,786	3,731
Less: Allowance for doubtful debts	–	(1,596)
	3,786	2,135

10. Trade and Other Payables

Payment terms with trade creditors are normally ranging from 90 to 120 days. The following is an aged analysis of trade payables at the balance sheet date:

	30 September 2009	**31 March 2009**
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables	9,694	12,453
Accruals and other payables	11,745	18,154
	21,439	30,607

	30 September 2009	**31 March 2009**
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables		
Age		
0 to 90 days	4,170	5,687
91 to 180 days	3,054	6,271
181 to 365 days	823	82
Over 365 days	1,647	413
	9,694	12,453

11. Pledged Bank Deposits

The Group had pledged bank deposits for the six months ended 30 September 2009 of approximately HK$5,317,000 to secure the short-term bank loan of the Group. (31 March 2009: approximately HK$5,255,000). No secured short-term bank loan was drawn down during the six months ended 30 September 2009.

12. Share Capital

	Number of Ordinary Shares	Amount
		HK$'000
Authorised:		
Ordinary shares of HK$0.05 each at 30 September 2009	10,000,000,000	500,000
Issued and fully paid:		
Ordinary shares of HK$0.05 each at 30 September 2009	4,495,111,986	224,756

13. Dividends

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2009 (2008: Nil).

IV. INDEBTEDNESS

Statement of indebtedness

Borrowings

As at the close of business on 31 December 2009, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group had outstanding borrowings of approximately HK$49,160,000, details of which are set out below:

	HK$'000
Convertible Notes (principal amount)	6,500
Bank borrowings	42,091
Other borrowings	569

The principal amount of the Convertible Notes outstanding as at 31 December 2009 was HK$6,500,000.

Securities and guarantees

Certain amount due from Huihao Sihai to the Huihao Medicine Wholesale Group of the Enlarged Group of approximately HK$31,530,000 have been pledged to a bank to secure credit facilities granted to the Enlarged Group.

Certain pledged bank deposits of the Enlarged Group of approximately HK$10,056,000 have been pledged to a bank to secure credit facilities granted to the Enlarged Group.

Certain investment properties of the Enlarged Group of approximately HK$5,460,000 have been pledged to a bank to secure credit facilities granted to an independent third party.

Certain prepaid lease payment of the Enlarged Group of approximately HK$4,417,000 have been pledged to banks to secure credit facilities granted to independent third parties.

As at 31 December 2009, the Company provided corporate guarantees to a bank in Hong Kong in respect of HK$10,000,000 banking facilities to be utilised by its subsidiaries.

Contingent liabilities

As at 31 December 2009, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Enlarged Group.

Disclaimer

Save as aforesaid and apart from intra-group liabilities, at the close of business on 31 December 2009, the Enlarged Group had no other outstanding mortgages, charges, debentures or other loan capital or bank overdrafts or loans or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, debt securities, guarantees or other material contingent liabilities.

V. WORKING CAPITAL

The Directors are of the opinion that after taking into account the present internal financial resources of the Enlarged Group, the presently available banking facilities and in the absence of unforeseen circumstances, the Enlarged Group has sufficient working capital for its present requirements, for at least the next twelve months from the date of this circular.

VI. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Enlarged Group since 31 March 2009, being the date to which the latest published audited financial statements of the Enlarged Group were made up.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

11 February 2010

The Board of Directors
Hua Xia Healthcare Holdings Limited
Room 1902
19/F, Sing Pao Building
No. 101 King's Road
North Point
HONG KONG

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information regarding Nurture Fit Limited (the "Target"), for the period from 16 July 2009 (date of incorporation) to 30 September 2009 (the "Relevant Period") (the "Financial Information of the Target"), for inclusion in the circular of Hua Xia Healthcare Holdings Limited (the "Company") dated 11 February 2010 (the "Circular") in connection with the formal sale and purchase agreement dated 13 November 2009 (the "Formal Agreement") entered into between Timely Hero Enterprises Limited (the "Purchaser"), a wholly owned subsidiary of the Company and Mr. Yung Kwok Leong ("Mr. Yung") pursuant to which the Purchaser would acquire the entire issued share capital of the Target and all obligations, liabilities and debts owing or incurred by the Target, Hui Hao (HK) Group Limited and its subsidiaries and 福建惠好四海醫藥連鎖有限公司 ("Huihao Sihai") to Mr. Yung at a total consideration of HK$600,000,000 (the "Consideration"), subject to adjustments (the "Proposed Acquisition").

The Consideration shall be satisfied (i) as to HK$9,800,000 in cash being the initial deposit within 5 business days after the date of the Formal Agreement; (ii) as to HK$10,200,000 in cash being the further deposit on the date the Acquisition is approved by the shareholders other than Mr. Yung, Easeglory Holdings Limited and their respective associates at the extraordinary general meeting of the Company to be convened to consider and approve the Formal Agreement, the proposed increase of the authorised share capital of the Company from HK$500,000,000 divided into 10,000,000,000 ordinary shares of HK$0.05 each in the issued share capital of the Company (the "Shares") to HK$1,500,000,000 by the creation of an additional 12,000,000,000 Shares and 8,000,000,000 non-redeemable convertible preference shares; (iii) as to HK$290,000,000 by allotting and issuing a total of 4,833,333,333 non-redeemable convertible preference shares of HK$0.06 each in the share capital of the Company; and (iv) as to HK$290,000,000 by issuing promissory note. The Financial Information of the Target comprises the statement of financial position of the Target as at 30 September 2009 and the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the Relevant Period and a summary of significant accounting policies and other explanatory notes.

The Target is an investment holding company incorporated in the British Virgin Islands with limited liability. As at 30 September 2009, the Target has no major assets or operating business. On 5 November 2009, the Target issue 1 share to Mr. Yung and the Target is wholly owned by Mr. Yung. Upon completion of the acquisition of 100% equity interests in Hui Hao (HK) Group Limited and its subsidiaries (including 99.29% equity interest in 福建惠好四海醫藥連鎖有限責任公司 ("Huihao Sihai") by the Target, the Target will hold 100% equity interest in Hui Hao (HK) Group Limited.

The Target adopts 31 March as its financial year end date. No audited financial statements of the Target have been prepared since its incorporation date.

BASIS OF PREPARATION

The Financial Information of the Target has been prepared by the director of the Target based on the unaudited financial statements of the Target for the Relevant Period, on the basis as set out in Note 2 below. The Financial Information of the Target has been prepared in accordance with Hong Kong Financial Reporting Standards which also include Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and accounting principles generally accepted in Hong Kong.

DIRECTOR'S RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The director of the Target is responsible for the preparation and the true and fair presentation of the Financial Information of the Target in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and the true and fair presentation of the Financial Information of the Target that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors of the Company are responsible for the contents of the Circular in which this report is included.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Financial Information of the Target based on our audit. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information of the Target is free from material misstatement. We have also carried out additional procedures as necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information of the Target. The procedures selected depend on the reporting accountants' judgment, including the assessment of the risks of material misstatement of the Financial Information of the Target, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation and true and fair presentation of the Financial Information of the Target in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Financial Information of the Target.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, for the purpose of this report, the Financial Information of the Target gives a true and fair view of the state of affairs of the Target as at 30 September 2009 and of the results and cash flows of the Target for the Relevant Period then ended in accordance with Hong Kong Financial Reporting Standards.

MATERIAL UNCERTAINTIES RELATING TO THE GOING CONCERN BASIS OF THE TARGET

Without qualifying our opinion, we draw attention to note 2(a) to the Financial Information of the Target which indicates that the Target incurred accumulated losses of HK$6,300 and had net liabilities of approximately HK$6,300 as at 30 September 2009. These conditions, along with other matters as set forth in note 2(a) to the Financial Information of the Target, indicate that existence of a material uncertainty which may cast significant doubt about the Target's ability to continue as a going concern.

A. FINANCIAL INFORMATION OF THE TARGET

STATEMENT OF COMPREHENSIVE INCOME

	Notes	For the period from 16 July 2009 (date of incorporation) to 30 September 2009 HK$
Turnover	*6*	–
Administrative expenses		(6,300)
Loss from operating activities	*7*	(6,300)
Taxation	*9*	–
Loss for the period		(6,300)
Loss for the period attributable to owners of the Target		(6,300)
Other comprehensive income for the period, net of tax		–
Total comprehensive income for the period		(6,300)
Loss per share attributable to owners of the Target during the period		
Basic and diluted	*11*	N/A

The accompanying notes form an integral part of the Financial Information of the Target.

STATEMENT OF FINANCIAL POSITION

		As at 30 September 2009
	Notes	*HK$*
Current liabilities		
Accruals		6,300
Net current liabilities		(6,300)
Total assets less current liabilities		(6,300)
Net liabilities		(6,300)
Equity		
Capital and reserves attributable to owners of the Target		
Share capital	*12*	–
Accumulated losses		(6,300)
		(6,300)

The accompanying notes form an integral part of the Financial Information of the Target.

STATEMENT OF CHANGES IN EQUITY

	Share Capital	Accumulated Losses	Total
	HK$	*HK$*	*HK$*
At 16 July 2009	–	–	–
Loss for the period	–	(6,300)	(6,300)
At 30 September 2009	–	(6,300)	(6,300)

The accompanying notes form an integral part of the Financial Information of the Target.

STATEMENT OF CASH FLOWS

	For the period from 16 July 2009 (date of incorporation) to 30 September 2009
	HK$
Cash flows from operating activities	
Loss before taxation	(6,300)
Operating loss before movements in working capital	(6,300)
Increase in accruals	6,300
Net cash used in operating activities	–
Cash flows from financing activities	
Proceeds from issue of share	–
Net cash generated from financing activities	–
Net increase in cash and cash equivalents	–
Cash and cash equivalents at the beginning of the period	–
Cash and cash equivalents at the end of the period	–
Analysis of the balances of cash and cash equivalents	
Cash and bank balances	–

The accompanying notes form an integral part of the Financial Information of the Target.

NOTES TO FINANCIAL INFORMATION

1. General information

The registered office of the Target is at P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, the British Virgin Islands. The Target is wholly-owned by Mr. Yung. The Target was incorporated in the British Virgin Islands on 16 July 2009.

The Target is an investment holding company. The Financial Information of the Target is presented in Hong Kong Dollars, which is the functional currency of the Target.

2. Summary of significant accounting policies

The Financial Information of the Target has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards issued by the HKICPA, and accounting principles generally accepted in Hong Kong ("HKFRSs") (which also include Hong Kong Accounting Standards and Interpretations) and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited as applicable to Accountants' Reports including in the listing documents of circulars. The policies of the Target are materially consistent with the Company's accounting policies. The measurement basis used in the preparation of the Financial Information of the Target is historical cost convention accounting except for financial assets and financial liabilities have been carried at fair value.

The presentation of the Financial Information of the Target in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The Target has not yet early applied the following new standards, amendments and interpretations that have been issued but are not yet effective.

The Target is not yet in a position to determine whether these standards, amendments and interpretations will have significant impact on how the results of operations and financial position are prepared and presented. These standards, amendments and interpretations may result in changes in the future as to how the results and financial position are prepared and presented.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Right Issues[5]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adoption[4]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[4]
HKFRS 3 (Revised)	Business Combinations[1]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[3]

[1] *Effective for annual periods beginning on or after 1 July 2009*

[2] *Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate*

[3] *Effective for transfers of assets from customers received on or after 1 July 2009*

[4] *Effective for annual periods beginning on or after 1 January 2010*

[5] *Effective for annual periods beginning on or after 1 February 2010*

The director of the Target expects that the adoption of the above new standards, amendments and interpretations will not have any significant impact on the Target's financial statements in the period of initial application.

The accounting policies set out below have been applied consistently to the Relevant Period presented in the Financial Information of the Target.

(a) Basis of preparation

At 30 September 2009, the Target incurred accumulated losses of HK$6,300 and net liabilities of HK$6,300. Mr. Yung, the shareholder of the Target, has confirmed to provide continuing financial support to the Target, subject to the condition that the relationship between Mr. Yung and the Target does not change, so as to enable it to meet its liabilities as and when they fall due and to continue its business for the foreseeable future. The director of the Target believes that the Target will continue as going concern. Consequently, the Financial Information of the Target has been prepared on a going concern basis.

(b) Impairment

At each end of the reporting period, the director of the Target reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation increase under that standard.

(c) Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Target's financial assets are classified into loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each end of the reporting period subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss then there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets carried at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Target are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Target after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognised on an effective interest basis.

Financial liabilities (other than derivative financial instruments)

The Target's financial liabilities are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Repurchase of the Target's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Target's own equity instruments.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Target has transferred substantially all the risks and rewards of ownership of the financial 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 profit or loss.

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

(d) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown separately in current liabilities on the statement of financial position.

(e) Foreign currencies

In preparing the Financial Information of the Target, transactions in currencies other than the functional currency of the Target (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the statement of comprehensive income in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in statement of comprehensive income for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which case, the exchange differences are also recognised directly in equity.

(f) Taxation

Income tax expenses represent the sum of the tax currently payable and deferred tax.

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(g) Provisions

Provisions are recognised when the Target has a present obligation as a result of a past event, and it is probable that the Target will be required to settle that obligation. Provisions are measured at the best estimate of the director of the Target of the expenditure required to settle the obligation as at the end of the reporting period, and are discounted to present value where the effect is material.

(h) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Target. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the Financial Information of the Target. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Target. Contingent assets are not recognised but are disclosed in the notes to the Financial Information of the Target when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(i) Related party transactions

Parties are considered to be related to the Target if:

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

b. the party is an associate;

c. the party is a jointly-controlled entity;

d. the party is a member of the key management personnel of the Target or its parent;

e. the party is a close member of the family of any individual referred to in (a) or (d);

f. 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 (d) or (e); or

g. the party is a post-employment benefit plan for the benefit of the employees of the Target, of any entity that is related party of the Target.

A transaction is considered to be a related party transaction when there is a transfer of resources, services or obligations between related parties.

3. Capital risk management

The Target manages its capital to ensure that the Target will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Target's overall strategy remains unchanged during the Relevant Period.

The capital structure of the Target consists of debt, which includes equity attributable to owners of the Target, comprising issued share capital and accumulated losses.

The director of the Target reviews the capital structure on a regular basis. As part of this review, the director considers the cost of capital and the risks associates with each class of capital. Based on recommendations of the director, the Target will balance its overall capital structure through the raising of new debt or the redemption of existing debt.

4. Financial instruments

(a) Categories of financial instruments

	As at 30 September 2009 *HK$*
Financial liabilities	
Amortised cost	6,300

(b) Financial risk management objectives and policies

The Target's major financial instruments include amount due to a shareholder. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

Market risk

(i) Currency risk

The Target does not have foreign currency operations, which expose the Target to foreign currency risk. All the Target's operations are denominated in Hong Kong Dollars ("HK$").

The Target does not have a foreign currency hedging policy during the Relevant Period.

(ii) Interest rate risk

The Target does not have significant interest-bearing assets or liabilities. As a result, the Target's results and operating cash flows are substantially independent of changes in market interest rate.

(iii) Price risk

The Target is not exposed to significant price risk. The management monitors the price movements and takes appropriate actions when it is required.

Credit risk

The Target is not exposed to credit risk in the event of the counterparties' failure to perform their obligations at Relevant Period in relation to the recognised financial asset is the carrying amount of those assets as stated in the statement of financial position.

Liquidity risk

The Target's liquidity risk management includes diversifying the funding sources. Funds raising from amount due to a shareholder during the Relevant Period is the general source of funds to finance the operation of the Target. The Target regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

As at 30 September 2009, the Target's remaining contractual maturity for its non-derivative financial liabilities is the amount due to a shareholder, which falls within one year that based on the earliest date on which the Target can be required to pay.

Fair value

The fair value of the Target's financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and

- the fair value of other financial assets and financial liabilities (excluding derivative financial instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using the relevant prevailing market rate.

The director of the Target considers that the carrying amount of the Target's financial instruments recorded at amortised cost in the Financial Information of the Target approximate to their fair values.

5. Key sources of estimation uncertainty

In the process of applying the accounting policies set out in Note 2 to Financial Information of the Target, management is required to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only the period, or in the period of the revision and future periods if the revision affects both current and future periods. The Target does not have significant estimation made in each class of statement of financial position items at the end of the reporting period.

6. Turnover and segment information

The Target did not generate revenue during the Relevant Period.

As per HKFRS 8 "Operating Segments", no business analysis and segment reporting information such as segment revenue, results, assets, liabilities and other information are shown as the Target only engages in investment holding.

7. Loss from operating activities

No director's emoluments were paid by the Target during the Relevant Period.

No auditors' remuneration and employees' emoluments were paid by the Target during the Relevant Period.

8. Employee benefits expenses

(a) Director's remuneration

	Fee	Salaries, allowance and bonus	Total
	HK$	*HK$*	*HK$*
Mr. Yung (appointed on 5 November 2009)	–	–	–

(b) Employees' emolument

No staff was employed by the Target during the Relevant Period.

9. Taxation

No provision for Hong Kong profits tax has been made as the Target had no assessable profits arising in Hong Kong during the Relevant Period.

A reconciliation of the tax expense attributable to loss before taxation using the statutory rate to the tax charge at the effective rate is as follows:

	For the period from 16 July 2009 (date of incorporation) to 30 September 2009	
	HK$	*%*
Loss before taxation	(6,300)	
Tax at applicable tax rate	(1,040)	(16.5)
Tax loss not recognised	1,040	16.5
Tax charge for the effective tax rate for the period	–	–

No provision for deferred taxation had been made for the Relevant Period as there was no material temporary difference at the balance sheet date.

10. Dividend

The director of the Target does not recommend the payment of any dividend in respect of the Relevant Period.

11. Loss per share

(a) Basic loss per share

	For the period from 16 July 2009 (date of incorporation) to 30 September 2009
	HK$
Loss for the period attributable to owners of the Target	(6,300)
Number of ordinary shares in issue	–
Basic loss per share	N/A

(b) Diluted loss per share

Diluted loss per share for the Relevant Period is the same as the basic loss per share because no potential dilutive ordinary shares were outstanding during the Relevant Period.

12. Share capital

	Number of shares	Share capital	Share capital
		USD	*HKD*
Authorised:			
Ordinary shares at par value	50,000	50,000	390,000
Issued and fully paid:			
As at 16 July 2009 and 30 September 2009	–	–	–

13. Material related party transaction

In addition to the transactions and balances disclosed elsewhere in these Financial Information of the Target, there was no other material related party transaction during the Relevant Period.

During the Relevant Period, no compensation of any kind was paid to the Target's director who was key management personnel of the Target.

14. Capital commitment and contingent liabilities

Capital commitment

The Target did not have any significant capital commitment as at 30 September 2009.

Contingent liabilities

The Target did not have any significant contingent liabilities as at 30 September 2009.

15. Subsequent events

On 5 November 2009, the Target issued 1 share to Mr. Yung at US$1.00 each. The proceeds were used to provide general working capital of the Target.

On 15 January 2010, the Target acquired the entire equity interests of Hui Hao (HK) Group Limited which has share capital of HK$1,000,000, the equity interests of which were owned by Mr. Yung and his wife, Mrs. Yung Muk Ying.

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Target in respect of any period subsequent to 30 September 2009 and no dividends or other distributions have been declared by the Target in respect of any period subsequent to 30 September 2009.

Yours faithfully

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

11 February 2010

The Board of Directors
Hua Xia Healthcare Holdings Limited
Room 1902
19/F, Sing Pao Building
No. 101 King's Road
North Point
HONG KONG

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information regarding Hui Hao (HK) Group Limited ("Huihao Hong Kong") and its subsidiaries (hereinafter collectively referred to as "Huihao Medicine Wholesale Group"), for the years ended 31 March 2007, 2008 and 2009 and for the period from 1 April 2009 to 30 September 2009 (the "Relevant Periods") (the "Financial Information of the Huihao Medicine Wholesale Group"), for inclusion in the circular of Hua Xia Healthcare Holdings Limited (the "Company") dated 11 February 2010 (the "Circular") in connection with the formal sale and purchase agreement dated 13 November 2009 (the "Formal Agreement") entered into between Timely Hero Enterprises Limited (the "Purchaser"), a wholly owned subsidiary of the Company and Mr. Yung Kwok Leong ("Mr. Yung") pursuant to which the Purchaser would acquire the entire issued share capital of Nurture Fit Limited (the "Target") and all obligations, liabilities and debts owing or incurred by the Target, the Huihao Medicine Wholesale Group and 福建惠好四海醫藥連鎖有限公司 ("Huihao Sihai") to Mr. Yung at a total consideration of HK$600,000,000 (the "Consideration"), subject to adjustments (the "Proposed Acquisition").

The Consideration shall be satisfied (i) as to HK$9,800,000 in cash being the initial deposit within 5 business days after the date of the Formal Agreement; (ii) as to HK$10,200,000 in cash being the further deposit on the date the Proposed Acquisition is approved by the shareholders other than Mr. Yung, Easeglory Holdings Limited and their respective associates at the extraordinary general meeting of the Company to be convened to consider and approve the Formal Agreement, the proposed increase of the authorised share capital of the Company from HK$500,000,000 divided into 10,000,000,000 ordinary shares of HK$0.05 each in the issued share capital of the Company (the "Shares") to HK$1,500,000,000 by the creation of an additional 12,000,000,000 Shares and 8,000,000,000 non-redeemable convertible preference shares; (iii) as to HK$290,000,000 by allotting and issuing a total of 4,833,333,333 non-redeemable convertible preference shares of HK$0.06 each in the share capital of the Company; and (iv) as to HK$290,000,000 by issuing promissory note. The Financial Information of the Huihao Medicine Wholesale Group comprises the consolidated statements of financial position of Huihao Medicine Wholesale Group as at 31 March 2007, 2008, 2009 and 30 September 2009 and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements for the Relevant Periods and a summary of significant accounting policies and other explanatory notes.

Huihao Hong Kong is an investment holding company incorporated in Hong Kong with limited liability on 1 March 2004. As at 30 September 2009, Huihao Hong Kong is 70% owned by Mr. Yung and 30% owned by Mrs. Yung Muk Ying respectively and has no major assets or operating business other than its entire interest in 福建省福州市惠好藥業有限公司 (transliterated as "Fujian Province Fuzhou City Huihao Pharmaceutical Co. Ltd), 福建莆田惠好醫藥有限公司 (transliterated as "Putian Medicine Co. Ltd") and 福建省惠明醫藥有限公司 (transliterated as "Fujian Huiming Medicine Co. Ltd"). Upon completion of the acquisition of 100% equity interests in Huihao Medicine Wholesale Group (including 99.29% equity interest in 福建惠好四海醫藥連鎖有限責任公司 ("Huihao Sihai") by the Target, the Target will hold 100% equity interests in Huihao Hong Kong.

Particulars of the principal subsidiaries comprising the Huihao Medicine Wholesale Group at the date of this report are set out below:

Company name	**Place and date of incorporation/ registration**	**Nominal value of issued and fully paid-up share/registered paid-up capital**	**Percentage of equity interest attributable to Huihao Hong Kong**	**Principal activities**
Directly held:				
Fujian Province Fuzhou City Huihao Pharmaceutical Co. Ltd	The PRC 9 July 2008	RMB30,000,000	100%	Pharmaceutical wholesale and distribution business in the PRC
Indirectly held:				
Putian Medicine Co. Ltd#	The PRC 11 July 2008	RMB5,000,000	100%	Pharmaceutical wholesale and distribution business in the PRC
Fujian Huiming Medicine Co. Ltd	The PRC 10 July 2008	RMB5,000,000	100%	Pharmaceutical wholesale and distribution business in the PRC

The statutory financial statements of Putian Medicine Co. Ltd for the period ended 31 December 2008 were audited by Putian Shenxin Certified Public Accountants Ltd (莆田市審斯有限責任會計師事務所), certified public accountants registered in the PRC.

Huihao Medicine Wholesale Group adopts 31 March as its financial year end date. No audited financial statements of Huihao Medicine Wholesale Group have been prepared since its incorporation date.

BASIS OF PREPARATION

The Financial Information of the Huihao Medicine Wholesale Group has been prepared by the directors of Huihao Hong Kong based on the unaudited consolidated financial statements of Huihao Medicine Wholesale Group for the Relevant Periods, on the basis as set out in Note 2 below. The Financial Information of the Huihao Medicine Wholesale Group has been prepared in accordance with Hong Kong Financial Reporting Standards which also include Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and accounting principles generally accepted in Hong Kong.

DIRECTOR'S RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of Huihao Hong Kong are responsible for the preparation and the true and fair presentation of the Financial Information of the Huihao Medicine Wholesale Group in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and the true and fair presentation of the Financial Information of the Huihao Medicine Wholesale Group that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors of the Company are responsible for the contents of the Circular in which this report is included.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Financial Information of the Huihao Medicine Wholesale Group based on our audit. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information of the Huihao Medicine Wholesale Group is free from material misstatement. We have also carried out additional procedures as necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information of the Huihao Medicine Wholesale Group. The procedures selected depend on the reporting accountants' judgment, including the assessment of the risks of material misstatement of the Financial Information of the Huihao Medicine Wholesale Group, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation and true and fair presentation of the Financial Information of the Huihao Medicine Wholesale Group in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Financial Information of the Huihao Medicine Wholesale Group.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, for the purpose of this report, the Financial Information of the Huihao Medicine Wholesale Group gives a true and fair view of the state of affairs of Huihao Medicine Wholesale Group as at 31 March 2007, 2008, 2009 and 30 September 2009 and of the results and cash flows of Huihao Medicine Wholesale Group for the Relevant Periods then ended in accordance with Hong Kong Financial Reporting Standards.

MATERIAL UNCERTAINTY CONCERNING GOING CONCERN BASIS OF ACCOUNTING

Without qualifying our opinion, we draw attention to note 2(a) to the Financial Information of the Huihao Medicine Wholesale Group which indicates that the Huihao Medicine Wholesale Group had net current liabilities of approximately HK$3,394,000 and HK$3,765,000 as at 30 September 2009 and 31 March 2009 respectively. These conditions, along with other matters as set forth in note 2(a) to the Financial Information of the Huihao Medicine Wholesale Group, indicate that existence of a material uncertainty which may cast significant doubt about the Huihao Medicine Wholesale Group's ability to continue as a going concern.

COMPARATIVE FINANCIAL INFORMATION

Respective responsibilities of directors and reporting accountants

The directors of Huihao Hong Kong are responsible for the preparation of the unaudited financial information of the Huihao Medicine Wholesale Group including the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the period from 1 April 2008 to 30 September 2008, together with the notes thereto (the "Unaudited Comparative Financial Information of the Huihao Medicine Wholesale Group").

For the purpose of this report, we have reviewed the Unaudited Comparative Financial Information of the Huihao Medicine Wholesale Group, for which the directors of Huihao Hong Kong are responsible, in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists principally of making enquiries of the Huihao Medicine Wholesale Group's management and applying analytical procedures to the Unaudited Comparative Financial Information of the Huihao Medicine Wholesale Group and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the Unaudited Comparative Financial Information of the Huihao Medicine Wholesale Group.

Conclusion

On the basis of our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Unaudited Comparative Financial Information of the Huihao Medicine Wholesale Group is not prepared, in all material respects, in accordance with HKFRSs.

A. FINANCIAL INFORMATION OF THE HUIHAO MEDICINE WHOLESALE GROUP

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	For the period from 1 April 2009 to 30 September 2009 HK$'000	For the period from 1 April 2008 to 30 September 2008 HK$'000 (Unaudited)	For the year ended 31 March 2009 HK$'000	For the year ended 31 March 2008 HK$'000	For the year ended 31 March 2007 HK$'000
Turnover	6	330,716	–	187,697	–	–
Cost of sales		(319,641)	–	(179,710)	–	–
Gross profit		11,075	–	7,987	–	–
Other revenue	6	648	–	580	102	100
Other income	8	–	–	3,989	–	–
Selling expense		(3,924)	–	(2,537)	–	–
Administrative expense		(7,136)	(2,120)	(6,193)	(115)	(103)
Other operating costs		(318)	–	(73)	–	–
Profit/(Loss) from operating activities	8	345	(2,120)	3,753	(13)	(3)
Finance costs	9	(28)	–	–	–	–
Profit/(Loss) before taxation		317	(2,120)	3,753	(13)	(3)
Taxation	11	(430)	–	(459)	–	–
(Loss)/Profit for the period/year attributable to the owner of Huihao Hong Kong		(113)	(2,120)	3,294	(13)	(3)
Other comprehensive income Exchange differences on translating foreign operations		(5)	–	276	–	–
Other comprehensive income for the year, net of tax		(5)	–	276	–	–
Total comprehensive income for the year attributable to the owners of Huihao Hong Kong		(118)	(2,120)	3,570	(13)	(3)
(Loss)/Profit per share attributable to owners of Huihao Hong Kong during the period/year	13					
– basic and diluted		(0.11)	(2.12)	3.29	(0.01)	–

The accompanying notes form an integral part of the Financial Information of the Huihao Medicine Wholesale Group.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 30 September 2009 HK$'000	As at 31 March 2009 HK$'000	As at 31 March 2008 HK$'000	As at 31 March 2007 HK$'000
ASSETS					
Non-current assets					
Property, plant and equipment	14	7,683	8,172	–	–
		7,683	8,172	–	–
Current assets					
Inventories	16	49,777	51,317	–	–
Trade and other receivables and deposits	15	156,782	128,780	202	100
Amount due from a shareholder	18	–	–	975	997
Amount due from a related party	17	27,882	38,399	–	–
Pledged bank deposit		21,801	–	–	–
Cash and bank balances		5,984	3,317	–	–
		262,226	221,813	1,177	1,097
Total assets		269,909	229,985	1,177	1,097
EQUITY					
Capital and reserves attributable to owners of Huihao Hong Kong					
Share capital	19	1,000	1,000	1,000	1,000
Reserves		3,289	3,407	(25)	(12)
Total equity		4,289	4,407	975	988

	Notes	As at 30 September 2009 HK$'000	As at 31 March 2009 HK$'000	As at 31 March 2008 HK$'000	As at 31 March 2007 HK$'000
LIABILITIES					
Current liabilities					
Trade and other payables	*20*	238,531	211,901	202	109
Tax payables		746	1,080	–	–
Bank borrowings	*23*	13,680	–	–	–
Amount due to a shareholder	*22*	12,619	12,597	–	–
Amount due to a related party	*21*	44	–	–	–
		265,620	225,578	202	109
Total liabilities		265,620	225,578	202	109
Total equity and liabilities		269,909	229,985	1,177	1,097
Net current (liabilities)/assets		(3,394)	(3,765)	975	988
Total assets less current liabilities		4,289	4,407	975	988

The accompanying notes form an integral part of the Financial Information of the Huihao Medicine Wholesale Group.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	(Accumulated losses)/ Retained earnings	Exchange reserves	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2006	1,000	(9)	–	991
Loss for the year	–	(3)	–	(3)
At 31 March 2007 and 1 April 2007	1,000	(12)	–	988
Loss for the year	–	(13)	–	(13)
At 31 March 2008 and 1 April 2008	1,000	(25)	–	975
Acquisition of subsidiaries	–	–	(138)	(138)
Exchange difference on translation of financial statements of overseas subsidiaries	–	–	276	276
Profit for the year	–	3,294	–	3,294
At 31 March 2009 and 1 April 2009	1,000	3,269	138	4,407
Exchange difference on translation of financial statements of overseas subsidiaries	–	–	(5)	(5)
Loss for the period	–	(113)	–	(113)
At 30 September 2009	1,000	3,156	133	4,289

	Share capital	Accumulated losses	Exchange reserves	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2008	1,000	(25)	–	975
Loss for the period (unaudited)	–	(2,120)	–	(2,120)
At 30 September 2008 (unaudited)	1,000	(2,145)	–	(1,145)

The accompanying notes form an integral part of the Financial Information of the Huihao Medicine Wholesale Group.

CONSOLIDATED STATEMENTS OF CASH FLOW

	For the period from 1 April 2009 to 30 September 2009 *HK$'000*	For the period from 1 April 2008 to 30 September 2008 *HK$'000* (Unaudited)	For the year ended 31 March 2009 *HK$'000*	For the year ended 31 March 2008 *HK$'000*	For the year ended 31 March 2007 *HK$'000*
Operating activities					
Profit/(Loss) before taxation	317	(2,120)	3,753	(13)	(3)
Adjustments for:					
Depreciation	812	–	525	–	–
Excess of the Huihao Medicine Wholesale Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition	–	–	(3,989)	–	–
Interest expense	28	–	–	–	–
Interest income	(25)	–	(7)	–	–
Operating cash flows before movements in working capital	1,132	(2,120)	282	(13)	(3)
(Increase)/decrease in trade and other receivables	(28,002)	–	2,895	(102)	(100)
Decrease in inventories	1,540	–	3,626	–	–
Decrease/(increase) in amount due from a related party	10,561	–	(22,731)	–	–
Increase in amount due to a shareholder	22	1,923	13,572	–	–
Increase in trade and other payables	26,630	197	17,687	93	103
Decrease in amount due from a shareholder	–	–	–	22	–
Cash generated from operations	11,883	–	15,331	–	–
Income tax paid	(764)	–	(505)	–	–
Net cash generated from operating activities	11,119	–	14,826	–	–
Investing activities					
Interest received	25	–	7	–	–
Net cash outflow from acquisition of subsidiaries	–	–	(7,914)	–	–
Purchase of property, plant and equipment	(322)	–	(3,696)	–	–

	For the period from 1 April 2009 to 30 September 2009 *HK$'000*	For the period from 1 April 2008 to 30 September 2008 *HK$'000* (Unaudited)	For the year ended 31 March 2009 *HK$'000*	For the year ended 31 March 2008 *HK$'000*	For the year ended 31 March 2007 *HK$'000*
Net cash used in investing activities	(297)	–	(11,603)	–	–
Financing activities					
Increase in pledged bank deposits	(21,801)	–	–	–	–
Interest paid	(28)	–	–	–	–
Proceeds from new borrowings	13,680	–	–	–	–
Net cash used in financing activities	(8,149)	–	–	–	–
Net increase in cash and bank balances	2,673	–	3,223	–	–
Cash and bank balances at the beginning of the period/year	3,317	–	–	–	–
Effect of foreign currency exchange rate changes	(6)	–	94	–	–
Cash and bank balances at the end of the period/year	5,984	–	3,317	–	–
Analysis of balances of cash and bank balances					
Cash and bank balances	5,984	–	3,317	–	–

The accompanying notes form an integral part of the Financial Information of the Huihao Medicine Wholesale Group.

NOTES TO FINANCIAL INFORMATION

1. General information

The registered office of Huihao Hong Kong is at Room 1902, 19/F, Sing Pao Building, 101 King's Road, North Point, Hong Kong. Huihao Hong Kong is wholly-owned by Mr. Yung. Huihao Hong Kong was incorporated in Hong Kong on 1 March 2004 with limited liability.

Huihao Hong Kong is an investment holding company. Its subsidiaries are principally engaged in pharmaceutical wholesale and distribution business in the PRC. The Financial Information of the Huihao Medicine Wholesale Group is presented in Hong Kong Dollars, which is the functional currency of Huihao Hong Kong.

2. Summary of significant accounting policies

The Financial Information of the Huihao Medicine Wholesale Group has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards issued by the HKICPA, and accounting principles generally accepted in Hong Kong ("HKFRSs") (which also include Hong Kong Accounting Standards and Interpretations) and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited as applicable to Accountants' Reports including in the listing documents of circulars. The policies of Huihao Medicine Wholesale Group are materially consistent with the Company's accounting policies. The measurement basis used in the preparation of the Financial Information of the Huihao Medicine Wholesale Group is historical cost convention accounting except for financial assets and financial liabilities have been carried at fair value.

The presentation of the Financial Information of the Huihao Medicine Wholesale Group in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Huihao Medicine Wholesale Group has not yet early applied the following new standards, amendments and interpretations that have been issued but are not yet effective.

Huihao Medicine Wholesale Group is not yet in a position to determine whether these standards, amendments and interpretations will have significant impact on how the results of operations and financial position are prepared and presented. These standards, amendments and interpretations may result in changes in the future as to how the results and financial position are prepared and presented.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Right Issues[5]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adoption[4]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[4]
HKFRS 3 (Revised)	Business Combinations[1]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[3]

1 *Effective for annual periods beginning on or after 1 July 2009*

2 *Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate*

3 *Effective for transfers of assets from customers received on or after 1 July 2009*

4 *Effective for annual periods beginning on or after 1 January 2010*

5 *Effective for annual periods beginning on or after 1 February 2010*

The directors of Huihao Hong Kong expect that the adoption of the above new standards, amendments and interpretations will not have any significant impact on Huihao Hong Kong's financial statements in the period of initial application.

The accounting policies set out below have been applied consistently to the Relevant Periods presented in the Financial Information of the Huihao Medicine Wholesale Group.

(a) Basis of preparation

The Huihao Medicine Group had net current liabilities of approximately HK$3,394,000 and HK$3,765,000 as at 30 September 2009 and 31 March 2009 respectively. Mr. Yung, the shareholder of the Huihao Hong Kong, has confirmed to provide continuing financial support to the Huihao Medicine Wholesale Group, subject to the condition that the relationship between Mr. Yung and the Huihao Hong Kong does not change, so as to enable it to meet its liabilities as and when they fall due and to continue its business for the foreseeable future. The directors of Huihao Hong Kong believe that the Huihao Medicine Wholesale Group will continue as going concern. Consequently, the Financial Information of the Huihao Medicine Wholesale Group has been prepared on a going concern basis.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of Huihao Hong Kong and all its subsidiaries for the years ended 31 March 2007, 2008 and 2009 and the six months period ended 30 September 2008 and 2009. Adjustments are made to bring into line and dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which Huihao Hong Kong obtains control, and continues to be consolidated until the date such control ceases. All significant intercompany transactions and balances within the Huihao Medicine Wholesale Group are eliminated on consolidation.

The acquisition of subsidiaries during the Relevant Periods has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of 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.

(c) Subsidiary

A subsidiary is an entity whose financial and operating policies Huihao Hong Kong controls, directly or indirectly, so as to obtain benefits from its activities. The results of subsidiaries are included in Huihao Hong Kong's statement of comprehensive income to the extent of dividends received and receivable. Huihao Hong Kong's interests in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

(d) Impairment

At each end of the reporting period, the directors of Huihao Hong Kong review the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation increase under that standard.

(e) Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Huihao Medicine Wholesale Group's financial assets are classified into loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each end of the reporting period subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss then there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets carried at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by Huihao Medicine Wholesale Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of Huihao Medicine Wholesale Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognised on an effective interest basis.

Financial liabilities (other than derivative financial instruments)

Huihao Medicine Wholesale Group's financial liabilities are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by Huihao Medicine Wholesale Group are recorded at the proceeds received, net of direct issue costs.

Repurchase of Huihao Medicine Wholesale Group's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of Huihao Medicine Wholesale Group's own equity instruments.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Huihao Medicine Wholesale Group has transferred substantially all the risks and rewards of ownership of the financial 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 profit or loss.

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

(f) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown separately in current liabilities on the consolidated statement of financial position.

(g) Revenue recognition

Revenue from sales of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyers, provided that Huihao Medicine Wholesale Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, Huihao Medicine Wholesale Group reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(h) Property, plant and equipment

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

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated statement of comprehensive income in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is provided to write off the cost of property, plant and equipment, using the straight line method, over their estimated useful lives. The principal annual rates are as follows:

Motor vehicles	$12^1/_2$ to 20%
Office equipment	20 to $33^1/_3$%

The gain or loss arising from disposal of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the consolidated statement of comprehensive income.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs necessary to make the sale.

(j) Trade and other receivables

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

(k) Foreign currencies

In preparing the Financial Information of the Huihao Medicine Wholesale Group, transactions in currencies other than the functional currency of the Huihao Medicine Wholesale Group (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the consolidated statement of comprehensive income in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in consolidated statement of comprehensive income for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which case, the exchange differences are also recognised directly in equity.

(l) Taxation

Income tax expenses represent the sum of the tax currently payable and deferred tax.

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to consolidated statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(m) Provisions

Provisions are recognised when Huihao Medicine Wholesale Group has a present obligation as a result of a past event, and it is probable that Huihao Medicine Wholesale Group will be required to settle that obligation. Provisions are measured at the best estimate of the directors of Huihao Hong Kong of the expenditure required to settle the obligation as at the end of the reporting period, and are discounted to present value where the effect is material.

(n) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Huihao Medicine Wholesale Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the Financial Information of the Huihao Medicine Wholesale Group. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of Huihao Medicine Wholesale Group. Contingent assets are not recognised but are disclosed in the notes to the Financial Information of the Huihao Medicine Wholesale Group when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(o) Related party transactions

Parties are considered to be related to Huihao Medicine Wholesale Group if:

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

b. the party is an associate;

c. the party is a jointly-controlled entity;

d. the party is a member of the key management personnel of Huihao Medicine Wholesale Group or its parent;

e. the party is a close member of the family of any individual referred to in (a) or (d);

f. 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 (d) or (e); or

g. the party is a post-employment benefit plan for the benefit of the employees of Huihao Medicine Wholesale Group, of any entity that is related party of Huihao Medicine Wholesale Group.

A transaction is considered to be a related party transaction when there is a transfer of resources, services or obligations between related parties.

3. Capital risk management

Huihao Medicine Wholesale Group manages its capital to ensure that Huihao Medicine Wholesale Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. Huihao Medicine Wholesale Group's overall strategy remains unchanged during the Relevant Periods.

The capital structure of Huihao Medicine Wholesale Group consists of debt (which includes bank borrowings), which includes cash and equity attributable to owners of Huihao Hong Kong, comprising issued share capital and retained earnings.

Gearing ratio

The gearing ratios at 30 September 2009, 31 March 2009, 31 March 2008 and 31 March 2007 were as follows:

	As at 30 September 2009	**As at 31 March 2009**	**As at 31 March 2008**	**As at 31 March 2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Debt *(note (a))*	13,680	–	–	–
Cash and bank balances	(5,984)	(3,317)	–	–
Net debt	7,696	(3,317)	–	–
Equity *(note (b))*	4,289	4,407	975	988
Gearing ratio	179.4%	N/A	–	–

Notes:

(a) Debt comprises bank borrowings as detailed in note 23.

(b) Equity includes all capital and reserves of the Huihao Medicine Wholesale Group.

4. Financial instruments

(a) Categories of financial instruments

	As at 30 September 2009 *HK$'000*	As at 31 March 2009 *HK$'000*	As at 31 March 2008 *HK$'000*	As at 31 March 2007 *HK$'000*
Financial assets				
Loan and receivables (including cash and bank balances)	209,264	168,651	1,177	1,097
Financial liabilities				
Amortised cost	265,620	225,578	202	109

(b) Financial risk management objectives and policies

Huihao Medicine Wholesale Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. Huihao Medicine Wholesale Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on Huihao Medicine Wholesale Group's financial performance. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Huihao Medicine Wholesale Group's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest risks.

Market risk exposures are measured using sensitivity analysis.

There has been no change to Huihao Medicine Wholesale Group's exposure to market risks or the manner in which it manages and measures the risk.

(i) Foreign currency risk management

Subsidiaries of Huihao Medicine Wholesale Group have foreign currency sales and purchases, which expose Huihao Medicine Wholesale Group to foreign currency risk. The management monitors foreign currency risk. The management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Huihao Medicine Wholesale Group does not have a foreign currency hedging policy during the Relevant Periods.

The carrying amounts of Huihao Medicine Wholesale Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets			
	As at 30 September 2009	**As at 31 March 2009**	**As at 31 March 2008**	**As at 31 March 2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
RMB	208,830	168,215	–	–

	Liabilities			
	As at 30 September 2009	**As at 31 March 2009**	**As at 31 March 2008**	**As at 31 March 2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
RMB	252,648	212,680	–	–

Sensitivity analysis

Huihao Medicine Wholesale Group is mainly exposed to the effects of fluctuation in RMB.

The following table details Huihao Medicine Wholesale Group's sensitivity to a 5% increase and decrease in the Hong Kong dollars against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes outstanding foreign currency denominated monetary items and foreign currency forward contracts, and adjusts their translation at the period end for a 5% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within Huihao Medicine Wholesale Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit and other equity where the Hong Kong dollars strengthen 5% against the relevant currency. For a 5% weakening of the Hong Kong dollars against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	Impact of RMB			
	As at 30 September 2009	**As at 31 March 2009**	**As at 31 March 2008**	**As at 31 March 2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other equity	2,191	2,223	–	–

(ii) Interest rate risk management

Bank borrowings at fixed rates expose Huihao Medicine Wholesale Group to fair value interest rate risk. Huihao Medicine Wholesale Group monitors the interest rate risk exposure on a continuous basis and adjusts the portfolio of borrowings where necessary.

Credit risk

Huihao Medicine Wholesale Group's credit risk is primarily attributable to trade and other receivables. Huihao Medicine Wholesale Group has no significant concentrations of credit risk. It has policies in place to ensure that sales and services are made to customers with an appropriate credit history. The exposure to these credit risks are monitored on an ongoing basis.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of Huihao Medicine Wholesale Group's short, medium and long-term funding and liquidity management requirements. Huihao Medicine Wholesale Group manages liquidity risk by maintaining adequate reserves, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables detail Huihao Medicine Wholesale Group's remaining contractual maturity for its financial liabilities as well as derivative and certain non-derivative financial assets which are included in the maturity analysis provided internally to the key management personnel for the purpose of managing liquidity risk. For non-derivative financial assets, the tables have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where Huihao Medicine Wholesale Group anticipates that the cash flow will occur in a different period. For non-derivative financial liabilities, the tables reflect the undiscounted cash flows of financial liabilities based on the earliest date on which Huihao Medicine Wholesale Group can be required to pay. The tables include both interest and principal cash flows.

	At 30 September 2009					
	Weighted average effective interest rate	**Within 1 year**	**2 to 5 years**	**Over 5 years**	**Total undiscounted cash flows**	**Total carrying amount**
Non-derivative financial liabilities						
Trade and other payables	–	238,531	–	–	238,531	238,531
Bank borrowings	2.33%	13,680	–	–	13,680	13,680
Amount due to a shareholder	–	12,619	–	–	12,619	12,619
Tax payables	–	746	–	–	746	746
Amount due to a related party	–	44	–	–	44	44
		265,620	–	–	265,620	265,620

At 31 March 2009

	Weighted average effective interest rate	Within 1 year	2 to 5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
Non-derivative financial liabilities						
Trade and other payables	–	211,901	–	–	211,901	211,901
Tax payables	–	1,080	–	–	1,080	1,080
Amount due to a shareholder	–	12,597	–	–	12,597	12,597
		225,578	–	–	225,578	225,578

At 31 March 2008

	Weighted average effective interest rate	Within 1 year	2 to 5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
Non-derivative financial liabilities						
Trade and other payables	–	202	–	–	202	202
		202	–	–	202	202

At 31 March 2007

	Weighted average effective interest rate	Within 1 year	2 to 5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
Non-derivative financial liabilities						
Trade and other payables	–	109	–	–	109	109
		109	–	–	109	109

Fair value

The fair value of Huihao Medicine Wholesale Group's financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and

- the fair value of other financial assets and financial liabilities (excluding derivative financial instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using the relevant prevailing market rate.

The directors of Huihao Hong Kong consider that the carrying amount of Huihao Medicine Wholesale Group's financial instruments recorded at amortised cost in the Financial Information of the Huihao Medicine Wholesale Group approximate to their fair values.

5. Key sources of estimation uncertainty

In the process of applying the accounting policies set out in Note 2 to Financial Information of the Huihao Medicine Wholesale Group, management has made certain key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that may have a significant risk in causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

(a) Impairment of trade receivables

The aged debt profile of trade debtors is reviewed on a regular basis to ensure that the trade debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, Huihao Medicine Wholesale Group may experience delays in collection. Where recoverability of trade debtor balances are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the consolidated statement of comprehensive income. Changes in the collectability of trade receivables for which provision are not made could affect our results of operations.

(b) Useful lives of property, plant and equipment

In accordance with HKAS 16, Huihao Medicine Wholesale Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. Huihao Medicine Wholesale Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

(c) Income taxes and deferred taxation

Huihao Medicine Wholesale Group is subject to income taxes in different jurisdictions. Significant judgment is required in determining the provision for income tax. 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.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

6. Turnover and other revenue

An analysis for Huihao Medicine Wholesale Group's turnover and other revenue for the period/year is as follows:

	For the period from 1 April 2009 to 30 September 2009 *HK$'000*	For the period from 1 April 2008 to 30 September 2008 *HK$'000* (Unaudited)	For the year ended 31 March 2009 *HK$'000*	For the year ended 31 March 2008 *HK$'000*	For the year ended 31 March 2007 *HK$'000*
Turnover:					
Sales of pharmaceutical products	330,716	–	187,697	–	–
Other revenue:					
Interest income	25	–	7	–	–
Commission income	–	–	100	102	100
Sundry income	623	–	473	–	–
	648	–	580	102	100

7. Segment information

As per HKFRS 8 "Operating Segments", no business analysis and segment reporting information such as segment revenue, results, assets, liabilities and other information are shown substantially as Huihao Medicine Wholesale Group only engages in pharmaceutical wholesale and distribution in the PRC.

8. Profit/(Loss) from operating activities

	For the period from 1 April 2009 to 30 September 2009	For the period from 1 April 2008 to 30 September 2008	For the year ended 31 March 2009	For the year ended 31 March 2008	For the year ended 31 March 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Unaudited)			
Auditors' remuneration	–	1,172	1,172	–	–
Depreciation on owned assets	812	–	525	–	–
Operating lease rentals in respect of land and building	446	–	291	–	–
Staff cost including directors' remuneration:					
Salaries and other benefits	3,428	50	2,393	101	101
and after crediting:					
Other income:					
Excess of the Huihao Medicine Wholesale Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition *(note 25)*	–	–	3,989	–	–

9. Finance costs

	For the period from 1 April 2009 to 30 September 2009	From the period from 1 April 2008 to 30 September 2008	For the year ended 31 March 2009	For the year ended 31 March 2008	For the year ended 31 March 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Unaudited)			
Interests on bank borrowings	28	–	–	–	–

10. Employee benefits expenses

(a) *Director's remuneration*

	For the period from 1 April 2009 to 30 September 2009	For the period from 1 April 2008 to 30 September 2008	For the year ended 31 March 2009	For the year ended 31 March 2008	For the year ended 31 March 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Unaudited)			
Mr. Yung	–	–	–	–	–
Mrs. Yung Muk Ying	–	–	–	–	–
	–	–	–	–	–

(b) *Five highest paid individuals*

	For the period from 1 April 2009 to 30 September 2009	For the period from 1 April 2008 to 30 September 2008	For the year ended 31 March 2009	For the year ended 31 March 2008	For the year ended 31 March 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Unaudited)			
Basic salaries and allowances	228	48	235	96	96
Retirement benefit scheme contribution	2	2	5	5	5
	230	50	240	101	101

11. Taxation

No provision for Hong Kong profits tax has been made as Huihao Medicine Wholesale Group had no assessable profits arising in Hong Kong during the Relevant Periods.

Taxation for other jurisdiction is calculated at the rates prevailing in the respective jurisdictions.

	For the period from 1 April 2009 to 30 September 2009	For the period from 1 April 2008 to 30 September 2008	For the year ended 31 March 2009	For the year ended 31 March 2008	For the year ended 31 March 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Unaudited)			
Current taxation:					
Provision for the period/ year	430	–	459	–	–

A reconciliation of the tax expense attributable to profit/(loss) before taxation using the statutory rate to the tax charge at the effective rate is as follows:

	For the period from 1 April 2009 to 30 September 2009		For the period from 1 April 2008 to 30 September 2008		For the year ended 31 March 2009		For the year ended 31 March 2008		For the year ended 31 March 2007	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
			(Unaudited)							
Profit/(Loss) before taxation	317		(2,120)		3,753		(13)		(3)	
Tax at applicable tax rate	85	26.8	(350)	(16.5)	775	20.7	(2)	(16.5)	(1)	(17.5)
Tax effect of income and expense not taxable or deductible for tax purpose	–	–	–	–	(658)	(17.5)	–	–	–	–
Under provision in previous year	7	2.2	–	–	–	–	–	–	–	–
Tax loss not recognised	338	106.6	350	16.5	342	9.1	2	16.5	1	17.5
Tax charge for the effective tax rate for the period/year	430	135.6	–	–	459	12.3	–	–	–	–

No provision for deferred taxation had been made for the Relevant Periods as there was no material temporary difference at the balance sheet date.

12. Dividend

The directors of Huihao Hong Kong do not recommend the payment of any dividend in respect of the Relevant Periods.

13. (Loss)/Profit per share

(a) Basic (loss)/profit per share

	For the period from 1 April 2009 to 30 September 2009 *HK$'000*	For the period from 1 April 2008 to 30 September 2008 *HK$'000* (Unaudited)	For the year ended 31 March 2009 *HK$'000*	For the year ended 31 March 2008 *HK$'000*	For the year ended 31 March 2007 *HK$'000*
(Loss)/profit for the period/year attributable to owners of Huihao Hong Kong	(113)	(2,120)	3,294	(13)	(3)
Number of ordinary shares in issue	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Basic (loss)/profit per share	(0.11)	(2.12)	3.29	(0.01)	–

(b) Diluted (loss)/profit per share

Diluted (loss)/profit per share for the Relevant Periods is the same as the basic (loss)/profit per share because no potential dilutive ordinary shares were outstanding during the Relevant Periods.

14. Property, plant and equipment

	Office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Cost			
As at 1 April 2006, 31 March 2007, 1 April 2007, 31 March 2008 and 1 April 2008	–	–	–
Acquisition of subsidiaries	4,192	783	4,975
Additions	2,528	1,168	3,696
Exchange realignment	37	7	44
As at 31 March 2009 and 1 April 2009	6,757	1,958	8,715
Additions	237	85	322
Exchange realignment	1	–	1
As at 30 September 2009	6,995	2,043	9,038
Depreciation			
As at 1 April 2006, 31 March 2007, 1 April 2007, 31 March 2008 and 1 April 2008	–	–	–
Acquisition of subsidiaries	18	–	18
Provided for the year	423	102	525
As at 31 March 2009 and 1 April 2009	441	102	543
Provided for the period	634	178	812
As at 30 September 2009	1,075	280	1,355
Net book value			
As at 30 September 2009	5,920	1,763	7,683
As at 31 March 2009	6,316	1,856	8,172
As at 31 March 2008	–	–	–
As at 31 March 2007	–	–	–

15. Trade and other receivables and deposits

	As at 30 September 2009 *HK$'000*	As at 31 March 2009 *HK$'000*	As at 31 March 2008 *HK$'000*	As at 31 March 2007 *HK$'000*
Trade receivables	101,806	96,151	–	–
Other receivables	47,673	30,122	202	100
Prepayments	3,185	1,845	–	–
Bills receivables	4,118	662	–	–
	156,782	128,780	202	100

The aged analysis of trade receivables as follows:

	As at 30 September 2009 *HK$'000*	As at 31 March 2009 *HK$'000*	As at 31 March 2008 *HK$'000*	As at 31 March 2007 *HK$'000*
0 – 90 days	94,196	86,924	–	–
91 – 180 days	3,004	9,084	–	–
181 – 365 days	4,590	143	–	–
Over 365 days	16	–	–	–
	101,806	96,151	–	–

According to the credit rating of different customers, Huihao Medicine Wholesale Group allows a range of credit periods not exceeding 90 days to its trade customers. Trade receivables are all denominated in RMB.

Aging of trade receivables which are not considered to be impaired is as follows:

	As at 30 September 2009 *HK$'000*	As at 31 March 2009 *HK$'000*	As at 31 March 2008 *HK$'000*	As at 31 March 2007 *HK$'000*
Over 90 days	7,610	9,227	–	–

Trade receivables that were past due but not impaired related to a number of customers that have good track record with Huihao Medicine Wholesale Group. Based on past experience, management believes that no impairment allowance if necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. Huihao Medicine Wholesale Group does not hold any collateral over these balances.

In determining the recoverability of trade receivables, the directors of Huihao Medicine Wholesale Group consider any change in the credit quality of the trade receivables from the date credit were initially granted up to the reporting date. Accordingly, the directors of Huihao Medicine Wholesale Group considered that provision for impairment in value be made in respect of trade receivables to their recoverable values and believe that there is no further credit provision required in excess of the allowance for doubtful debts.

16. Inventories

	As at 30 September 2009	**As at 31 March 2009**	**As at 31 March 2008**	**As at 31 March 2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Finished goods	49,777	51,317	–	–

17. Amount due from a related party

	As at 30 September 2009	**As at 31 March 2009**	**As at 31 March 2008**	**As at 31 March 2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Huihao Sihai	27,882	38,399	–	–

	Highest balance during the period/year ended			
	30 September 2009	**31 March 2009**	**31 March 2008**	**31 March 2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Huihao Sihai	38,399	38,399	–	–

Mr. Yung is the common shareholder of Huihao Hong Kong and Huihao Sihai.

The amount due is unsecured, interest-free and recoverable on demand.

At 30 September 2009, Huihao Medicine Wholesale Group's amount due from a related party with an aggregate carrying value of approximately HK$16,867,000 have been pledged to secure credit facilities granted to Huihao Medicine Wholesale Group *(Note 23)*.

18. Amount due from a shareholder

	As at 30 September 2009	**As at 31 March 2009**	**As at 31 March 2008**	**As at 31 March 2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Yung	–	–	975	997

	Highest balance during the period/year ended			
	30 September 2009	**31 March 2009**	**31 March 2008**	**31 March 2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Yung	–	975	997	997

The amount due is unsecured, interest-free and recoverable on demand.

19. Share capital

	Number of shares	**Share capital**
		HK$'000
Authorised:		
Ordinary shares at par value	1,000,000	1,000
Issued and fully paid:		
As at 1 April 2006, 31 March 2007, 31 March 2008, 31 March 2009 and 30 September 2009	1,000,000	1,000

20. Trade and other payables

	As at 30 September 2009 *HK$'000*	As at 31 March 2009 *HK$'000*	As at 31 March 2008 *HK$'000*	As at 31 March 2007 *HK$'000*
Trade payables	160,397	164,916	–	–
Accruals and other payables	34,500	27,099	202	109
Bills payables	26,501	–	–	–
Receipt in advance	17,133	19,886	–	–
	238,531	211,901	202	109

The aged analysis of trade payables as follows:

	As at 30 September 2009 *HK$'000*	As at 31 March 2009 *HK$'000*	As at 31 March 2008 *HK$'000*	As at 31 March 2007 *HK$'000*
0 – 90 days	89,622	80,687	–	–
91 – 180 days	16,131	44,139	–	–
181 – 365 days	24,016	40,090	–	–
Over 365 days	30,628	–	–	–
	160,397	164,916	–	–

For the period ended 30 September 2009, the above bill payables were secured by pledged deposit amounting to approximately HK$21,801,000 and guarantee provided by Mr. Yung, a director and shareholder of Huihao Hong Kong.

21. Amount due to a related party

	As at 30 September 2009 HK$'000	As at 31 March 2009 HK$'000	As at 31 March 2008 HK$'000	As at 31 March 2007 HK$'000
Huihao Sihai	44	–	–	–

The amount due is unsecured, interest-free and repayable on demand.

22. Amount due to a shareholder

The amount due is unsecured, interest-free and repayable on demand.

23. Bank borrowing, secured

	As at 30 September 2009 HK$'000	As at 31 March 2009 HK$'000	As at 31 March 2008 HK$'000	As at 31 March 2007 HK$'000
Bank borrowing	13,680	–	–	–

The maturity of the above bank borrowing is as follows:

On demand or within one year	13,680	–	–	–
More than one year but not exceeding two years	–	–	–	–
	13,680	–	–	–
Less: Amount due within one year shown under current liabilities	(13,680)	–	–	–
Amount due after one year	–	–	–	–

For the period ended 30 September 2009, the above bank borrowing was secured by amount due from a related party amounting to approximately HK$16,867,000. The weighted average effective interest rate on the bank borrowings is 2.33% per annum.

An analysis of the carrying amounts of the total borrowings by type and currency is as follows:

	As at 30 September 2009	**As at 31 March 2009**	**As at 31 March 2008**	**As at 31 March 2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At fixed rates				
Renminbi ("RMB")	13,680	–	–	–

24. Material related party transaction

Save as disclosed elsewhere the Financial Information of the Huihao Medicine Wholesale Group, Huihao Medicine Wholesale Group had the following material related party transactions during the Relevant Periods:

(a) Compensation for key management personnel, including amount paid to directors and senior executives are as follows:

	For the period from 1 April 2009 to 30 September 2009	**For the period from 1 April 2008 to 30 September 2008**	**For the year ended 31 March 2009**	**For the year ended 31 March 2008**	**For the year ended 31 March 2007**
	HK$'000	*HK$'000* (Unaudited)	*HK$'000*	*HK$'000*	*HK$'000*
Basic salaries and allowance	535	–	311	–	–
Retirement benefits scheme contributions	21	–	14	–	–
	556	–	325	–	–

Further details of directors' emoluments are included in Note 10 to the Financial Information of Huihao Medicine Wholesale Group.

(b) Huihao Medicine Wholesale Group had the following material transactions with a related company, Huihao Sihai, during the Relevant Periods:

	For the period from 1 April 2009 to 30 September 2009	For the period from 1 April 2008 to 30 September 2008	For the year ended 31 March 2009	For the year ended 31 March 2008	For the year ended 31 March 2007
	HK$'000	*HK$'000* (Unaudited)	*HK$'000*	*HK$'000*	*HK$'000*
Sales of pharmaceutical products	34,984	–	24,051	–	–

(c) Mr. Yung, a director and shareholder of Huihao Hong Kong, has provided guarantee for banking facilities made available to a subsidiary of Huihao Hong Kong.

25. Acquisition of subsidiaries

On 13 October 2008, Huihao Hong Kong entered into an acquisition agreement with independent third parties to acquire 100% equity interest in Fujian Province Fuzhou City Huihao Pharmaceutical Co. Ltd. at a total consideration of RMB10,000,000. The acquisition was completed on 2 December 2008.

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

	Acquiree's carrying amount before combination and fair value
	HK$'000
Property, plant and equipment	4,957
Inventories	54,943
Trade and other receivables	131,473
Amounts due from related parties	15,693
Cash and bank balance	3,451
Trade and other payables	(194,012)
Amount due to a related party	(25)
Tax payable	(1,126)
Net assets	15,354
Excess of the Huihao Medicine Wholesale Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition *(note 8)*	(3,989)
	11,365
Total consideration satisfied by:	
Cash	11,365
New cash outflow arising on acquisition	
Cash consideration paid	(11,365)
Cash acquired	3,451
	(7,914)

Note:

(a) For the year ended 31 March 2009, the subsidiaries acquired during the period contributed approximately HK$187,697,000 to Huihao Medicine Wholesale Group's turnover and profit after tax of approximately HK$1,378,000.

26. Pledge of assets

At 30 September 2009, certain amount due from a related party *(Note 17)* of Huihao Medicine Wholesale Group has been pledged to banks to secure credit facilities granted to Huihao Medicine Wholesale Group.

At 30 September 2009, pledged bank deposit amounting to approximately HK$21,801,000 has been pledged to banks to secure bills payables.

27. Capital commitment and contingent liabilities

Capital commitment

Huihao Medicine Wholesale Group did not have significant capital commitment as at 30 September 2009.

Operating lease commitments

At the balance sheet date, Huihao Medicine Wholesale Group had the following future minimum lease payments under non-cancellable operating leases is respect of rented premises as follows:

	As at 30 September 2009	**As at 31 March 2009**	**As at 31 March 2008**	**As at 31 March 2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Operating lease which expire:				
– within one year	752	834	–	–
– two to five years	2,676	2,703	–	–
– over five years	2,462	2,791	–	–
	5,890	6,328	–	–

Contingent liabilities

Huihao Medicine Wholesale Group did not have significant contingent liabilities.

28. Subsequent events

On 3 November 2009, Huihao Hong Kong decided to increase its investment in Fujian Province Fuzhou City Huihao Pharmaceutical Co. Ltd by RMB20,000,000. The registered capital of Fujian Province Fuzhou City Huihao Pharmaceutical Co. Ltd was then increased from RMB10,000,000 to RMB30,000,000.

On 9 November 2009, Fuijian Province Fuzhou City Huihao Pharmaceutical Co. Ltd received the increased registered capital of RMB20,000,000 from Huihao Hong Kong.

On 20 December 2009, Huihao Hong Kong and Mr. Yung entered into a loan agreement (the "Loan Agreement") in relation to the advancement of loan of approximately HK$12,460,000 by Huihao Hong Kong to Mr. Yung for the purpose of acquisition of 99.29% equity interests in Huihao Sihai for an initial term of ten years.

On 20 December 2009, Huihao Hong Kong, Mr, Yung and Huihao Sihai entered into an agreement (the "Exclusive Share Purchase Agreement") in relation to the acquisition of 99.29% equity interests in Huihao Sihai by Huihao Hong Kong.

On 20 December 2009, a share charge created by Mr. Yung in favour of Huihao Hong Kong over his equity interests in Huihao Sihai as a security to the Loan Agreement and the Exclusive Share Purchase Agreement.

On 20 December 2009, Huihao Sihai, Mr. Yung and Huihao Hong Kong entered into an exclusive appointment agreement in relation to, among other things, the appointment of two directors to the board of directors of Huihao Sihai by Huihao Hong Kong.

On 20 December 2009, an undertaking entered by each of Mr. Yung and Mrs. Yung in favour of Huihao Hong Kong that each of them shall vote in accordance with the instructions of Huihao Hong Kong in all future directors' meetings of Huihao Sihai prior to the completion of the Exclusive Share Purchase Agreement.

On 20 December 2009, an undertaking entered by Mr. Yung in favour of Huihao Hong Kong that he will vote in accordance with the instructions of Huihao Hong Kong in all future shareholder's meetings of Huihao Sihai prior to the completion of the Exclusive Share Purchase Agreement.

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for Huihao Medicine Wholesale Group in respect of any period subsequent to 30 September 2009 and no dividends or other distributions have been declared by Huihao Medicine Wholesale Group in respect of any period subsequent to 30 September 2009.

Yours faithfully

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

11 February 2010

The Board of Directors
Hua Xia Healthcare Holdings Limited
Room 1902
19/F, Sing Pao Building
No. 101 King's Road
North Point
HONG KONG

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information regarding 福建惠好四海醫藥連鎖有限公司 ("Huihao Sihai"), for the years ended 31 March 2007, 2008 and 2009 and for the period from 1 April 2009 to 30 September 2009 (the "Relevant Periods") (the "Financial Information of Huihao Sihai"), for inclusion in the circular of Hua Xia Healthcare Holdings Limited (the "Company") dated 11 February 2010 (the "Circular") in connection with the formal sale and purchase agreement dated 13 November 2009 (the "Formal Agreement") entered into between Timely Hero Enterprises Limited (the "Purchaser"), a wholly owned subsidiary of the Company and Mr. Yung Kwok Leong ("Mr. Yung") pursuant to which the Purchaser would acquire the entire issued share capital of Nurture Fit Limited (the "Target") and all obligations liabilities and debts owing or incurred by the Target, Hui Hao (HK) Group Limited and its subsidiaries and Huihao Sihai to Mr. Yung at a total consideration of HK$600,000,000 (the "Consideration"), subject to adjustments (the "Proposed Acquisition").

The Consideration shall be satisfied (i) as to HK$9,800,000 in cash being the initial deposit within 5 business days after the date of the Formal Agreement; (ii) as to HK$10,200,000 in cash being the further deposit on the date the Proposed Acquisition is approved by the shareholders other than Mr. Yung, Easeglory Holdings Limited and their respective associates at the extraordinary general meeting of the Company to be convened to consider and approve the Formal Agreement, the proposed increase of the authorised share capital of the Company from HK$500,000,000 divided into 10,000,000,000 ordinary shares of HK$0.05 each in the issued share capital of the Company (the "Shares") to HK$1,500,000,000 by the creation of an additional 12,000,000,000 Shares and 8,000,000,000 non-redeemable convertible preference shares; (iii) as to HK$290,000,000 by allotting and issuing a total of 4,833,333,333 non-redeemable convertible preference shares of HK$0.06 each in the share capital of the Company; and (iv) as to HK$290,000,000 by issuing promissory note. The Financial Information of the Huihao Sihai comprises the statements of financial position of Huihao Sihai as at 31 March 2007, 2008, 2009 and 30 September 2009 and the statements of comprehensive income, the statements of changes in equity and the cash flow statements for the Relevant Periods and a summary of significant accounting policies and other explanatory notes.

Huihao Sihai is principally engaged in pharmaceutical retail chain business in Fujian, the People's Republic of China (the "PRC") and established in the PRC with limited liability on 30 November 2001. As at 30 September 2009, Huihao Sihai is 99.29% owned by Mr. Yung and 0.71% owned by 林紹綰 (transliterated as "Lin Shaowan"). Upon completion of the acquisition of 100% equity interests in Hui Hao (HK) Group Limited and its subsidiaries (including 99.29% equity interests in Huihao Sihai) by the Target, the Target will hold 99.29% equity interests in Huihao Sihai through Hui Hao (HK) Group Limited.

Huihao Sihai adopts 31 March as its financial year end date. No audited financial statements of Huihao Sihai have been prepared since its incorporation date.

BASIS OF PREPARATION

The Financial Information of Huihao Sihai has been prepared by the directors of Huihao Sihai based on the unaudited financial statements of Huihao Sihai for the Relevant Periods, on the basis as set out in Note 2 below. The Financial Information of Huihao Sihai has been prepared in accordance with Hong Kong Financial Reporting Standards which also include Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and accounting principles generally accepted in Hong Kong.

DIRECTOR'S RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of Huihao Sihai are responsible for the preparation and the true and fair presentation of the Financial Information of Huihao Sihai in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and the true and fair presentation of the Financial Information of Huihao Sihai that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors of the Company are responsible for the contents of the Circular in which this report is included.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Financial Information of Huihao Sihai based on our audit. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information of Huihao Sihai is free from material misstatement. We have also carried out additional procedures as necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information of Huihao Sihai. The procedures selected depend on the reporting accountants' judgment, including the assessment of the risks of material misstatement of the Financial Information of Huihao Sihai, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation and true and fair presentation of the Financial Information of Huihao Sihai in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Financial Information of Huihao Sihai.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, for the purpose of this report, the Financial Information of Huihao Sihai gives a true and fair view of the state of affairs of Huihao Sihai as at 31 March 2007, 2008, 2009 and 30 September 2009 and of the results and cash flows of Huihao Sihai for the Relevant Periods then ended in accordance with Hong Kong Financial Reporting Standards.

MATERIAL UNCERTAINTY CONCERNING GOING CONCERN BASIS OF ACCOUNTING

Without qualifying our opinion, we draw attention to note 2(a) to the Financial Information of Huihao Sihai which indicates that Huihao Sihai had net current liabilities of approximately RMB7,672,000 and RMB4,743,000 as at 30 September 2009 and 31 March 2009 respectively. These conditions, along with other matters as set forth in note 2(a) to the Financial Information of Huihao Sihai, indicate that existence of a material uncertainty which may cast significant doubt about Huihao Sihai's ability to continue as a going concern.

COMPARATIVE FINANCIAL INFORMATION

Respective responsibilities of director and reporting accountants

The directors of Huihao Sihai are responsible for the preparation of the unaudited financial information of Huihao Sihai including the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the period from 1 April 2008 to 30 September 2008, together with the notes thereto (the "Unaudited Comparative Financial Information of Huihao Sihai").

For the purpose of this report, we have reviewed the Unaudited Comparative Financial Information of Huihao Sihai, for which the directors of Huihao Sihai are responsible, in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists principally of making enquiries of the Huihao Sihai's management and applying analytical procedures to the Unaudited Comparative Financial Information of Huihao Sihai and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the Unaudited Comparative Financial Information of Huihao Sihai.

Conclusion

On the basis of our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Unaudited Comparative Financial Information of Huihao Sihai is not prepared, in all material respects, in accordance with HKFRSs.

A. FINANCIAL INFORMATION OF HUIHAO SIHAI

STATEMENTS OF COMPREHENSIVE INCOME

	Notes	For the period from 1 April 2009 to 30 September 2009 RMB'000	For the period from 1 April 2008 to 30 September 2008 RMB'000 (Unaudited)	For the year ended 31 March 2009 RMB'000	For the year ended 31 March 2008 RMB'000	For the year ended 31 March 2007 RMB'000
Turnover	6	62,923	18,805	72,720	24,653	17,707
Cost of sales		(47,416)	(13,515)	(54,953)	(19,011)	(14,293)
Gross profit		15,507	5,290	17,767	5,642	3,414
Other revenue	6	1,678	24	965	218	395
Gain arising from change in fair value of investment properties	14	800	–	100	1,000	600
Selling expense		(14,870)	(2,732)	(14,424)	(2,785)	(1,930)
Administrative expense		(3,806)	(1,290)	(4,806)	(1,690)	(1,604)
Other operating expenses		(257)	(90)	(68)	–	(257)
(Loss)/Profit from operating activities	8	(948)	1,202	(466)	2,385	618
Finance costs	9	(549)	(578)	(1,201)	(1,284)	(1,211)
(Loss)/Profit before taxation		(1,497)	624	(1,667)	1,101	(593)
Taxation	11	(80)	(19)	(65)	(75)	–
Loss for the period/year attributable to owners of Huihao Sihai		(1,577)	605	(1,732)	1,026	(593)
Other comprehensive income for the year, net of tax		–	–	–	–	–
Total comprehensive income for the year attributable to owners of Huihao Sihai		(1,577)	605	(1,732)	1,026	(593)

The accompanying notes form an integral part of the Financial Information of Huihao Sihai.

STATEMENTS OF FINANCIAL POSITION

	Notes	As at 30 September 2009 RMB'000	As at 31 March 2009 RMB'000	As at 31 March 2008 RMB'000	As at 31 March 2007 RMB'000
ASSETS					
Non-current assets					
Available-for-sale financial assets	*13*	3,562	3,562	3,562	3,562
Investment properties	*14*	4,400	3,600	3,500	2,500
Prepaid lease payment	*15*	3,778	3,832	3,194	4,118
Property, plant and equipment	*16*	4,583	3,977	200	207
		16,323	14,971	10,456	10,387
Current assets					
Inventories	*18*	23,756	18,204	951	1,305
Trade and other receivables and deposits	*17*	52,949	61,288	24,726	27,815
Amount due from a related party	*19*	42	–	–	–
Cash and bank balances		4,730	6,330	1,310	956
		81,477	85,822	26,987	30,076
Total assets		97,800	100,793	37,443	40,463
EQUITY					
Capital and reserves attributable to owners of Huihao Sihai					
Paid-in capital	*20*	15,856	15,856	15,856	15,856
Reserves		(7,501)	(5,924)	(4,192)	(5,218)
Total equity		8,355	9,932	11,664	10,638

	Notes	As at 30 September 2009 RMB'000	As at 31 March 2009 RMB'000	As at 31 March 2008 RMB'000	As at 31 March 2007 RMB'000
LIABILITIES					
Non-current liabilities					
Long term payables		296	296	296	296
		296	296	296	296
Current liabilities					
Trade and other payables	*21*	49,970	42,433	11,464	9,529
Tax payables		3	39	19	–
Bank borrowings	*23*	14,000	14,000	14,000	20,000
Other borrowings	*24*	500	–	–	–
Amounts due to related parties	*22*	24,676	34,093	–	–
		89,149	90,565	25,483	29,529
Total liabilities		89,445	90,861	25,779	29,825
Total equity and liabilities		97,800	100,793	37,443	40,463
Net current (liabilities)/assets		(7,672)	(4,743)	1,504	547
Total assets less current liabilities		8,651	10,228	11,960	10,934

The accompanying notes form an integral part of the Financial Information of Huihao Sihai.

STATEMENTS OF CHANGES IN EQUITY

	Share capital	Statutory reserves	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 April 2006	15,856	807	(5,432)	11,231
Loss for the year	–	–	(593)	(593)
At 31 March 2007 and 1 April 2007	15,856	807	(6,025)	10,638
Profit for the year	–	–	1,026	1,026
At 31 March 2008 and 1 April 2008	15,856	807	(4,999)	11,664
Loss for the year	–	–	(1,732)	(1,732)
At 31 March 2009 and 1 April 2009	15,856	807	(6,731)	9,932
Loss for the period	–	–	(1,577)	(1,577)
At 30 September 2009	15,856	807	(8,308)	8,355

	Share capital	Statutory reserves	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 April 2008	15,856	807	(4,999)	11,664
Profit for the period (unaudited)	–	–	605	605
At 30 September 2008 (unaudited)	15,856	807	(4,394)	12,269

The accompanying notes form an integral part of the Financial Information of Huihao Sihai.

STATEMENT OF CASH FLOW

	For the period from 1 April 2009 to 30 September 2009	For the period from 1 April 2008 to 30 September 2008	For the year ended 31 March 2009	For the year ended 31 March 2008	For the year ended 31 March 2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Unaudited)			
Operating activities					
(Loss)/Profit before taxation	(1,497)	624	(1,667)	1,101	(593)
Adjustments for:					
Depreciation and amortisation	894	138	478	276	400
(Gain)/Loss on disposal of prepaid lease payment	–	–	–	(117)	37
Gain arising from change in fair value of investment properties	(800)	–	(100)	(1,000)	(600)
Loss on disposal of property, plant and equipment	151	46	48	(–)	–
Interest expense	549	578	1,201	1,284	1,211
Interest income	(14)	(7)	(14)	(6)	(4)
Operating cash flows before movements in working capital	(717)	1,379	(54)	1,538	451
(Decrease)/increase in trade and other receivables and deposits	8,339	(26,140)	(36,541)	3,062	(6,729)
Increase in amount due from a related party	(42)	–	–	–	–
(Increase)/decrease in inventories	(5,552)	(10,185)	(17,253)	354	837
Increase/(decrease) in trade and other payables	7,537	33,120	30,969	1,935	(7,503)
(Decrease)/increase in amounts due to related parties	(9,417)	4,192	34,093	–	–
Decrease in long term payables	–	–	–	–	(927)
Cash generated from/ (used in) operations	148	2,366	11,214	6,889	(13,871)
Income tax paid	(116)	(19)	(45)	(56)	–
Net cash generated from/ (used in) operating activities	32	2,347	11,169	6,833	(13,871)
Investing activities					
Interest received	14	7	14	6	4
Proceeds from disposal of available-for-sale financial assets	–	–	–	–	5,832
Proceeds from disposal of prepaid lease payment	–	–	–	914	1,755
Proceeds from disposal of property, plant and equipment	558	1	1	–	32
Purchase of property, plant and equipment	(2,155)	(957)	(4,177)	(115)	(42)
Purchase of prepaid lease payment	–	–	(786)	–	–

	For the period from 1 April 2009 to 30 September 2009	For the period from 1 April 2008 to 30 September 2008	For the year ended 31 March 2009	For the year ended 31 March 2008	For the year ended 31 March 2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Unaudited)			
Net cash (used in)/generated from investing activities	(1,583)	(949)	(4,948)	805	7,581
Financing activities					
Interest paid	(549)	(578)	(1,201)	(1,284)	(1,211)
Repayment of bank borrowings	(7,000)	(14,000)	(14,000)	(20,000)	(7,000)
Repayment of other borrowings	–	–	–	–	(5,500)
Proceeds from other borrowings	500	–	–	–	–
Proceeds from new borrowings	7,000	14,000	14,000	14,000	20,000
Net cash (used in)/generated from financing activities	(49)	(578)	(1,201)	(7,284)	6,289
Net (decrease)/increase in cash and bank balances	(1,600)	820	5,020	354	(1)
Cash and bank balances at the beginning of the year/period	6,330	1,310	1,310	956	957
Cash and bank balances at the end of the period/year	4,730	2,130	6,330	1,310	956
Analysis of balances of cash and bank balances					
Cash and bank balances	4,730	2,130	6,330	1,310	956

The accompanying notes form an integral part of the Financial Information of Huihao Sihai.

NOTES TO FINANCIAL INFORMATION OF HUIHAO SIHAI

1. General information

The registered office of Huihao Sihai is at 福建省福州市閩侯上街工貿園區惠好工貿園3樓 (transliterated as "3/F., Huihao Trade and Industrial Park, Upper Minhou Street Trade and Industrial Park, Fuzhou Fujan"). Huihao Sihai is owned by Mr. Yung and Lin Shaowan. Huihao Sihai was incorporated in the PRC on 30 November 2001 with limited liability.

Huihao Sihai is principally engaged in pharmaceutical retail chain and distribution business in the PRC. The Financial Information of Huihao Sihai is presented in Renminbi, which is the functional currency of Huihao Sihai.

2. Summary of significant accounting policies

The Financial Information of Huihao Sihai has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards issued by the HKICPA, and accounting principles generally accepted in Hong Kong ("HKFRSs") (which also include Hong Kong Accounting Standards and Interpretations) and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited as applicable to Accountants' Reports including in the listing documents of circulars. The policies of Huihao Sihai are materially consistent with the Company's accounting policies. The measurement basis used in the preparation of the Financial Information of Huihao Sihai is historical cost convention accounting except for financial assets and financial liabilities have been carried at fair value.

The presentation of the Financial Information of Huihao Sihai in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Huihao Sihai has not yet early applied the following new standards, amendments and interpretations that have been issued but are not yet effective.

Huihao Sihai is not yet in a position to determine whether these standards, amendments and interpretations will have significant impact on how the results of operations and financial position are prepared and presented. These standards, amendments and interpretations may result in changes in the future as to how the results and financial position are prepared and presented.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Right Issues[5]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adoption[4]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[4]
HKFRS 3 (Revised)	Business Combinations[1]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[3]

1 *Effective for annual periods beginning on or after 1 July 2009*

2 *Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate*

3 *Effective for transfers of assets from customers received on or after 1 July 2009*

4 *Effective for annual periods beginning on or after 1 January 2010*

5 *Effective for annual periods beginning on or after 1 February 2010*

The directors of Huihao Sihai expect that the adoption of the above new standards, amendments and interpretations will not have any significant impact on Huihao Sihai's financial statements in the period of initial application.

The accounting policies set out below have been applied consistently to the Relevant Periods presented in the Financial Information of Huihao Sihai.

(a) Basis of preparation

Huihao Sihai had net current liabilities of approximately RMB7,672,000 and RMB4,743,000 as at 30 September 2009 and 31 March 2009 respectively. Mr. Yung, the shareholder of Huihao Sihai, has confirmed to provide continuing financial support to Huihao Sihai, subject to the condition that the relationship between Mr. Yung and Huihao Sihai does not change, so as to enable it to meet its liabilities as and when they fall due and to continue its business for the foreseeable future. The directors of Huihao Sihai believe that Huihao Sihai will continue as going concern. Consequently, the Financial Information of Huihao Sihai has been prepared on a going concern basis.

(b) Impairment

At each end of the reporting period, the directors of Huihao Sihai review the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation increase under that standard.

(c) Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Huihao Sihai's financial assets are classified into loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each end of the reporting period subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss then there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets carried at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by Huihao Sihai are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of Huihao Sihai after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognised on an effective interest basis.

Financial liabilities (other than derivative financial instruments)

Huihao Sihai's financial liabilities are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Repurchase of Huihao Sihai's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of Huihao Sihai's own equity instruments.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Huihao Sihai has transferred substantially all the risks and rewards of ownership of the financial 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 profit or loss.

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 and payable is recognised in statement of comprehensive income.

(d) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown separately in current liabilities on the statement of financial position.

(e) Revenue recognition

Revenue from sales of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyers, provided that Huihao Sihai maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, Huihao Sihai reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(f) Property, plant and equipment

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

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of comprehensive income in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is provided to write off the cost of property, plant and equipment, using the straight line method, over their estimated useful lives. The principal annual rates are as follows:

Machinery	20 to $30^1/_3$%
Motor vehicles	$12^1/_2$ to 20%
Office equipment	10 to 20%

The gain or loss arising from disposal of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the statement of comprehensive income.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs necessary to make the sale.

(h) Trade and other receivables

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

(i) Foreign currencies

In preparing the Financial Information of Huihao Sihai, transactions in currencies other than the functional currency of Huihao Sihai (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the statement of comprehensive income in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in statement of comprehensive income for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which case, the exchange differences are also recognised directly in equity.

(j) Taxation

Income tax expenses represent the sum of the tax currently payable and deferred tax.

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(k) Provisions

Provisions are recognised when Huihao Sihai has a present obligation as a result of a past event, and it is probable that Huihao Sihai will be required to settle that obligation. Provisions are measured at the best estimate of the directors of Huihao Sihai of the expenditure required to settle the obligation as at the end of the reporting period, and are discounted to present value where the effect is material.

(l) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Huihao Sihai. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the Financial Information of Huihao Sihai. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of Huihao Sihai. Contingent assets are not recognised but are disclosed in the notes to the Financial Information of Huihao Sihai when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(m) Related party transactions

Parties are considered to be related to Huihao Sihai if:

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

b. the party is an associate;

c. the party is a jointly-controlled entity;

d. the party is a member of the key management personnel of Huihao Sihai or its parent;

e. the party is a close member of the family of any individual referred to in (a) or (d);

f. 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 (d) or (e); or

g. the party is a post-employment benefit plan for the benefit of the employees of Huihao Sihai, of any entity that is related party of Huihao Sihai.

A transaction is considered to be a related party transaction when there is a transfer of resources, services or obligations between related parties.

3. Capital risk management

Huihao Sihai manages its capital to ensure that Huihao Sihai will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. Huihao Sihai's overall strategy remains unchanged during the Relevant Periods.

The capital structure of Huihao Sihai consists of debt (which includes bank borrowings and other borrowings), which includes cash and equity attributable to owners of Huihao Sihai, comprising issued share capital and accumulated losses.

Gearing ratio

The gearing ratios at 30 September 2009, 31 March 2009, 31 March 2008 and 31 March 2007 were as follows:

	As at 30 September 2009	**As at 31 March 2009**	**As at 31 March 2008**	**As at 31 March 2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Debt *(note (a))*	14,500	14,000	14,000	20,000
Cash and bank balances	(4,730)	(6,330)	(1,310)	(956)
Net debt	9,770	7,670	12,690	19,044
Equity *(note (b))*	8,355	9,932	11,664	10,638
Gearing ratio	116.9%	77.2%	108.8%	179.0%

Notes:

(a) Debt comprises bank borrowings and other borrowings as detailed in notes 23 and 24 respectively.

(b) Equity includes all capital and reserves of Huihao Sihai.

4. Financial instruments

(a) Categories of financial instruments

	As at 30 September 2009 *RMB'000*	As at 31 March 2009 *RMB'000*	As at 31 March 2008 *RMB'000*	As at 31 March 2007 *RMB'000*
Financial assets				
Loan and receivables (including cash and bank balances)	56,046	65,663	25,075	22,029
Financial liabilities				
Amortised cost	89,149	90,565	25,483	29,529

(b) Financial risk management objectives and policies

Huihao Sihai's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. Huihao Sihai's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on Huihao Sihai's financial performance. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Huihao Sihai's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest risks.

Market risk exposures are measured using sensitivity analysis.

There has been no change to Huihao Sihai's exposure to market risks or the manner in which it manages and measures the risk.

(i) Currency risk

Huihao Sihai does not have foreign currency operations, which expose Huihao Sihai to foreign currency risk. All Huihao Sihai's operations are denominated in Renminbi ("RMB").

Huihao Sihai does not have a foreign currency hedging policy during the Relevant Periods.

(ii) Interest rate risk management

Bank borrowings at fixed rates expose Huihao Sihai to fair value interest rate risk. Huihao Sihai monitors the interest rate risk exposure on a continuous basis and adjusts the portfolio of borrowings where necessary.

Credit risk

Huihao Sihai's credit risk is primarily attributable to trade and other receivables. Huihao Sihai has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history. The exposure to these credit risks are monitored on an ongoing basis.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of Huihao Sihai's short, medium and long-term funding and liquidity management requirements. Huihao Sihai manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables detail Huihao Sihai's remaining contractual maturity for its financial liabilities as well as derivative and certain non-derivative financial assets which are included in the maturity analysis provided internally to the key management personnel for the purpose of managing liquidity risk. For non-derivative financial assets, the tables have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where Huihao Sihai anticipates that the cash flow will occur in a different period. For non-derivative financial liabilities, the tables reflect the undiscounted cash flows of financial liabilities based on the earliest date on which Huihao Sihai can be required to pay. The tables include both interest and principal cash flows.

	At 30 September 2009					
	Weighted average effective interest rate	**Within 1 year**	**2 to 5 years**	**Over 5 years**	**Total undiscounted cash flows**	**Total carrying amount**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-derivative financial liabilities						
Trade and other payables	–	49,970	–	–	49,970	49,970
Tax payables	–	3	–	–	3	3
Bank borrowings	5.58%	14,000	–	–	14,000	14,000
Other borrowings	6.90%	500	–	–	500	500
Amounts due to related parties	–	24,676	–	–	24,676	24,676
		89,149	–	–	89,149	89,149

	At 31 March 2009					
	Weighted average effective interest rate	**Within 1 year**	**2 to 5 years**	**Over 5 years**	**Total undiscounted cash flows**	**Total carrying amount**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-derivative financial liabilities						
Trade and other payables	–	42,433	–	–	42,433	42,433
Bank borrowings	6.71%	14,000	–	–	14,000	14,000
Amounts due to related parties	–	34,093	–	–	34,093	34,093
Tax payables	–	39	–	–	39	39
		90,565	–	–	90,565	90,565

	At 31 March 2008					
	Weighted average effective interest rate	Within 1 year	2 to 5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-derivative financial liabilities						
Trade and other payables	–	11,464	–	–	11,464	11,464
Bank borrowings	8.42%	14,000	–	–	14,000	14,000
Tax payables	–	19	–	–	19	19
		25,483	–	–	25,483	25,483

	At 31 March 2007					
	Weighted average effective interest rate	Within 1 year	2 to 5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-derivative financial liabilities						
Trade and other payables	–	9,529	–	–	9,529	9,529
Bank borrowings	7.96%	20,000	–	–	20,000	20,000
		29,529	–	–	29,529	29,529

Fair value

The fair value of Huihao Sihai's financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and

- the fair value of other financial assets and financial liabilities (excluding derivative financial instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using the relevant prevailing market rate.

The directors of Huihao Sihai consider that the carrying amount of Huihao Sihai's financial instruments recorded at amortised cost in the Financial Information of Huihao Sihai approximate to their fair values.

5. Key sources of estimation uncertainty

In the process of applying the accounting policies set out in Note 2 to Financial Information of Huihao Sihai, management has made certain key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that may have a significant risk in causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

(a) Impairment of trade receivables

The aged debt profile of trade debtors is reviewed on a regular basis to ensure that the trade debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, Huihao Sihai may experience delays in collection. Where recoverability of trade debtor balances are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the statement of comprehensive income. Changes in the collectability of trade receivables for which provision are not made could affect our results of operations.

(b) Useful lives of property, plant and equipment

In accordance with HKAS 16, Huihao Sihai estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. Huihao Sihai also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

(c) Impairment of non-current assets

If a triggering event occurs indicating that the carrying amount of an asset may not be recoverable, an assessment of the carrying amount of that asset will be performed. Triggering events include significant adverse changes in the market value of an asset, changes in the business or regulatory environment, or certain legal events. The interpretation of such events requires judgment from management with respect to whether such an event has occurred. Upon the occurrence of triggering events, the carrying amounts of non-current assets are reviewed to assess whether their recoverable amounts have declined below their carrying amounts. The recoverable amount is the present value of estimated net future cash flows which Huihao Sihai expects to generate from the future use of the asset, plus the assets residual value on disposal. Where the recoverable amount of non-current assets is less than its carrying value, an impairment loss is recognised to write the assets down to its recoverable amount.

6. Turnover and other revenue

An analysis for Huihao Sihai's turnover and other revenue for the year/period is as follows:

	For the period from 1 April 2009 to 30 September 2009	**For the period from 1 April 2008 to 30 September 2008**	**For the year ended 31 March 2009**	**For the year ended 31 March 2008**	**For the year ended 31 March 2007**
	RMB'000	*RMB'000* (Unaudited)	*RMB'000*	*RMB'000*	*RMB'000*
Turnover:					
Sales of pharmaceutical products	62,923	18,805	72,720	24,653	17,707
Other revenue:					
Bank interest income	14	7	14	6	4
Rental income	72	17	81	39	30
Advertising fee income	810	–	515	22	–
Gain on disposal of prepaid lease payment	–	–	–	117	–
Other income	782	–	355	34	361
	1,678	24	965	218	395

7. Segment information

As per HKFRS 8 "Operating Segments", no business analysis and segment reporting information such as segment revenue, results, assets, liabilities and other information are shown substantially as Huihao Sihai only engages in pharmaceutical retail chain in the PRC.

8. (Loss)/Profit from operating activities

	For the period from 1 April 2009 to 30 September 2009	For the period from 1 April 2008 to 30 September 2008	For the year ended 31 March 2009	For the year ended 31 March 2008	For the year ended 31 March 2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Unaudited)			
Auditors' remuneration	–	–	–	–	–
Depreciation on owned assets	840	65	351	122	220
Amortisation of prepaid lease payment	54	73	127	154	180
Operating lease rentals in respect of land and building	5,001	480	4,193	161	196
Staff cost including directors' remuneration:					
Salaries and other benefits	6,960	1,899	8,181	2,244	1,467

9. Finance costs

	For the period from 1 April 2009 to 30 September 2009	From the period from 1 April 2008 to 30 September 2008	For the year ended 31 March 2009	For the year ended 31 March 2008	For the year ended 31 March 2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Unaudited)			
Interests on bank borrowings	535	578	1,201	1,284	1,128
Interests on other borrowings	14	–	–	–	83
	549	578	1,201	1,284	1,211

10. Employee benefits expenses

(a) Director's remuneration

	For the period from 1 April 2009 to 30 September 2009 *RMB'000*	For the period from 1 April 2008 to 30 September 2008 *RMB'000* (Unaudited)	For the year ended 31 March 2009 *RMB'000*	For the year ended 31 March 2008 *RMB'000*	For the year ended 31 March 2007 *RMB'000*
翁國亮 ("Mr Yung") (appointed on 10 February 2009)	–	–	–	–	–
翁木英 ("Mrs Yung") (appointed on 10 February 2009)	–	–	–	–	–
陳勇 (transliterated as "Chen Yong") (appointed on 10 February 2009)	–	–	–	–	–
翁金蘭 (transliterated as "Yung Jin Lan") (appointed on 9 January 2009 and resigned on 10 February 2009)	–	–	–	–	–
鄭文芳 (transliterated as "Zheng Wen Fang") (appointed on 16 August 2007 and resigned on 9 January 2009)	–	–	–	–	–
鄭文忠 (transliterated as "Zheng Wen Zhong") (appointed on 19 June 2007 and resigned on 10 February 2009)	–	–	–	–	–
Lin Shao Wan (appointed on 8 July 2006 and resigned on 20 May 2008)	–	–	–	–	–
周金森 (transliterated as "Zhou Jin Sen") (appointed on 8 July 2006 and resigned on 16 August 2007, re-appointed on 20 May 2008 and resigned on 10 February 2009)	–	–	–	–	–
劉海燕 (transliterated as "Liu Hai Yan") (appointed on 23 March 2007 and resigned on 19 June 2007)	–	–	–	–	–
翁建前 (transliterated as "Yung Jian Qian") (appointed on 8 July 2006 and resigned on 23 March 2007)	–	–	–	–	–
	–	–	–	–	–

(b) Five highest paid individuals

	For the period from 1 April 2009 to 30 September 2009	For the period from 1 April 2008 to 30 September 2008	For the year ended 31 March 2009	For the year ended 31 March 2008	For the year ended 31 March 2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Unaudited)			
Basic salaries and allowances	171	85	238	184	143
Retirement benefit scheme contribution	12	5	18	28	18
	183	90	256	212	161

11. Taxation

No provision for Hong Kong profits tax has been made as Huihao Sihai had no assessable profits arising in Hong Kong during the Relevant Periods.

Taxation for other jurisdiction is calculated at the rates prevailing in the respective jurisdictions.

	For the period from 1 April 2009 to 30 September 2009	For the period from 1 April 2008 to 30 September 2008	For the year ended 31 March 2009	For the year ended 31 March 2008	For the year ended 31 March 2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Unaudited)			
Current taxation:					
Provision for the period/ year	80	19	65	75	–

A reconciliation of the tax expense attributable to profit/(loss) before taxation using the statutory rate to the tax charge at the effective rate is as follows:

	For the period from 1 April 2009 to 30 September 2009		For the period from 1 April 2008 to 30 September 2008		For the year ended 31 March 2009		For the year ended 31 March 2008		For the year ended 31 March 2007	
	RMB'000	%	*RMB'000* (Unaudited)	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
(Loss)/Profit before taxation	(1,497)		624		(1,667)		1,101		(593)	
Tax at applicable tax rate	(374)	(25.0)	156	25.0	(417)	(25.0)	275	25.0	(196)	(33.0)
Tax effect of income and expense not taxable or deductible for tax purpose	(99)	(6.6)	(137)	(22.0)	3	0.2	(294)	(26.7)	(222)	(37.4)
Tax loss not recognised	553	36.9	–	–	479	28.7	94	8.5	418	70.4
Tax charge for the effective tax rate for the period/year	80	5.3	19	3.0	65	3.9	75	6.8	–	–

No provision for deferred taxation had been made for the Relevant Periods as there was no material temporary difference at the balance sheet date.

12. Dividend

The directors of Huihao Sihai do not recommend the payment of any dividend in respect of the Relevant Periods.

13. Available-for-sale financial assets

	As at 30 September 2008	As at 31 March 2009	As at 31 March 2008	As at 31 March 2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted equity interest, at cost less impairment	3,562	3,562	3,562	3,562

The available-for-sale financial assets are stated at cost less any impairment losses, rather than at fair value. The directors of Huihao Sihai considered that the unlisted equity securities do not have a quoted market price in an active market and which fair value cannot be reliably measured because (i) the variability in the range of reasonable fair value estimates is significant for that investment; and (ii) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating the fair value. Accordingly, such unlisted equity investments are stated at cost less any impairment losses.

14. Investment properties

	RMB'000
At 1 April 2006	1,900
Gain arising from change in fair value	600
At 31 March 2007 and 1 April 2007	2,500
Gain arising from change in fair value	1,000
At 31 March 2008 and 1 April 2008	3,500
Gain arising from change in fair value	100
At 31 March 2009 and 1 April 2009	3,600
Gain arising from change in fair value	800
At 30 September 2009	4,400

Investment properties were valued at their open market values at each balance sheet date by independent qualified valuers not connected with Huihao Sihai, on an open market basis. The valuations gave rise to a gain arising from change in fair value which has been credited to the statements of comprehensive income.

	For the period from 1 April 2009 to 30 September 2009 *RMB'000*	**For the period from 1 April 2008 to 30 September 2008** *RMB'000* (Unaudited)	**For the year ended 31 March 2009** *RMB'000*	**For the year ended 31 March 2008** *RMB'000*	**For the year ended March 2007** *RMB'000*
Gain arising from change in fair value of investment properties	800	–	100	1,000	600

The carrying amount of investment properties shown above comprises:

	As at 30 September 2009 *RMB'000*	As at 31 March 2009 *RMB'000*	As at 31 March 2008 *RMB'000*	As at 31 March 2007 *RMB'000*
Land outside Hong Kong:	4,400	3,600	3,500	2,500

Property rental income earned during the Relevant Periods was as follows:

	For the period from 1 April 2009 to 30 September 2009 *RMB'000*	For the period from 1 April 2008 to 30 September 2008 *RMB'000* (Unaudited)	For the year ended 31 March 2009 *RMB'000*	For the year ended 31 March 2008 *RMB'000*	For the year ended 31 March 2007 *RMB'000*
Rental income	72	17	81	39	30

The property held had committed tenants for the next three years. At the balance sheet date, Huihao Sihai contracted with tenants for the following future minimum lease receivables:

	As at 30 September 2009 *RMB'000*	As at 31 March 2009 *RMB'000*	As at 31 March 2008 *RMB'000*	As at 31 March 2007 *RMB'000*
Within one year	146	145	75	73
In the second to fifth year inclusive	262	257	204	279
	408	402	279	352

At 30 September 2009, investment properties with a carrying amount of approximately RMB4,400,000 have been pledged to a bank to secure credit facilities granted to a company invested by Huihao Sihai.

15. Prepaid lease payment

	As at 30 September 2009	**As at 31 March 2009**	**As at 31 March 2008**	**As at 31 March 2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Huihao Sihai's prepaid lease payments comprise:				
Land outside Hong Kong under medium term lease	3,917	3,971	3,312	4,265
Analysed for reporting purposes as:				
Current assets (include in trade and other receivables and deposits)	139	139	118	147
Non-current assets	3,778	3,832	3,194	4,118
	3,917	3,971	3,312	4,265

At 30 September 2009, prepaid lease payment with a carrying amount of approximately RMB1,856,000 have been pledged to a bank to secure credit facilities granted to a company invested by Huihao Sihai.

At 30 September 2009, prepaid lease payment with a carrying amount of approximately RMB2,061,000 have been pledged to a bank to secure credit facilities granted to an independent third party.

At 31 March 2009, prepaid lease payment with a carrying amount of approximately RMB2,097,000 have been pledged to banks to secure credit facilities granted to an independent third party.

16. Property, plant and equipment

	Leasehold improvement *RMB'000*	Office equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
Cost				
As at 1 April 2006	987	908	5	1,900
Additions	17	25	–	42
Disposal	(660)	–	–	(660)
As at 31 March 2007 and 1 April 2007	344	933	5	1,282
Additions	24	91	–	115
Disposal	(145)	–	–	(145)
As at 31 March 2008 and 1 April 2008	223	1,024	5	1,252
Additions	410	3,562	205	4,177
Disposal	(205)	(807)	(5)	(1,017)
As at 31 March 2009 and 1 April 2009	428	3,779	205	4,412
Additions	823	1,332	–	2,155
Disposal	(104)	(734)	(78)	(916)
As at 30 September 2009	1,147	4,377	127	5,651
Depreciation				
As at 1 April 2006	720	758	5	1,483
Provided for the year	172	48	–	220
Eliminated on disposal	(628)	–	–	(628)
As at 31 March 2007 and 1 April 2007	264	806	5	1,075
Provided for the year	65	57	–	122
Eliminated on disposal	(145)	–	–	(145)
As at 31 March 2008 and 1 April 2008	184	863	5	1,052
Provided for the year	91	252	8	351
Eliminated on disposal	(205)	(758)	(5)	(968)
As at 31 March 2009 and 1 April 2009	70	357	8	435
Provided for the year	326	499	15	840
Eliminated on disposal	(104)	(93)	(10)	(207)
As at 30 September 2009	292	763	13	1,068
Net book value				
As at 30 September 2009	855	3,614	114	4,583
As at 31 March 2009	358	3,422	197	3,977
As at 31 March 2008	39	161	–	200
As at 31 March 2007	80	127	–	207

17. Trade and other receivables and deposits

	As at 30 September 2009 *RMB'000*	As at 31 March 2009 *RMB'000*	As at 31 March 2008 *RMB'000*	As at 31 March 2007 *RMB'000*
Trade receivables	8,794	6,324	2,592	1,855
Other receivables	42,480	53,009	21,173	19,218
Prepaid lease payment	139	139	118	147
Prepayments	1,536	1,816	843	6,595
	52,949	61,288	24,726	27,815

The aged analysis of trade receivables as follows:

	As at 30 September 2009 *RMB'000*	As at 31 March 2009 *RMB'000*	As at 31 March 2008 *RMB'000*	As at 31 March 2007 *RMB'000*
0 – 90 days	5,750	4,690	2,192	1,698
91 – 180 days	1,252	463	8	6
181 – 365 days	1,792	1,171	392	151
	8,794	6,324	2,592	1,855

According to the credit rating of different customers, Huihao Sihai allows a range of credit periods not exceeding 90 days to its trade customers. Trade receivables are all denominated in RMB.

Aging of trade receivables which are not considered to be impaired is as follows:

	As at 30 September 2009 *RMB'000*	As at 31 March 2009 *RMB'000*	As at 31 March 2008 *RMB'000*	As at 31 March 2007 *RMB'000*
Over 90 days	3,044	1,634	400	157

Trade receivables that were past due but not impaired related to a number of customers that have good track record with Huihao Sihai. Based on past experience, management believes that no impairment allowance if necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. Huihao Sihai does not hold any collateral over these balances.

In determining the recoverability of trade receivables, the directors of Huihao Sihai consider any change in the credit quality of the trade receivables from the date credit were initially granted up to the reporting date. Accordingly, the directors of Huihao Sihai considered that provision for impairment in value be made in respect of trade receivables to their recoverable values and believe that there is no further credit provision required in excess of the allowance for doubtful debts.

18. Inventories

	As at 30 September 2009	**As at 31 March 2009**	**As at 31 March 2008**	**As at 31 March 2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Finished goods	23,756	18,204	951	1,305

19. Amount due from a related party

	As at 30 September 2009	**As at 31 March 2009**	**As at 31 March 2008**	**As at 31 March 2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
福建莆田惠好醫藥有限公司 ("Putian Huihao")	42	–	–	–

	Highest balance during the period/year ended			
	As at 30 September 2009	**As at 31 March 2009**	**As at 31 March 2008**	**As at 31 March 2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Putian Huihao	42	–	–	–

Putian Huihao is a subsidiary of Hui Hao (HK) Group Limited.

Mr. Yung is the common shareholder of Hui Hao (HK) Group Limited and Huihao Sihai.

The amount due is unsecured, interest-free and recoverable on demand.

20. Paid-in capital

	Share capital
	RMB'000
Registered capital:	
As at 1 April 2006, 31 March 2007, 31 March 2008, 31 March 2009 and 30 September 2009	15,856
Paid-in capital:	
As at 1 April 2006, 31 March 2007, 31 March 2008, 31 March 2009 and 30 September 2009	15,856

21. Trade and other payables

	As at 30 September 2009	As at 31 March 2009	As at 31 March 2008	As at 31 March 2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	18,704	12,610	3,537	3,907
Accruals and other payables	30,338	27,707	6,624	5,551
Receipt in advance	928	2,116	1,303	71
	49,970	42,433	11,464	9,529

The aged analysis of trade payables as follows:

	As at 30 September 2009	As at 31 March 2009	As at 31 March 2008	As at 31 March 2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 – 90 days	9,909	7,072	2,318	2,350
91 – 180 days	1,324	4,319	4	492
181 – 365 days	7,471	1,219	1,215	1,065
	18,704	12,610	3,537	3,907

22. Amounts due to related parties

	As at 30 September 2009 *RMB'000*	As at 31 March 2009 *RMB'000*	As at 31 March 2008 *RMB'000*	As at 31 March 2007 *RMB'000*
福建省福州市惠好藥業有限公司 ("Fujian Huihao")	19,393	29,456	–	–
福建省惠明醫藥有限公司 ("Fujian Huiming")	5,283	4,260	–	–
Putian Huihao	–	377	–	–
	24,676	34,093	–	–

The amounts due are unsecured, interest-free and repayable on demand.

23. Bank borrowing, secured

	As at 30 September 2009 *RMB'000*	As at 31 March 2009 *RMB'000*	As at 31 March 2008 *RMB'000*	As at 31 March 2007 *RMB'000*
Bank borrowing	14,000	14,000	14,000	20,000

The maturity of the above bank borrowing is as follows:

On demand or within one year	14,000	14,000	14,000	20,000
More than one year but not exceeding two years	–	–	–	–
	14,000	14,000	14,000	20,000
Less: Amount due within one year shown under current liabilities	(14,000)	(14,000)	(14,000)	(20,000)
Amount due after one year	–	–	–	–

For the Relevant Periods, the above bank borrowings were secured by land and building owned by a company invested by Huihao Sihai.

An analysis of the weighted average effective interest rate of the total borrowings is as follows:

	As at 30 September 2009	As at 31 March 2009	As at 31 March 2008	As at 31 March 2007
Weighted average effective interest rate	5.58%	6.71%	8.42%	7.96%

An analysis of the carrying amounts of the total borrowings by type and currency is as follows:

	As at 30 September 2009 *RMB'000*	As at 31 March 2009 *RMB'000*	As at 31 March 2008 *RMB'000*	As at 31 March 2007 *RMB'000*
At fixed rates				
Renminbi ("RMB")	14,000	14,000	14,000	20,000

24. Other borrowings

	As at 30 September 2009 *RMB'000*	As at 31 March 2009 *RMB'000*	As at 31 March 2008 *RMB'000*	As at 31 March 2007 *RMB'000*
Other borrowings	500	–	–	–

The other borrowings bear interest at 6.90% per annum and repayable on 30 April 2010.

25. Material related party transactions

Save as disclosed elsewhere in the Financial Information of Huihao Sihai, Huihao Sihai had the following material related party transactions during the Relevant Periods:

(a) Compensation for key management personnel, including amount paid to directors and senior executives are as follows:

	For the period from 1 April 2009 to 30 September 2009	For the period from 1 April 2008 to 30 September 2008	For the year ended 31 March 2009	For the year ended 31 March 2008	For the year ended 31 March 2007
	RMB'000	*RMB'000* (Unaudited)	*RMB'000*	*RMB'000*	*RMB'000*
Basic salaries and allowance	156	61	180	97	69
Retirement benefits scheme contributions	14	6	17	13	13
	170	67	197	110	82

Further details of directors' emoluments are included in Note 10 to the Financial Information of Huihao Sihai.

(b) Huihao Sihai had the following material transactions with a related company, Fujian Huihao, during the Relevant Periods:

	For the six months ended 30 September 2009	For the six months ended 30 September 2008	For the year ended 31 March 2009	For the year ended 31 March 2008	For the year ended 31 March 2007
	RMB'000	*RMB'000* (Unaudited)	*RMB'000*	*RMB'000*	*RMB'000*
Purchase of pharmaceutical products	23,809	3,435	28,810	–	–

(c) Huihao Sihai had the following material transactions with a related company, Putian Huihao, during the Relevant Periods:

	For the six months ended 30 September 2009	For the six months ended 30 September 2008	For the year ended 31 March 2009	For the year ended 31 March 2008	For the year ended 31 March 2007
	RMB'000	*RMB'000* (Unaudited)	*RMB'000*	*RMB'000*	*RMB'000*
Purchase of pharmaceutical products	480	–	1,026	–	–

(d) Huihao Sihai had the following material transactions with a related company, Fujian Huiming, during the Relevant Periods:

	For the six months ended 30 September 2009	For the six months ended 30 September 2008	For the year ended 31 March 2009	For the year ended 31 March 2008	For the year ended 31 March 2007
	RMB'000	*RMB'000* (Unaudited)	*RMB'000*	*RMB'000*	*RMB'000*
Purchase of pharmaceutical products	6,892	415	3,931	–	–

26. Pledge of assets

At 30 September 2009, certain prepaid lease payment *(Note 15)* of approximately RMB1,856,000 of Huihao Sihai have been pledged to a bank to secure credit facilities granted to a company invested by Huihao Sihai.

At 30 September 2009, certain investment properties *(Note 14)* of approximately RMB4,400,000 of Huihao Sihai have been pledged to a bank to secure credit facilities granted to a company invested by Huihao Sihai.

At 30 September 2009, certain prepaid lease payment *(Note 15)* of approximately RMB2,061,000 of Huihao Sihai have been pledged to a bank to secure credit facilities granted to an independent third party.

At 31 March 2009, certain prepaid lease payment *(Note 15)* of approximately RMB2,097,000 of Huihao Sihai have been pledged to bank to secure credit facilities granted to an independent third party.

27. Capital commitment and contingent liabilities

Capital commitment

Huihao Sihai did not have any significant capital commitment as at 30 September 2009.

Operating lease commitments

At the balance sheet date, Huihao Sihai had the following future minimum lease payments under non-cancellable operating leases is respect of rented premises as follows:

	As at 30 September 2009 *RMB'000*	**As at 31 March 2009** *RMB'000*	**As at 31 March 2008** *RMB'000*	**As at 31 March 2007** *RMB'000*
Operating lease which expire:				
– within one year	7,063	8,130	492	2,596
– two to five years	14,550	23,011	8,705	6,072
– over five years	922	1,976	–	237
	22,535	33,117	9,197	8,905

Contingent liabilities

Huihao Sihai did not have significant contingent liabilities.

28. Subsequent events

On 20 December 2009, Hui Hao (HK) Group Limited ("Huihao Hong Kong") and Mr. Yung entered into a loan agreement (the "Loan Agreement") in relation to the advancement of loan of approximately HK$12,460,000 by Huihao Hong Kong to Mr. Yung for the purpose of acquisition of 99.29% equity interests in Huihao Sihai for an initial term of ten years.

On 20 December 2009, Huihao Hong Kong, Mr, Yung and Huihao Sihai entered into an agreement (the "Exclusive Share Purchase Agreement") in relation to the acquisition of 99.29% equity interests in Huihao Sihai by Huihao Hong Kong.

On 20 December 2009, a share charge created by Mr. Yung in favour of Huihao Hong Kong over his equity interests in Huihao Sihai as a security to the Loan Agreement and the Exclusive Share Purchase Agreement.

On 20 December 2009, Huihao Sihai, Mr. Yung and Huihao Hong Kong entered into an exclusive appointment agreement in relation to, among other things, the appointment of two directors to the board of directors of Huihao Sihai by Huihao Hong Kong.

On 20 December 2009, an undertaking entered by each of Mr. Yung and Mrs. Yung in favour of Huihao Hong Kong that each of them shall vote in accordance with the instructions of Huihao Hong Kong in all future directors' meetings of Huihao Sihai prior to the completion of the Exclusive Share Purchase Agreement.

On 20 December 2009, an undertaking entered by Mr. Yung in favour of Huihao Hong Kong that he will vote in accordance with the instructions of Huihao Hong Kong in all future shareholder's meetings of Huihao Sihai prior to the completion of the Exclusive Share Purchase Agreement.

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for Huihao Sihai in respect of any period subsequent to 30 September 2009 and no dividends or other distributions have been declared by Huihao Sihai in respect of any period subsequent to 30 September 2009.

Yours faithfully

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

11 February 2010

The Board of Directors
Hua Xia Healthcare Holdings Limited
Room 1902
19/F, Sing Pao Building
No. 101 King's Road
North Point
HONG KONG

Dear Sirs,

We report on the unaudited pro forma financial information of Hua Xia Healthcare Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), Nurture Fit Limited (the "Target"), Hui Hao (HK) Group Limited ("Huihao Hong Kong") and its subsidiaries (the "Huihao Medicine Wholesale Group") and 福建惠好四海醫藥連鎖有限責任公司 ("Huihao Sihai") (together with the Group hereinafter referred to as the "Enlarged Group") (the "Unaudited Pro Forma Financial Information") which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed acquisition of the entire issued share capital of the Target and all obligations, liabilities and debts owing or incurred by the Target, the Huihao Medicine Wholesale Group and Huihao Sihai (the "Proposed Acquisition") might have affected the financial information presented, for inclusion as Appendix V of the circular of the Company dated 11 February 2010 (the "Circular"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on page 323 and 342 of Appendix V 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 Rule 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of 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 Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion as required by Rule 7.31(7) of the Listing Rules on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owned to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagement ("HKSIR") 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the 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 Rule 7.31(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgments 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 Enlarged Group as at 31 March 2009 or any future date; or

- the financial results and cash flows of the Enlarged Group for the year ended 31 March 2009 or for any future period.

OPINION

In our opinion:

- the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

- such basis is consistent with the accounting policies of the Group; and

- the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 7.31(1) of the Listing Rules.

Yours faithfully

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP

1. Introduction

The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared in accordance with the Rule 7.31 of the Listing Rules for the purpose of illustrating the effect of the Proposed Acquisition as if the Proposed Acquisition took place on 31 March 2009 for the consolidated statement of financial position and 1 April 2008 for the consolidated statement of comprehensive income and consolidated statement of cash flows.

The Unaudited Pro Forma Financial Information of the Enlarged Group is prepared based on the audited consolidated financial information of the Group as at 31 March 2009 as set out in Appendix I to the Circular, audited financial information of the Target as at 30 September 2009 as set out in Appendix II, audited financial information of Huihao Medicine Wholesale Group as at 30 September 2009 as set out in Appendix III and audited financial information of Huihao Sihai as at 30 September 2009 as set out in Appendix IV, after making pro forma adjustments relating to the Proposed Acquisition that are (i) directly attributable to the transaction; and (ii) factually supportable.

The accompanying Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared by the directors of the Company for illustrative purpose only and is based on a number of assumptions, estimates and uncertainties. Accordingly, the Unaudited Pro Forma Financial Information does not purport to describe the actual financial position of the Enlarged Group that would have been attained has the Proposed Acquisition been completed on 31 March 2009 and to describe the actual financial results and cash flows of the Enlarged Group that would have been attained has the Proposed Acquisition been completed on 1 April 2008, nor purport to predict the Enlarged Group's future financial position or results of operations.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the historical financial information on the Group as set out in Appendix I, historical financial information of the Target as set out in Appendix II, historical financial information of Huihao Medicine Wholesale Group as set out in Appendix III, historical financial information of Huihao Sihai as set out in Appendix IV and other financial information included elsewhere in the Circular.

The Unaudited Pro Forma Financial Information on the Enlarged Group has been prepared by the directors of the Company for illustrative purposes only and because of its nature, it may not give a true picture of financial position of the Enlarged Group following completion of the Proposed Acquisition.

(I) Unaudited Pro Forma Consolidated Statement of Financial Position of the Enlarged Group

The following is the unaudited pro forma consolidated statement of financial position of the Enlarged Group, assuming that the Proposed Acquisition has been completed on 31 March 2009. The information is based on the audited financial statements of the Group as at 31 March 2009 as set out in Appendix I, the audited financial statements of the Target as at 30 September 2009 as set out in Appendix II, the audited consolidated financial statements of Huihao Medicine Wholesale Group as at 30 September 2009 as set out in Appendix III and the audited financial statements of Huihao Sihai as at 30 September 2009 as set out in Appendix IV. Such information is adjusted to reflect the effect of the Proposed Acquisition.

As the unaudited pro forma consolidated statement of financial position of the Enlarged Group has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at the date to which it is made up to or at any future date.

	Audited Consolidated Statement of Financial Position of the Group as at 31 March 2009	Audited Statement of Financial Position of the Target as at 30 September 2009	Audited Consolidated Statement of Financial Position of Huihao Medicine Wholesale Group as at 30 September 2009	Audited Statement of Financial Position of Huihao Sihai as at 30 September 2009	Sub-total		Pro forma adjustments for the Proposed Acquisition	Unaudited Pro forma Consolidated Statement of Financial Position of the Enlarged Group as at 31 March 2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*
ASSETS								
Non-current assets								
Available-for-sales financial assets	–	–	–	4,061	4,061			4,061
Property, plant and equipment	43,668	–	7,683	5,225	56,576			56,576
Investment properties	–	–	–	5,016	5,016			5,016
Prepaid lease payments	28,989	–	–	4,307	33,296			33,296
Goodwill	206,585	–	–	–	206,585	*1(b)*	497,830	704,415
	279,242	–	7,683	18,609	305,534			803,364
Current assets								
Inventories	3,696	–	49,777	27,082	80,555			80,555
Trade and other receivables and deposits	18,275	–	156,782	60,361	235,418			235,418
Amounts due from related parties	–	–	27,882	44	27,926	*3*	(27,926)	–
Derivative financial instruments	3	–	–	–	3			3
Pledged bank deposits	5,255	–	21,801	–	27,056			27,056
Cash and bank balances	88,506	–	5,984	5,392	99,882	*1(d)*	(20,000)	79,882
	115,735	–	262,226	92,879	470,840			422,914
Total assets	394,977	–	269,909	111,488	776,374			1,226,278
EQUITY								
Capital and reserves attributable to owners of the Company								
Share capital	224,756	–	1,000	14,905	240,661	*4*	(15,905)	224,756
Preference shares	–	–	–	–	–	*1(f)*	290,000	290,000
Reserves	103,067	(6)	3,289	(5,135)	101,215	*5*	1,852	103,067
	327,823	(6)	4,289	9,770	341,876			617,823
Minority interest	28,239	–	–	–	28,239			28,239
Total equity	356,062	(6)	4,289	9,770	370,115			646,062

	Audited Consolidated Statement of Financial Position of the Group as at 31 March 2009	Audited Statement of Financial Position of the Target as at 30 September 2009	Audited Consolidated Statement of Financial Position of Huihao Medicine Wholesale Group as at 30 September 2009	Audited Statement of Financial Position of Huihao Sihai as at 30 September 2009	Sub-total		Pro forma adjustments for the Proposed Acquisition	Unaudited Pro forma Consolidated Statement of Financial Position of the Enlarged Group as at 31 March 2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*
LIABILITIES								
Current liabilities								
Amounts due to related parties	–	–	44	27,882	27,926	*3*	(27,926)	–
Trade and other payables	30,607	6	238,531	56,966	326,110			326,110
Amount due to a shareholder	–	–	12,619	–	12,619	*1(g)*	(12,619)	–
Amounts due to minority shareholders	540	–	–	–	540			540
Bank borrowings	–	–	13,680	15,960	29,640			29,640
Other borrowings	–	–	–	570	570			570
Convertible notes	6,469	–	–	–	6,469			6,469
Tax payable	1,118	–	746	3	1,867			1,867
	38,734	6	265,620	101,381	405,741			365,196
Long-term liabilities								
Promissory notes	–	–	–	–	–	*1(e)*	199,583	199,583
Long term payables	–	–	–	337	337			337
Deferred taxation	181	–	–	–	181	*2*	14,919	15,100
	181	–	–	337	518			215,020
Total liabilities	38,915	6	265,620	101,718	406,259			580,216
Total equity and liabilities	394,977	–	269,909	111,488	776,374			1,226,278
Net current assets/ (liabilities)	77,001	(6)	(3,394)	(8,502)	65,099			57,718
Total assets less current liabilities	356,243	(6)	4,289	10,107	370,633			861,082

(II) Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the Enlarged Group

The following is the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group, assuming that the Proposed Acquisition have been completed on 1 April 2008. The information is based on the audited consolidated financial statements of the Group for the year ended 31 March 2009, the audited financial statements of the Target for the period from 16 July 2009 (date of incorporation) to 30 September 2009 as set out in Appendix II, the audited consolidated financial statements of Huihao Medicine Wholesale Group for the year ended 31 March 2009 as set out in Appendix III and the audited financial statements of Huihao Sihai for the year ended 31 March 2009 as set out in Appendix IV. Such information is adjusted to reflect the effect of the Proposed Acquisition.

As the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the results of the Enlarged Group for the year ended to which it is made up to or for any future period.

	Audited Consolidated Statement of Comprehensive Income of the Group for the year ended 31 March 2009	Audited Statement of Comprehensive Income of the Target for the period from 16 July 2009 (date of incorporation) to 30 September 2009	Audited Consolidated Statement of Comprehensive Income of Huihao Medicine Wholesale Group for the year ended 31 March 2009	Audited Statement of Comprehensive Income of Huihao Sihai for the year ended 31 March 2009	Sub-total		Pro forma adjustments for the Proposed Acquisition	Unaudited Pro forma Consolidated Statement of Comprehensive Income of the Enlarged Group for the year ended 31 March 2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*
Continuing operations								
Turnover	170,087	–	187,697	82,901	440,685	*9*	(24,051)	416,634
Cost of sales	(72,750)	–	(179,710)	(62,646)	(315,106)	*9*	24,051	(291,055)
Gross profit	97,337	–	7,987	20,255	125,579			125,579
Other revenue	422	–	580	1,100	2,102			2,102
Other income	2,085	–	3,989	–	6,074			6,074
Gain arising from change in fair value of investment properties	–	–	–	114	114			114
Selling and distribution expenses	(19,426)	–	(2,537)	(16,443)	(38,406)			(38,406)
Administrative expenses	(50,416)	(6)	(6,193)	(5,479)	(62,094)			(62,094)
Other operating expenses	–	–	(73)	(78)	(151)			(151)
Impairment loss on goodwill	(202,547)	–	–	–	(202,547)			(202,547)
Loss on disposal of subsidiaries	(3,865)	–	–	–	(3,865)			(3,865)
(Loss)/Profit from operations	(176,410)	(6)	3,753	(531)	(173,194)			(173,194)
Finance costs	(1,822)	–	–	(1,369)	(3,191)	*6*	(12,968)	(16,159)
Loss before taxation	(178,232)	(6)	3,753	(1,900)	(176,385)			(189,353)
Taxation	(12,228)	–	(459)	(74)	(12,761)	*7*	(1,183)	(13,944)
(Loss)/Profit for the year from continuing operations	(190,460)	(6)	3,294	(1,974)	(189,146)			(203,297)
Discontinued operations								
Profit for the year from discontinued operations	–	–	–	–	–			–
(Loss)/Profit for the year	(190,460)	(6)	3,294	(1,974)	(189,146)			(203,297)
Attributable to:								
Owners of the Company	(200,548)	(6)	3,294	(1,974)	(199,234)			(213,385)
Minority interest	10,088	–	–	–	10,088			10,088
	(190,460)	(6)	3,294	(1,974)	(189,146)			(203,297)
Dividends	–	–	–	–	–			–

	Audited Consolidated Statement of Comprehensive Income of the Group for the year ended 31 March 2009	Audited Statement of Comprehensive Income of the Target for the period from 16 July 2009 (date of incorporation) to 30 September 2009	Audited Consolidated Statement of Comprehensive Income of Huihao Medicine Wholesale Group for the year ended 31 March 2009	Audited Statement of Comprehensive Income of Huihao Sihai for the year ended 31 March 2009	Sub-total		Pro forma adjustments for the Proposed Acquisition	Unaudited Pro forma Consolidated Statement of Comprehensive Income of the Enlarged Group for the year ended 31 March 2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*
Loss per share attributable to owners of the Company								
From continuing and discontinued operations								
Basic								
(HK cents per share)	(10.35)					*8*		(11.01)
Diluted								
(HK cents per share)	(10.35)					*8*		(11.01)
From continuing operations								
Basic								
(HK cents per share)	(10.35)					*8*		(11.01)
Diluted								
(HK cents per share)	(10.35)					*8*		(11.01)

(III) Unaudited Pro Forma Consolidated Statement of Cash Flows of the Enlarged Group

The following is the unaudited pro forma consolidated statement of cash flows of the Enlarged Group, assuming that the Proposed Acquisition have been completed on 1 April 2008. The information is based on the audited consolidated financial statements of the Group for the year ended 31 March 2009, the audited financial statements of the Target for the period from 16 July 2009 (date of incorporation) to 30 September 2009 as set out in Appendix II, the audited consolidated financial statements of Huihao Medicine Wholesale Group for the year ended 31 March 2009 as set out in Appendix III and the audited financial statements of Huihao Sihai for the year ended 31 March 2009 as set out in Appendix IV. Such information is adjusted to reflect the effect of the Proposed Acquisition.

As the unaudited pro forma consolidated statement of cash flows of the Enlarged Group has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the cash flows of the Enlarged Group for the year ended to which it is made up to or for any future period.

	Audited Consolidated Statement of Cash Flows of the Group for the year ended 31 March 2009	Audited Statement of Cash Flows of the Target for the period from 16 July 2009 (date of incorporation) to 30 September 2009	Audited Consolidated Statement of Cash Flows of Huihao Medicine Wholesale Group for the year ended 31 March 2009	Audited Statement of Cash Flows of Huihao Sihai for the year ended 31 March 2009	Sub-total	Notes	Pro forma adjustment for the Proposed Acquisition	Unaudited Pro forma Consolidated Statement of Cash Flows of the Enlarged Group for the year ended 31 March 2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*	*HK$'000*
Cash flows from operating activities								
(Loss)/Profit before taxation	(178,232)	(6)	3,753	(1,900)	(176,385)	*6*	(12,968)	(189,353)
Adjustments for:								
Interest income	(422)	–	(7)	(16)	(445)			(445)
Interest expenses	1,822	–	–	1,369	3,191	*6*	12,968	16,159
Impairment loss on goodwill	202,547	–	–	–	202,547			202,547
Excess of the Huihao Medicine Wholesale Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition	–	–	(3,989)	–	(3,989)			(3,989)
Amortisation of prepaid lease payment	962	–	–	144	1,106			1,106
Depreciation of property, plant and equipment	10,629	–	525	400	11,554			11,554
Gain arising from change in fair value of investment properties	–	–	–	(114)	(114)			(114)
Loss on disposal of property, plant and equipment	10	–	–	54	64			64
Loss on disposal of subsidiaries	3,865	–	–	–	3,865			3,865
Provision for impairment of trade and other receivables	1,381	–	–	–	1,381			1,381
Fair value change in derivative financial instruments	511	–	–	–	511			511
Operating cash inflows before movements in working capital	43,073	(6)	282	(63)	43,286			43,286
(Increase)/decrease in inventories	(522)	–	3,626	(19,668)	(16,564)			(16,564)
Decrease/(increase) in trade and other receivables and deposits	121,373	–	2,895	(41,657)	82,611			82,611
Decrease in amount due from an associate	2,999	–	–	–	2,999			2,999
(Decrease)/increase in trade and other payables	(31,274)	–	17,687	35,305	21,718			21,718
Decrease in amounts due from related parties	–	–	(22,731)	–	(22,731)	*11*	22,731	–
Increase in amounts due to related parties	–	–	–	38,866	38,866	*11*	(22,731)	16,135
Increase in amount due to a shareholder	–	6	13,572	–	13,578			13,578
Increase in amount due to minority shareholders	149	–	–	–	149			149
Net cash generated from operations	135,798	–	15,331	12,783	163,912			163,912
Overseas tax paid	(11,620)	–	(505)	(51)	(12,176)			(12,176)
Net cash generated from operating activities	124,178	–	14,826	12,732	151,736			151,736

	Audited Consolidated Statement of Cash Flows of the Group for the year ended 31 March 2009 HK$'000	Audited Statement of Cash Flows of the Target for the period from 16 July 2009 (date of incorporation) to 30 September 2009 HK$'000	Audited Consolidated Statement of Cash Flows of Huihao Medicine Wholesale Group for the year ended 31 March 2009 HK$'000	Audited Statement of Cash Flows of Huihao Sihai for the year ended 31 March 2009 HK$'000	Sub-total HK$'000	Notes	Pro forma adjustment for the Proposed Acquisition HK$'000	Unaudited Pro forma Consolidated Statement of Cash Flows of the Enlarged Group for the year ended 31 March 2009 HK$'000
Cash flows from investing activities								
Interest received	379	–	7	16	402			402
Proceeds from disposal of property, plant and equipment	–	–	–	1	1			1
Purchase of property, plant and equipment	(13,636)	–	(3,696)	(4,762)	(22,094)			(22,094)
Purchase of prepaid lease payment	–	–	–	(896)	(896)			(896)
Net cash outflow from acquisition of subsidiaries	(105,480)	–	(7,914)	–	(113,394)			(113,394)
Net cash inflow from disposal of subsidiaries	1,550	–	–	–	1,550			1,550
Cash payment to acquire subsidiaries	–	–	–	–	–	*1(d)*	(20,000)	(20,000)
Dividend paid	(13,940)	–	–	–	(13,940)			(13,940)
Net cash used in investing activities	(131,127)	–	(11,603)	(5,641)	(148,371)			(168,371)
Cash flows from financing activities								
Interest paid	(585)	–	–	(1,369)	(1,954)	*10*	(2,900)	(4,854)
Repayment of bank borrowings	–	–	–	(15,960)	(15,960)			(15,960)
Proceeds from new borrowings	–	–	–	15,960	15,960			15,960
Proceeds from issue of shares	44,952	–	–	–	44,952			44,952
Redemption of convertible notes	(29,000)	–	–	–	(29,000)			(29,000)
Net cash generated from/(used in) financing activities	15,367	–	–	(1,369)	13,998			11,098
Net increase/(decrease) in cash and cash equivalents	8,418	–	3,223	5,722	17,363			(5,537)
Cash and cash equivalents at beginning of year	78,134	–	–	1,456	79,590			79,590
Effect of foreign currency exchange rate changes	1,954	–	94	38	2,086			2,086
Cash and cash equivalents at end of year	88,506	–	3,317	7,216	99,039			76,139
Analysis of balance cash and cash equivalents								
Cash at bank balances	88,506	–	3,317	7,216	99,039			76,139

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

Under HKFRS 3 Business Combinations ("HKFRS 3"), the Company will apply the purchase methods to account for the Proposed Acquisition. In applying the purchase method, the identifiable assets, liabilities and contingent liabilities of the Target Group will be recorded on the consolidated statement of financial position of the Group at their fair values at the date of completion. Any goodwill or discount arising on the Proposed Acquisition will be determined as the excess or deficit of the purchase price to be incurred by the Group over the Group's interests at the date of completion. Negative goodwill resulting from the business combinations should be recognised immediately in the consolidated statement of comprehensive income.

The adjustments reflected the following:

1. (a) The consideration for the Proposed Acquisition to be satisfied by the Purchaser is HK$600,000,000. The consideration is to be satisfied by:

	HK$'000
Cash deposit *(Note 1(d))*	20,000
Principal amount of the Promissory Note *(Note 1(e))*	290,000
CP Shares *(Note 1(f))*	290,000
	600,000

(b) Details of goodwill arising from the Proposed Acquisition are as below:

Assumed fair value of the consideration on 31 March 2009

	HK$'000
Cash deposit *(Note 1(d))*	20,000
Promissory Note *(Note 1(e))*	199,583
CP Shares *(Note 1(f))*	290,000
Total	509,583
Less: Fair value of net identifiable assets acquired *(Note 1(c))*	(26,672)
Add: Deferred tax liabilities arising on issuance of Promissory Note *(Note 1(e))*	14,919
Goodwill	497,830

For the purpose of preparing the Unaudited Pro Forma Financial Information, the consideration for the Proposed Acquisition and the carrying values of the net assets of the Target, the Huihao Medicine Wholesale Group and Huihao Sihai as per the Accountants' Report as set out in Appendix II, III and IV of the Circular are taken to be their fair values.

(c) The fair value of net assets of the Target Group, acquired in the Proposed Acquisition are as below:

	HK$'000
Net assets value of Target Group	14,053
Add: Sale loan *(Note 1(g))*	12,619
	26,672

(d) HK$9,800,000 initial deposit in cash was paid to Mr. Yung within 5 business days after the date of the Formal Agreement and HK$10,200,000 will be payable to Mr. Yung in cash on the date the Proposed Acquisition is approved by Independent Shareholders at the EGM. The cash consideration was and will be financed by the Group's internal resources.

(e) The carrying amount of the Promissory Note of approximately HK$199,583,000 represents the carrying value of the Promissory Note carried at its amortised cost and is calculated using the discounted cash flow method at an effective interest rate of 5%. In preparation of the Unaudited Pro Forma Financial Information, it is assumed that prime rate of 5% is the effective interest rate.

	Promissory Note
	HK$'000
Face value of the financial instruments	290,000
Less: Carrying amount of the financial instrument as at 31 March 2009	(199,583)
Temporary difference	90,417
Deferred tax liabilities at a tax rate of 16.5%	14,919

(f) Pursuant to the Formal Agreement, HK$290,000,000 of the Consideration will be satisfied by the Purchaser procuring the Company to allot and issue 4,833,333,333 CP Shares. The conversion period of CP Shares is perpetual. The conversion price is HK$0.06 per share. In accordance with the Hong Kong Accounting Standards 32 "Financial Instrument: Disclosure and Presentation", as the CP Shares is non-redeemable and payment of dividends is at the discretion of the Company, the CP Shares should be recognised as equity. In preparation of the Unaudited Pro Forma Financial Information, it is assumed that the fair value of the CP Shares as at 31 March 2009 amounted to approximately HK$290,000,000 and recognised in equity.

(g) Sale Loan of approximately HK$12,619,000 represented all obligations, liabilities and debt owing or incurred by the Target Group to Mr. Yung at 30 September 2009.

2. The pro forma adjustment of approximately HK$14,919,000 represents the adjustment of the deferred tax liabilities.

	Promissory Note
	HK$'000
Deferred tax liabilities	
At 1 April 2008	–
Issuance of Promissory Note *(Note 1 (e))*	14,919
	14,919

3. The pro forma adjustment of HK$27,926,000 represents the elimination of current account between Huihao Medicine Wholesale Group and Huihao Sihai.

4. The pro forma adjustment of HK$15,905,000 represents the elimination of the share capital of the Target Group upon consolidation as if the Proposed Acquisition was completed on 31 March 2009 and Huihao Medicine Wholesale Group and Huihao Sihai became the subsidiaries of the Target.

5. The pro forma adjustment of approximately HK$1,852,000, represents the net effect of elimination of reserves as if the Proposed Acquisition was completed on 31 March 2009.

Details are set out as follows:

	HK$'000
Elimination of pre-acquisition reserves of the Target	6
Elimination of pre-acquisition reserves of Huihao Medicine Wholesale Group	(3,289)
Elimination of pre-acquisition reserves of Huihao Sihai	5,135
	1,852

6. The pro forma adjustment of approximately HK$12,968,000 represents the annual finance cost of the imputed interest expenses recognised for the Promissory Note in the consolidated statement of comprehensive income of the Enlarged Group with the imputed interest rate of 5% for the year ended 31 March 2009. In preparation of the Unaudited Pro Forma Financial Information, it is assumed that prime rate of 5% is the effective interest rate. These interest expenses will have the continuing effect on the financial statements of the Enlarged Group in subsequent years.

Details are set out as follows:

	HK$'000
Imputed interest on Promissory Note	10,068
Interest incurred on Promissory Note	2,900
	12,968

7. The pro forma adjustment represents the deferred tax effect of approximately HK$1,183,000 of the Promissory Note for the year ended 31 March 2009.

The basis of the deferred tax effect of HK$1,183,000 is set out as follows:

	Promissory Note
	HK$'000
Deferred tax liabilities as at 1 April, 2008 at tax rate of 16.5%	14,919
Less: Deferred tax liabilities as at 31 March 2009, at tax rate of 16.5%	(13,736)
Deferred tax effect	1,183

	Promissory Note
	HK$'000
Face amount	290,000
Less: Carrying amount as at 1 April 2008	(199,583)
Temporary difference as at 1 April 2008	90,417
Deferred tax liabilities as at 1 April 2008, at tax rate of 16.5%	14,919

	Promissory Note
	HK$'000
Face amount	290,000
Less: Carrying amounts as at 31 March 2009	(206,750)
Temporary difference as at 31 March 2009	83,250
Deferred tax liabilities as at 31 March 2009, at tax rates of 16.5%	13,736

The deferred tax income will have the continuing effect in subsequent years.

8. The calculation of unaudited pro forma loss per share are shown as the follows:

Unaudited pro forma basic earnings per share

The calculation of the unaudited pro forma earnings per share attributable to owners of the Company is based on the following data:

Earnings

	HK$'000
Loss from continuing and discontinued operations attributable to owners of the Company	(213,385)
	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,938,440
Effect of dilutive potential ordinary shares: Preference shares	4,833,333
Weighted average number of ordinary shares for the purpose of dilutive earnings per share	6,771,773

9. The pro forma adjustments of approximately HK$24,051,000 represents the elimination of transactions occurred between Huihao Medicine Wholesale Group and Huihao Sihai upon the completion of the Proposed Acquisition.

10. The pro forma adjustments to the consolidated statement of cash flows represent the recognition of the finance cost of the Promissory Note of approximately HK$2,900,000 as if the Proposed Acquisition was completed on 1 April 2008. This unaudited pro forma adjustment will have continuing effect to the consolidated statement of cash flow of the Enlarged Group.

11. The pro forma adjustments of approximately HK$22,731,000 to the consolidated statement of cash flows represent the elimination of balances between Huihao Medicine Wholesale Group and Huihao Sihai upon the completion of the Proposed Acquisition. This unaudited pro forma adjustment will have continuing effect to the consolidated statement of cash flow of the Enlarged Group.

I. MANAGEMENT DISCUSSION AND ANALYSIS ON THE GROUP

For the six months period ended 30 September 2009

General hospital services

During the six months ended 30 September 2009, the Group has five general hospitals in operation in five different cities of the PRC. A brief summary setting out their services and turnover was as follows:

1) Chongqing Edward Hospital Company Limited (the "Chongqing Edward Hospital"), a privately-run general hospital established in Chongqing, the PRC, is principally engaged in the provision of general hospital services including but not limited to medicine ward, surgical ward, cosmetic surgery, dermatology department and medical checkup and examination. The turnover contributed by Chongqing Edward Hospital in these services for the six months ended 30 September 2009 was approximately HK$35,318,000 (2008: approximately HK$35,610,000).

2) Jiaxing City Shuguang Western and Chinese Composite Hospital Company Limited (the "Jiaxing Shuguang Hospital"), a privately-run general hospital established in Jiaxing city, the PRC, are principally engaged in the provision of traditional Chinese medical treatments as well as general hospital medical services including but not limited to medical ward, surgical ward, cosmetic surgery, dermatology department and medical checkup and examination. The turnover contributed by Jiaxing Shuguang Hospital in these services for the six months ended 30 September 2009 was approximately HK$15,206,000 (2008: approximately HK$29,260,000).

3) Foshan Qide Hospital, a privately-run hospital established in Foshan, the PRC by Foshan Qide Hospital Limited, which provides general hospital services including but not limited to medicine ward, surgical ward, gynecology, paediatric unit, plastic surgery, ear nose and throat unit, emergency and accident unit and medical checkup and examination. The turnover contributed by Foshan Qide Hospital in these services for the six months ended 30 September 2009 was approximately HK$4,299,000 (2008: approximately HK$12,317,000).

4) Shangrao Xiehe Hospital, a privately-run hospital established in Shangrao, the PRC by Shangrao City Xiehe Hospital Company Limited, which provides general hospital services including but not limited to medicine ward, surgical ward, gynecology, paediatric unit, plastic surgery, ear nose and throat unit and Chinese medical treatments. The turnover contributed by Shangrao Xiehe Hospital for the six months ended 30 September 2009 was approximately HK$6,396,000 (2008: approximately HK$16,193,000).

5) Bengbu Aomeijia Female Hospital, a privately-run hospital established in Anhui, the PRC which provides general hospital services including but not limited to medicine ward, surgical ward, gynecology, paediatric unit, plastic surgery, ear nose and throat unit, emergency and accident unit and medical checkup and examination. The turnover contributed by Bengbu Aomeijia Female Hospital for the six months ended 30 September 2009 was approximately HK$2,049,000 (2008: approximately HK$532,000).

Healthcare and hospital management services

The Group provides healthcare management and training and consultancy for hospitals in the PRC through Beiyi Renzhi (Beijing) Investment Consultancy Limited and Fujian Maidsen Enterprises Company Limited which include advising on management strategies, operation and business model, logistics and procurement, workflow and human resources, market strategies and providing training and administrative support. The turnover contributed by the healthcare and hospital management services for the six months ended 30 September 2009 was approximately HK$653,000 (2008: approximately HK$9,262,000).

Future Prospects

The Directors expect that the global economic environment will remain challenging for the rest of 2009. The management has noticed the results of the Group for the six months ended 30 September 2009 was less favourable than the corresponding period in 2008. Although the challenges remain, the management of the Group will adopt to the changing business environment with effective and efficient measures and continue to keep focus on its core healthcare business in the PRC. The Directors remain optimistic about the promising healthcare sector in the PRC for the long-run including but not limited to possible future investments in or cooperations with hospitals in the PRC (including but not limited to taking equity interests in hospitals in the PRC which the Directors believe will have growth potentials) and to consider undertaking those businesses which are complementary to the existing business as a further step to the acquisition in order to benefit from the growth in the healthcare sector and enhance shareholders' returns in the long-run.

On 14 October 2009, Zhuhai Zhongkangan Enterprises Management Limited ("Zhuhai Zhongkangan"), a wholly owned subsidiary of the Company, entered into the service agreement with Zheng Jianqing and Zhu Min and Zhuhai Jiulong Hospital Limited pursuant to which Zhuhai Zhongkangan agreed to provide hospital management service in relation to Zhuhai Jiulong Hospital for a term of 10 years. For details, please refer to the Company's announcement dated 14 October 2009.

On 26 October 2009, the Company as purchaser entered into a conditional framework agreement (the "Framework Agreement") with a connected person of the Company as vendor (the "Vendor") in relation to the acquisition of a company to be wholly owned by the Vendor subject to the completion of the reorganisation of the target group which, immediately following the reorganisation, will be interested in 100% equity interests in the pharmaceutical wholesale business in the People's Republic of China (the "PRC") and 99.29% equity interests in various pharmaceutical retail chain stores in the PRC. The Framework Agreement legally binds the Company and the Vendor. The entering into of the Framework Agreement constitutes a very substantial acquisition and connected transaction on the part of the Company under Chapters 19 and 20 of the GEM Listing Rules. Trading in the shares of the Company was suspended from 9:30 a.m. on 27 October pending the release of an announcement in respect of, among other things, the Framework Agreement. For details, please refer to the Company's announcement dated 2 November 2009.

Liquidity and Financial Resources

The Group had total cash and bank balances of approximately HK$84,513,000 as at 30 September 2009 (31 March 2009: approximately HK$88,506,000).

The Group recorded total current assets of approximately HK$108,388,000 as at 30 September 2009 (31 March 2009: approximately HK$115,735,000) and total current liabilities of approximately HK$22,235,000 as at 30 September 2009 (31 March 2009: approximately HK$38,734,000). The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was approximately 4.875 as at 30 September 2009 (31 March 2009: approximately 2.988).

Contingent liabilities

As at 30 September 2009, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group. (31 March 2009: In early 2006, an action in the PRC has been taken out by Jiaxing City Triumph Electric Company Limited against Jiaxing Shuguang Hospital, a non-wholly owned subsidiary of the Company, using for rental payment of an aggregate of approximately RMB880,000 (equivalent to approximately HK$1,000,000) for the period from 1 September 2003 to 1 March 2006, which is claimed with reference to annual rental payment of RMB350,000 (equivalent to approximately HK$398,000) in respect of the leased property on which Jiaxing Shuguang Hospital is currently occupied and operated (the "Property in Dispute") under a legally binding tenancy agreement entered into with Jiaxing City Xin Kai Yuan Industrial Trading Company Limited who has been joined as a third party to the action (the "Shuguang Dispute").

In the Shuguang Dispute, whereas the Property in Dispute is legally registered under the name of Jiaxing City Xin Kai Yuan Industrial Trading Company Limited and a legally binding tenancy agreement has been entered into between Jiaxing Shuguang Hospital and Jiaxing City Xin Kai Yuan Industrial Trading Company Limited, Jiaxing City Triumph Electric Company Limited alleged that it owns part of the interest in the Property in Dispute and that Jiaxing Shuguang Hospital has a verbal agreement with it whereby Jiaxing Shuguang Hospital has agreed to rent from it the Property in Dispute.

The Company has been advised by its PRC legal adviser that Jiaxing Shuguang Hospital has a strong defense as the Property in Dispute is legally registered under the name of Jiaxing City Xin Kai Yuan Industrial Trading Company Limited and that there had been a legally binding tenancy agreement entered into between Jiaxing Shuguang Hospital and Jiaxing City Xin Kai Yuan Industrial Trading Company Limited, which was made in compliance with the relevant PRC law that leasing of property shall be made by way of written agreement, as contrasted with the alleged verbal agreement between Jiaxing Shuguang Hospital and Jiaxing City Triumph Electric Company Limited. The PRC legal adviser further advised that in those circumstances, Jiaxing City Xin Kai Yuan Industrial Trading Company Limited shall be responsible for the Shuguang Dispute.

On 15 April 2009, Zhejiang Province Jiaxing City Intermediate People's Court (the "Court") upheld that Jiaxing City Xin Kai Yuan Industrial Trading Company Limited was the legal registered owner of the Property in Dispute. The Court also ruled that the tenancy agreement entered into between Jiaxiang Shuguang Hospital and Jiaxing City Xin Kai Yuan Industrial Trading Company Limited was legally binding. The Court therefore dismissed the appeal lodged by and the claim made by Jiaxing City Triumph Electric Company Limited against Jiaxing Shuguang Hospital.

The above verdict was received by the Company on 9 November 2009).

Treasury Policies

The Group generally finances its operations with internal resources.

Foreign Currency Exposure

During the six months ended 30 September 2009, the Group experienced only immaterial exchange rate fluctuations as the functional currencies of the Group's operations were mainly in Hong Kong dollars and Renminbi. As the risk on exchange rate difference was considered to be immaterial, the Group did not employ any financial instrument for hedging purposes.

Employee Information

As at 30 September 2009, the Group had 849 (31 March 2009: 670) full time employees. During the six months ended 30 September 2009, the staff costs, including Directors' remuneration, totalled approximately HK$12,801,000 (31 March 2009: approximately HK$16,660,000). Share options and bonuses are also available to the Group's employees at the discretion of the Board and depending upon the financial performance of the Group. The Group's employment and remuneration policies remained the same as detailed in its Annual Report for the year ended 31 March 2009.

For the year ended 31 March 2009

The Group is principally engaged in the provision of general hospital and healthcare and hospital management services in the PRC.

Results of the Group for the year ended 31 March 2009 have shown improvement in turnover compared with the previous year. Turnover of the continuing operations of the Group for the year was approximately HK$170.087 million in comparison with HK$114.165 million in 2008. The improvement in revenue for the year ended 31 March 2009 was mainly driven by the contribution in turnover generated from the PRC hospitals acquired during the year. Gross profit of the Group was approximately HK$97.337 million in comparison with HK$74.591 million in 2008.

Net loss attributable to the equity holders of the Company for the year ended 31 March 2009 was approximately HK$200.548 million (2008: net loss approximately HK$17.891 million). Such increase in the net loss was mainly due to the impairment loss on the goodwill of approximately HK$202.547 million which arised during the acquisition of the hospitals in the PRC.

Selling and distribution expenses for the year ended 31 March 2009 to approximately HK$19.426 million as compared to approximately HK$5.692 million for the corresponding period last year. Such increase was related to the marketing and promotional expenses of the hospitals in the PRC.

Administrative expenses for the year ended 31 March 2009 amounted to approximately HK$50.416 million (2008: approximately HK$35.602 million). The increases were due to the professional expenses incurred for the fund raising activities and the administrative expense for the increased number of general hospitals in operation during the year.

Business Review and Outlook

General hospital services

During the year ended 31 March 2009, the Group has 5 general hospitals in operation in different cities of the PRC. A brief summary setting out their services and turnover was as follows:

1) Chongqing Edward Hospital Company Limited (the "Chongqing Edward Hospital"), a privately-run general hospital established in Chongqing, the PRC, is principally engaged in the provision of general hospital services including but not limited to medicine ward, surgical ward, cosmetic surgery, dermatology department and medical checkup and examination. The turnover contributed by Chongqing Edward Hospital in these services for the year ended 31 March 2009 was approximately HK$67.531 million (2008: approximately HK$55.753 million).

2) Jiaxing City Shuguang Western and Chinese Composite Hospital Company Limited (the "Jiaxing Shuguang Hospital"), a privately-run general hospital established in Jiaxing city, the PRC, are principally engaged in the provision of traditional Chinese medical treatments as well as general hospital medical services including but not limited to medical ward, surgical ward, cosmetic surgery, dermatology department and medical checkup and examination. The turnover contributed by Jiaxing Shuguang Hospital in these services for the year ended 31 March 2009 was approximately HK$42.530 million (2008: from 8 October 2007 to 31 March 2008 was approximately HK$11.814 million).

3) Foshan Qide Hospital, is a privately-run hospital established in Foshan, the PRC by Foshan Qide Hospital Limited, which provides general hospital services including but not limited to medicine ward, surgical ward, gynecology, paediatric unit, plastic surgery, ear nose and throat unit, emergency and accident unit and medical checkup and examination. The turnover contributed by Foshan Qide Hospital in these services for the year ended 31 March 2009 was approximately HK$17.699 million (2008: from 28 February 2008 to 31 March 2008 was approximately HK$0.192 million).

4) Shangrao Xiehe Hospital, is a privately-run hospital established in Shangrao, the PRC by Shangrao City Xiehe Hospital Company Limited, which provides general hospital services including but not limited to medicine ward, surgical ward, gynecology, paediatric unit, plastic surgery, ear nose and throat unit and Chinese medical treatments. The turnover contributed by Shangrao Xiehe Hospital from 5 May 2008 (completion date of the acquisition) to the year ended 31 March 2009 was approximately HK$24.448 million (2008: Nil).

5) Bengbu Aomeijia Female Hospital, a privately-run hospital established in Anhui, the PRC which provides general hospital services including but not limited to medicine ward, surgical ward, gynecology, paediatric unit, plastic surgery, ear nose and throat unit, emergency and accident unit and medical checkup and examination. The turnover contributed by Bengbu Aomeijia Female Hospital from 12 June 2008 (completion date of the acquisition) to the year ended 31 March 2009 was approximately HK$2.431 million (2008: Nil).

Healthcare and hospital management services

The Group provides healthcare management and training and consultancy for hospitals in the PRC through Fujian Maidsen Enterprises Company Limited and Beiyi Renzhi (Beijing) Investment Consultancy Limited which include advising on management strategies, operation and business model, logistics and procurement, workflow and human resources, market strategies and providing training and administrative support. The turnover contributed by the healthcare and hospital management services for the year ended 31 March 2009 was approximately HK$14.262 million (2008: approximately HK$45.753 million).

Future Prospects

The directors expect that the global economic environment will remain challenging for the rest of 2009. The management has noticed the results of the Group for the year ended 31 March 2009 was less favourable than the previous year. Although the challenges remain, the management of the Group will adopt to the changing business environment with effective and efficient measures and continue to keep focus on its core healthcare business in the PRC. The directors remain optimistic about the promising healthcare sector in the PRC for the long-run including but not limited to possible future investments in or cooperations with hospitals in the PRC (including but not limited to taking equity interests in hospitals in the PRC which the directors believe will have growth potentials) and to consider undertaking those businesses which are complementary to the existing business as a further step to the acquisition in order to benefit from the growth in the healthcare sector and enhance shareholders' returns in the long-run.

Liquidity and financial resources

The Group had total cash and bank balances of approximately HK$88.506 million as at 31 March 2009 (2008: approximately HK$78.134 million). The increase in cash and bank balances were mostly due to the completion of the open offer with bonus shares in March 2009 which raised in aggregate approximately HK$44.95 million for the Company. For the year ended 31 March 2009, the Group paid approximately HK$117.60 million as cash consideration for the acquisition of two privately-run hospitals in the PRC.

The Group recorded total current assets of approximately HK$115.735 million as at 31 March 2009 (2008: approximately HK$230.299 million) and total current liabilities of approximately HK$38.734 million as at 31 March 2009 (2008: approximately HK$50.610 million). The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was approximately 2.988 as at 31 March 2009 (2008: approximately 4.550).

Acquisitions and disposals of subsidiaries

Summary of the Group's material acquisitions and disposals for the year ended 31 March 2009 is as follows:

1) On 5 May 2008, the Group completed the acquisition of the entire equity interest of Large Forever Group Limited and its subsidiaries, including the 70% owned Shangrao Xiehe Hospital, is a privately-run hospital established in Shangrao, the PRC by Shangrao City Xiehe Hospital Company Limited, which provides general hospital services including but not limited to medicine ward, surgical ward, gynecology, paediatric unit, plastic surgery, ear nose and throat unit and Chinese medical treatments. The total consideration of HK$68.60 million was settled by cash.

2) On 17 July, 2008 the Group completed the acquisition of the entire equity interest of Smart Peak Limited. Smart Peak Limited indirectly has 100% control of Bengbu Aomeijia Female Hospital, a privately-run hospital established in Anhui, the PRC which provides general hospital services including but not limited to medicine ward, surgical ward, gynecology, paediatric unit, plastic surgery, ear nose and throat unit, emergency and accident unit and medical checkup and examination. The total consideration of HK$49 million was settled by cash.

3) On 30 March 2009, the Group disposed the entire equity interest of United First Investments Limited which indirectly has 100% control of Fuzhou Hui Hao Dental Hospital Company Limited (the "Fuzhou Hui Hao Dental Hospital") to an independent third party (as defined in the GEM Listing Rules) for a cash consideration of HK$2 million. Fuzhou Hui Hao Dental Hospital is a privately-run dental hospital established in Fuzhou, the PRC which provides comprehensive dental specialty services including cosmetic dentistry, dental implant, orthodontic, treatment, and dental surgery. The turnover contributed by Fuzhou Hui Hao Dental Hospital for the year ended 31 March 2009 was approximately HK$1.186 million (2008: Nil).

Details of the acquisitions and disposals are disclosed in the Notes 33 and 34 to the financial statements on pages 168 to 173.

Contingent liabilities

In early 2006, an action in the PRC has been taken out by Jiaxing City Triumph Electric Company Limited against Jiaxing City Shuguang Western and Chinese Composite Hospital Company Limited ("Jiaxing Shuguang Hospital"), a non-wholly owned subsidiary of the Company, using for rental payment of an aggregate of approximately RMB0.875 million (equivalent to approximately HK$0.99 million) for the period from 1 September 2003 to 1 March 2006, which is claimed with reference to annual rental payment of RMB0.35 million (equivalent to approximately HK$0.36 million) in respect of the leased property on which Jiaxing Shuguang Hospital is currently occupied and operated (the "Property in Dispute") under a legally binding tenancy agreement entered into with Jiaxing City Xin Kai Yuan Industrial Trading Company Limited who has been joined as a third party to the action (the "Shuguang Dispute").

In the Shuguang Dispute, whereas the Property in Dispute is legally registered under the name of Jiaxing City Xin Kai Yuan Industrial Trading Company Limited and a legally binding tenancy agreement has been entered into between Jiaxing Shuguang Hospital and Jiaxing City Xin Kai Yuan Industrial Trading Company Limited, Jiaxing City Triumph Electric Company Limited alleged that it owns part of the interest in the Property in Dispute and that Jiaxing Shuguang Hospital has a verbal agreement with it whereby Jiaxing Shuguang Hospital has agreed to rent from it the Property in Dispute.

The Company has been advised by its PRC legal adviser that Jiaxing Shuguang Hospital has a strong defense as the Property in Dispute is legally registered under the name of Jiaxing City Xin Kai Yuan Industrial Trading Company Limited and that there had been a legally binding tenancy agreement entered into between Jiaxing Shuguang Hospital and Jiaxing City Xin Kai Yuan Industrial Trading Company Limited, which was made in compliance with the relevant PRC law that leasing of property shall be made by way of written agreement, as contrasted with the alleged verbal agreement between Jiaxing Shuguang Hospital and Jiaxing City Triumph Electric Company Limited. The PRC legal adviser further advised that in those circumstances, Jiaxing City Xin Kai Yuan Industrial Trading Company Limited shall be responsible for the Shuguang Dispute.

As at 31 March 2009, the Shuguang Dispute is now stayed pending the outcome of the dispute between Jiaxing City Triumph Electric Company Limited and Jiaxing City Xin Kai Yuan Industrial Trading Company Limited regarding the ownership of the Property in Dispute.

Save for the disclosed, as at 31 March 2009, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the directors to be pending or threatened against any member of the Group (2008: Nil).

Foreign exchange Risk

Since almost all transactions of the Group are denominated in Renminbi and Hong Kong dollars and most of the bank deposits are being kept in Renminbi and Hong Kong dollars to minimize exposure to foreign exchange risk, the directors believe that there is no significant foreign exchange risk to the Group. Therefore, the Group had not implemented any formal hedging or other alternative policies to deal with such exposure during the year.

Charges on group assets

As at 31 March 2009, the Group had no bank-borrowing outstanding balances. A time deposit of the Group of approximately HK$5.255 million has been pledged to a bank in Hong Kong to secure banking facilities granted to the Group.

Segment information

During the year, the revenue of the Group was principally generated from: (1) provision of general hospital services; and (2) provision of healthcare and hospital management service. Geographically, the Group has expanded business operations into the cities of Shangrao and Bengbu in the PRC. Financial information in respect of these operations is presented in Note 5 to the financial statements.

Capital structure

As at 31 March 2009, the total issued share capital of the Company was approximately HK$224.756 million (2008: approximately HK$89.902 million) divided into 4,495,111,986 ordinary shares (2008: ordinary 1,798,044,795 shares) of HK$0.05 each.

Details of movements in the share capital of the Company during the year are set out in Note 16 to the financial statements.

Employee information

As at 31 March 2009, the Group had 670 (2008: 587) full time employees (including directors) as shown in the following table:

Location	Number of Staff
Hong Kong	16
PRC (including cities of Beijing, Fuzhou, Chongqing, Jiaxing, Foshan, Shangrao and Bengbu)	654

For the year ended 31 March 2009, staff costs (including directors emoluments) amounted to approximately HK$16.660 million (2008: approximately HK$12.372 million). The Group remunerates its employees based on individual performance and qualification. Apart from the basic remuneration, staff benefits include the contribution to the Mandatory Provident Fund Scheme, bonus and medical coverage in Hong Kong; and basic insurance for the elderly, basic medical insurance, work injury insurance and unemployment insurance to the employees in the PRC. The Group also adopted employee share option scheme to provide eligible employees a performance incentive for continuous and improved services with the Group and to enhance their contributions to increase profits by encouraging capital accommodation and share ownership.

For the year ended 31 March 2008

The Group is principally engaged in the provision of general hospital services and healthcare and hospital management services in the PRC. In addition, it was engaged in the manufacture and sales of environmental protection products as well as provision of related services, manufacture and sales of melamine and its related products during the year.

Results of the Group for the year ended 31 March 2008 have shown improvement in turnover compared with the previous year. Turnover of the continuing operations of the Group for the year was approximately HK$114.165 million in comparison with HK$33.697 million (restated) in 2007. The improvement in revenue for the year ended 31 March 2008 was mainly driven by the contribution in turnover by the provision of general hospital services and healthcare and hospital management services in the PRC. Gross profit of the Group was approximately HK$74.591 million in comparison with HK$30.324 million (restated) in 2007.

Net loss attribute to the equity holders for the year ended 31 March 2008 was approximately HK$17.891 million (2007: net profit approximately HK$5.981 million) mainly due to the provision of the impairment loss on goodwill of approximately HK$30.318 million for the disposal of subsidiaries. Such disposals have been completed in the financial year ended 31 March 2008.

Selling and distribution expenses for the year ended 31 March 2008 to approximately HK$5.692 million as compared to approximately HK$0.408 million (restated) for the corresponding period last year. Such increase was related to the marketing and promotional expenses of the hospitals in the PRC.

Administrative expenses for the year ended 31 March 2008 amounted to approximately HK$35.602 million (2007: HK$19.524 million (restated)). The increase was due to the increase in professional expenses incurred for the acquisition of the hospitals in the PRC and disposal of the subsidiaries during the year.

Business Review and Outlook

Continuing operations

General hospital services

On 9 May 2007, the Group had completed the acquisition of the entire equity interest of Hero Vision Enterprises Limited. Hero Vision Enterprises Limited and its subsidiaries, including the 55% owned Chongqing Edward Hospital Company Limited, a privately-run general hospital established in Chongqing, the PRC, is principally engaged in the provision of general hospital services including but not limited to medicine ward, surgical ward, cosmetic surgery, dermatology department and medical checkup and examination. The turnover contributed by Hero Vision Enterprises Limited and its subsidiaries in these services for the year ended 31 March 2008 was approximately HK$55.753 million (2007: Nil).

On 8 October 2007, the Group had completed the acquisition of the entire equity interest of Merry Sky Investments Limited. Merry Sky Investments Limited and its subsidiaries, including the 55% owned Jiaxing City Shunguang Western and Chinese Composite Hospital Limited, a privately-run general hospital established in Jiaxing city, the PRC, are principally engaged in the provision of traditional Chinese medical treatments as well as general hospital medical services including but not limited to medical ward, surgical ward, cosmetic surgery, dermatology department and medical checkup and examination. The turnover contributed by Merry Sky Investments Limited and its subsidiaries in these services for the year ended 31 March 2008 was approximately HK$11.814 million (2007: Nil).

On 22 February 2008, the Group had completed the acquisition of the entire equity interest of Direct Way Group Limited and its subsidiaries, including the 70% owned Foshan Qide Hospital, is a privately-run hospital established in Foshan, the PRC by Foshan Qide Hospital Limited, which provides general hospital services in Foshan, the PRC including but not limited to medicine ward, surgical ward, gynecology, paediatric unit, plastic surgery, ear nose and throat unit, emergency and accident unit and medical checkup and examination. The turnover contributed by Direct Way Group Limited and its subsidiaries in these services for the year ended 31 March 2008 was approximately HK$0.192 million (2007: Nil).

Healthcare and hospital management services

The Group provides healthcare management and training and consultancy for hospitals in the PRC through Hero Vision Enterprises Limited, Day View Group Limited and Beiyi Renzhi (Beijing) Investment Consultancy Limited which include advising on management strategies, operation and business model, logistics and procurement, workflow and human resources, market strategies and providing training and administrative support. The turnover contributed by the healthcare and hospital management services for the year ended 31 March 2008 was approximately HK$45.753 million (2007: approximately HK$33.057 million).

Manufacture and sales of environmental protection products

The Group also trades the household products made from the environmental friendly melamine materials. The total turnover recorded is the sale of environmental friendly household products for the year ended 31 March 2008 was approximately HK$0.653 million (2007: approximately HK$0.64 million).

Discontinued operations

Manufacture and sales of melamine and its related products

The Group manufactures and sells melamine materials through its wholly-owned subsidiary, Prime Source (Fujian) Chemical Co. Ltd., in the Fujian Province, the PRC. Melamine materials are raw materials used in the manufacture of household products which are widely used in environmental conscious countries and are durable, non-toxic and easy to be processed. The total turnover recorded in the sale of melamine materials for the period ended 28 March 2008 was approximately HK$15.572 million (2007: approximately HK$21.907 million).

Environmental protection products and services

The Group's waste water treatment businesses for government and commercial projects were mainly carried out through Youngdong Environmental Engineering Co., Ltd. ("Youngdong") in Korea. Youngdong's turnover for the period ended 11 December 2007 totalled approximately HK$6.206 million (2007: approximately HK$21.907 million).

Future Prospects

Under the environment of fast economic growth in the PRC and more people becoming aware of the importance of health, the directors believe that the healthcare market in the PRC provides abundant business opportunities for the Group in the future.

The directors intend to explore more business opportunities in the promising healthcare sector in the PRC including but not limited to possible future investments in or cooperations with hospitals in the PRC (including but not limited to taking equity interests in hospitals in the PRC which the directors believe will have growth potentials) in order to benefit from the growth in the healthcare sector and enhance shareholders' returns in the long-run.

On 5 May 2008, the Group had completed the acquisition of the entire equity interest of Large Forever Group Limited and its subsidiaries, including the 70% owned Shangrao Xiehe Hospital, is a privately-run hospital established in Shangrao, the PRC by Shangrao Shi Xiehe Hospital Company Limited, which provides general hospital services in Shangrao, the PRC including but not limited to medicine ward, surgical ward, gynaecology, paediatric unit, plastic surgery, ear nose and throat unit and Chinese medical treatments. The total consideration of HK$68.6 million was settled by cash. The books and accounts of the hospital has been consolidated with that of the Group.

On 12 June 2008, Famous Fast Limited, a wholly-owned subsidiary of the Group, has entered into a sale and purchase agreement with an independent third party to acquire the entire equity interest of Smart Peak Limited. Smart Peak Limited will indirectly have 100% control of Bengbu Shi Aomeigia Female Hospital Limited, a privately-run hospital established in Anhui, the PRC which provides general hospital services in Anhui, the PRC including but not limited to medicine ward, surgical ward, gynaecology, paediatric unit, plastic surgery, ear nose and throat unit, emergency and accident unit and medical checkup and examination. The total consideration of HK$49 million will be settled by cash. The completion of the acquisition is pending on the target group reorganisation. For further details, please refer to the Company's announcement dated 13 June 2008.

Liquidity and financial resources

The Group had total cash and bank balances of approximately HK$78.134 million as at 31 March 2008 (2007: approximately HK$24.758 million). The increase in cash and bank balances were mostly due to the completion of the placement of shares in May 2007 which raised in aggregate approximately HK$219 million for the Company. For the year ended 31 March 2008, the Group paid approximately HK$97.681 million as cash consideration for the acquisition of three privately-run hospitals in the PRC.

The Group recorded total current assets of approximately HK$230.299 million as at 31 March 2008 (2007: approximately HK$110.807 million) and total current liabilities of approximately HK$62.134 million as at 31 March 2008 (2007: approximately HK$35.921 million). The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was approximately 3.706 as at 31 March 2008 (2007: approximately 3.084).

Acquisitions and disposals of subsidiaries

Summary of the Group's material acquisitions and disposals for the year ended 31 March 2008 is as follows:

(a) On 9 May 2007, the Group had completed the acquisition of the entire issued share capital of Hero Vision Enterprises Limited which indirectly holds a 55% equity interest of Chongqing Edward Hospital Company Limited, a privately-run hospital established in Chongqing, the PRC. The hospital provides general hospital services including but not limited to medicine ward, surgical ward, cosmetic surgery, dermatology department and medical checkup and examination. The total consideration amounted to approximately HK$157.3 million was settled by cash, consideration shares and financial instruments of the Company.

(b) On 8 October 2007, the Group had completed the acquisition of the entire equity interest of Merry Sky Investments Limited. Merry Sky Investments Limited and its subsidiaries, including the 55% owned Jiaxing City Shunguang Western and Chinese Composite Hospital Limited, a privately-run general hospital established in Jiaxing city, the PRC. The hospital is principally engaged in the provision of traditional Chinese medical treatments as well as general hospital medical services including but not limited to medical ward, surgical ward, cosmetic surgery, dermatology department and medical checkup and examination. The total consideration of HK$80.85 million was settled by cash and consideration shares.

(c) On 31 October 2007, the Company has entered into a sale and purchase agreement with Spring Vision Group Limited for the disposal of the entire equity interest of Rightime Development Limited and its subsidiaries, including Youngdong for a cash consideration of HK$1.9 million. The completion of the disposal of the entire equity interest of Rightime Development Limited took place on 12 December 2007.

(d) On 23 January 2008, Day View Group Limited has entered into a sale and purchase agreement with Mr. Weng Huiteng for the disposal of the entire equity interest of Shine Concord Enterprises Limited and its non-wholly owned subsidiary, Shanghai Humanity Hospital Management Company Limited for a cash consideration of approximately HK$10.5 million. The completion of the disposal of the entire equity interest of Shine Concord Enterprises Limited took place on 31 January 2008.

(e) On 22 February 2008, the Group had completed the acquisition of the entire equity interest of Direct Way Group Limited and its subsidiaries, including the 70% owned Foshan Qide Hospital, is a privately-run hospital established in Foshan, the PRC by Foshan Qide Hospital Limited, which provides general hospital services in Foshan, the PRC including but not limited to medicine ward, surgical ward, gynaecology, paediatric unit, plastic surgery, ear nose and throat unit, emergency and accident unit and medical checkup and examination. The total consideration of HK$54.88 million was settled by cash.

(f) On 25 February 2008, the Company has entered into a sale and purchase agreement with Mr. Zheng Maolin for the disposal of the entire equity interest of Able Developments Limited and its wholly-owned subsidiaries including Prime Source Trading Limited and Prime Source (Fujian) Chemical Co., Limited for a cash consideration of HK$83 million. The completion of the disposal of the entire equity interest of Able Developments Limited took place on 28 March 2008.

Contingent liabilities

In early 2006, an action in the PRC has been taken out by Jiaxing City Triumph Electric Company Limited against Jiaxing City Shuguang Western and Chinese Composite Hospital Limited ("Jiaxing Shuguang Hospital"), a non-wholly owned subsidiary of the Company, using for rental payment of an aggregate of approximately RMB0.88 million (equivalent to approximately HK$0.89 million) for the period from 1 September 2003 to 1 March 2006, which is claimed with reference to annual rental payment of RMB0.35 million (equivalent to approximately HK$0.36 million) in respect of the leased property on which Jiaxing Shuguang Hospital is currently occupied and operated (the "Property in Dispute") under a legally binding tenancy agreement entered into with Jiaxing City Xin Kai Yuan Industrial Trading Company Limited who has been joined as a third party to the action (the "Shuguang Dispute").

In the Shuguang Dispute, whereas the Property in Dispute is legally registered under the name of Jiaxing City Xin Kai Yuan Industrial Trading Company Limited and a legally binding tenancy agreement has been entered into between Jiaxing Shuguang Hospital and Jiaxing City Xin Kai Yuan Industrial Trading Company Limited, Jiaxing City Triumph Electric Company Limited alleged that it owns part of the interest in the Property in Dispute and that Jiaxing Shuguang Hospital has a verbal agreement with it whereby Jiaxing Shuguang Hospital has agreed to rent from it the Property in Dispute.

The Company has been advised by its PRC legal adviser that Jiaxing Shuguang Hospital has a strong defense as the Property in Dispute is legally registered under the name of Jiaxing City Xin Kai Yuan Industrial Trading Company Limited and that there had been a legally binding tenancy agreement entered into between Jiaxing Shuguang Hospital and Jiaxing City Xin Kai Yuan Industrial Trading Company Limited, which was made in compliance with the relevant PRC law that leasing of property shall be made by way of written agreement, as contrasted with the alleged verbal agreement between Jiaxing Shuguang Hospital and Jiaxing City Triumph Electric Company Limited. The PRC legal adviser further advised that in those circumstances, Jiaxing City Xin Kai Yuan Industrial Trading Company Limited shall be responsible for the Shuguang Dispute.

As at 31 March 2008, the Shuguang Dispute is now stayed pending the outcome of the dispute between Jiaxing City Triumph Electric Company Limited and Jiaxing City Xin Kai Yuan Industrial Trading Company Limited regarding the ownership of the Property in Dispute.

Save for the disclosed, as at 31 March 2008, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the directors to be pending or threatened against any member of the Group (2007: Nil).

Foreign exchange risk

Since almost all transactions of the Group are denominated in Renminbi, Hong Kong dollars and Korean Won and most of the bank deposits are being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risk, the directors believe that there is no significant foreign exchange risk to the Group. Therefore, the Group has not implemented any formal hedging or other alternative policies to deal with such exposure during the year.

Charges on group assets

As at 31 March 2008, the Group had no bank-borrowing outstanding balances. A time deposit of the Group of approximately HK$5.212 million has been pledged to a bank in Hong Kong to secure banking facilities granted to the Group. No secured short-term bank loan was drawn down during the year.

Segment information

During the year, the revenue of the Group was principally generated from: (1) manufacture and sales of environmental protection products; (2) provision of general hospital services; and (3) provision of healthcare and hospital management service. During the year ended 31 March 2008, the Group had disposed its installation, engineering and management of wastewater treatment systems and environmental facilities, provision of environmental analyses and measurement services business and manufacture and sales of melamine and its related products business. Geographically, the Group has expanded business operations into the cities of Chongqing, Jiaxing and Foshan in the PRC. Financial information in respect of these operations is presented in Note 5 to the financial statements.

Capital structure

As at 31 March 2008, the total issued share capital of the Company was approximately HK$89,902,240 (2007: HK$54,104,860) divided into 1,798,044,795 ordinary shares (2007: 1,082,097,200 shares) of HK$0.05 each.

Details of movements in the share capital of the Company during the year are set out in Note 17 to the financial statements.

Employee information

As at 31 March 2008, the Group had 587 (2007: 156) full time employees (including directors) as shown in the following table:

Location	Number of Staff
Hong Kong	15
PRC (including cities of Fuzhou, Chongqing, Jiaxing and Foshan)	572

For the year ended 31 March 2008, staff costs (including directors emoluments) amounted to approximately HK$12.372 million (2007: approximately HK$13.689 million). The decrease of staff costs was due to the decrease in the share-based payment expense and the implementation of effective cost control measures during the year. The Group remunerates its employees based on individual performance and qualification. Apart from the basic remuneration, staff benefits include the contribution to the Mandatory Provident Fund Scheme, bonus and medical coverage in Hong Kong; and basic insurance for the elderly, basic medical insurance, work injury insurance and unemployment insurance to the employees in the PRC. The Group also adopted employee share option scheme to provide eligible employees a performance incentive for continuous and improved services with the Group and to enhance their contributions to increase profits by encouraging capital accommodation and share ownership.

For the year ended 31 March 2007

The Group is principally engaged in the provision of healthcare and hospital management services in the PRC. In addition, it is engaged in the manufacture and sales of environmental protection products as well as provision of related services, manufacture and sales of melamine and its related products.

Results of the Group for the year ended 31 March 2007 have shown improvement in turnover compared with the previous year. Turnover of the Group for the year was approximately HK$77.52 million in comparison with HK$41.09 million in 2006, representing an increase of approximately 89%. Profit from operations was approximately HK$9.05 million in comparison with HK$3.95 million in 2006, representing an increase of approximately 129%. Net profit attributable to equity holders for the year ended 31 March 2007 was HK$5.98 million in comparison with a net profit of HK$3.19 million in 2006, representing an increase of profitability of approximately 87%.

The improvement in revenue for the year ended 31 March 2007 was mainly driven by the contribution in turnover by the manufacture and sales of melamine and its related products and provision of hospital management services in the PRC. The turnover of these new lines of products and services represented approximately HK$54.96 million equivalent to approximately 70% of the Group's turnover for the year ended 31 March 2007.

Selling and distribution expenses for the year ended 31 March 2007 decreased by approximately 40% to approximately HK$1.20 million as compared to approximately HK$1.99 million for the corresponding period last year. The decrease was mainly attributable to the decrease in commission expenses associated with the sales of energy saving products.

Administrative expenses for the year ended 31 March 2007 amounted to approximately HK$30.07 million (2006: HK$18.41 million), representing an increase of approximately 63%. The increase was mainly due to the recognition of equity-settled share base payment of approximately HK$5.0 million (2006: Nil) in respect of the share options granted during the year. Adjusted for this non-cash flow expense, the administrative expenses increased by approximately 36% as a result of increase in professional expenses incurred for the rights issue and open offer, the acquisition of Day View Group Limited, and increase in the travelling expenses.

Business Review and Outlook

Waste water treatment businesses

The Group's waste water treatment businesses for government and commercial projects are mainly carried out through Youngdong Environmental Engineering Co., Ltd. ("Youngdong") in Korea. Youngdong's turnover for the year ended 31 March 2007 totalled approximately HK$21.92 million (2006: HK$15.55 million).

The Group also provides cleansing and ancillary services to both public and private housing in Hong Kong for cleansing of fresh and flush roof tanks, sump tanks and water tanks. The turnover for this division of business for the year ended 31 March 2007 recorded approximately HK$0.48 million (2006: HK$0.89 million). The Group has terminated this division of business since January 2007 due to the decrease of profitability.

Energy saving products and enzyme treatments

The Group's energy saving and enzyme treatment divisions recorded a total turnover of approximately HK$0.16 million for the year ended 31 March 2007 (2006: HK$6.77 million). The significant decrease in turnover was due to the fall in demand for the products. The Group has subcontracted these divisions of business to a local company in Hong Kong since April 2006.

Manufacture and sales of melamine and its related products

The Group manufactures and sells the melamine materials through its wholly-owned subsidiary, Prime Source (Fujian) Chemical Co. Ltd., in the Fujian Province, the PRC. Melamine materials are raw materials used in the manufacture of household products which are widely used in environmental conscious countries and are durable, non-toxic and easy to be processed. The Group also trades the household products made from the environmental friendly melamine materials which are widely used in environmental conscious countries. The total turnover recorded in the sales of melamine materials and environmental friendly household products for the year ended 31 March 2007 was approximately HK$21.91 million (2006: HK$12.20 million).

Environmental protection consultancy and management services for hospitals

Since October 2005, the Group has entered into the service agreements with hospitals in the PRC to provide professional consulting services in the areas of environmental protection such as energy saving, waste water treatments, and improvement on the hospitals' air and water quality. The turnover recorded in these services for the year ended 31 March 2007 was approximately HK$2.0 million (2006: HK$2.58 million).

In addition to rendering environmental protection services for hospitals, the Group subcontracts its services to a hospital management company in the PRC to provide hospital management services. The turnover recorded in these services for the year ended 31 March 2007 was approximately HK$23.0 million (2006: HK$3.10 million).

On 24 November 2006, the Group has completed the acquisition of Day View Group Limited. Day View Group Limited and its subsidiaries, including Shanghai Humanity Hospital Management Company Limited, are principally engaged in the business of healthcare management and training and consultancy for hospitals in the PRC, which include advising on management strategies, operation and business model, logistics and procurement, workflow and human resources, market strategies and providing training and administrative support. The turnover contributed by the Day View Group Limited and its subsidiaries in these services for the year ended 31 March 2007 was approximately HK$8.06 million (2006: Nil).

Future Prospects

Under the environment of fast economic growth in the PRC and more people becoming aware of the importance of health, the directors believe that the healthcare market in the PRC provides abundant business opportunities for the Group in the future.

The directors intend to explore more business opportunities in the promising healthcare sector in the PRC including but not limited to possible future investments in or cooperations with hospitals in the PRC (including but not limited to taking equity interests in hospitals in the PRC which the directors believe will have growth potentials) and to consider undertaking those businesses which are complimentary to the existing business as a further step to the acquisition in order to benefit from the growth in the healthcare sector and enhance shareholders' returns in the long-run.

Liquidity and financial resources

The Group had total cash and bank balances of approximately HK$24.76 million as at 31 March 2007 (2006: HK$8.99 million). The increase in cash and bank balances were mostly due to the completion of the open offer in February 2007 which raised in aggregate approximately HK$28.44 million for the Company. During the year, the Group paid approximately HK$20.00 million as cash consideration for the acquisition of 76% issued share capital of Day View Group Limited.

The Group recorded total current assets of approximately HK$110.81 million as at 31 March 2007 (2006: HK$42.55 million) and total current liabilities of approximately HK$35.92 million as at 31 March 2007 (2006: HK$11.09 million). The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was approximately 3.09 as at 31 March 2007 (2006: 3.84).

Acquisition of a subsidiary

During the year, the Group has acquired 76% issued share capital of Day View Group Limited which engages principally in the business of healthcare management and training and consultancy for hospitals located in the PRC. The total consideration of the acquisition comprising a combination of cash and shares of the Company was HK$96.86 million. Completion of this acquisition took place on 24 November 2006.

Details of this acquisition are disclosed in the Company's circular dated 28 July 2006 and note 34 to the financial statements on pages 89 and 91.

Contingent liabilities

As at 31 March 2007, the Group had no material contingent liabilities (2006: Nil).

Foreign exchange exposure

During the year, the Group experienced exchange rate fluctuations as the functional currencies of the Group's operations were mainly in Hong Kong dollars, Korean Won and Renminbi. As the risk on exchange rate difference was considered to be stable, the Group did not employ any financial instrument for hedging purposes.

Charges on group assets

Certain time deposits of the Group of HK$5.05 million have been pledged to banks to secure banking facilities and short-term bank loan granted to the Group. Secured short-term bank loan in the amount of HK$6.0 million was drawn down during the year.

Segment information

During the year, the revenue of the Group was principally generated from the manufacture, sales and consultancy of environmental protection products and services, and provision of healthcare and management services. Geographically, the Group has expanded business operations into Shanghai, the PRC in November 2006 through the acquisition of the non-wholly owned subsidiary, Day View Group Limited. Financial information in respect of these operations is presented in note 6 to the financial statements.

Capital structure

As at 31 March 2006, the total issued share capital of the Company was HK$17,246,517 divided into 344,930,333 ordinary shares of HK$0.05 each.

On 19 April 2006, the Company completed to issue 172,465,166 new ordinary shares by way of a rights issue on the basis of one rights share for every two existing shares of HK$0.05 each at a subscription price of HK$0.06.

On 19 April and 25 April 2006 respectively, 4,848,750 share options were exercised and 4,848,750 shares were issued and alloted.

On 12 July, 20 July and 16 October 2006, 11 January and 19 March 2007 respectively, a total of HK$15.50 million unlisted convertible notes had been converted into a total of 78,329,868 shares.

Pursuant to the acquisition of Day View Group Limited become unconditional on 21 November 2006, the Company allotted and issued 126,000,000 consideration shares to Mr. Wu Wendong, the ultimate controlling shareholder of Day View Group Limited.

On 14 February 2007, the Company completed to issue 355,523,083 new ordinary shares by way of the open offer on the basis of one offer share for every two existing shares of HK$0.05 each at a subscription price of HK$0.08 per offer share.

As at 31 March 2007, the total issued share capital of the Company was HK$54,104,860 divided into 1,082,097,200 ordinary shares of HK$0.05 each.

Purchase, sale or redemption of the Company's listed shares

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

Employee information

As at 31 March 2007, the Group had 156 (2006: 156) full time employees (including directors) as shown in the following table:

Location	Number of Staff
Hong Kong	15
Fujian	94
Shanghai	17
Korea	30

For the year ended 31 March 2007, staff costs (including directors emoluments) amounted to approximately HK$13.69 million (2006: HK$10.94 million). The increase of staff costs was due to the increase in salaries and allowances and the share-based payment expense during the year. The Group remunerates its employees based on individual performance and qualification. Apart from the basic remuneration, staff benefits include the contribution to the Mandatory Provident Fund Scheme, bonus and medical coverage in Hong Kong; and basic insurance for the elderly, basic medical insurance, work injury insurance and unemployment insurance to the employees in the PRC. The Group also adopted employee share option scheme to provide eligible employees a performance incentive for continuous and improved services with the Group and to enhance their contributions to increase profits by encouraging capital accommodation and share ownership.

II. MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET

Financial summary

Set out below is the key financial data of the Target, which are extracted from the accountants' report on the Target contained in Appendix II to this circular.

	For the period from 16 July 2009 (date of incorporation) to 30 September 2009
	HK$
	(audited)
Turnover	–
Gross profit	–
Loss before taxation	(6,300)
Loss after taxation	(6,300)

	As at 30 September 2009
	HK$
	(audited)
Non-current assets	–
Current assets	–
Current liabilities	6,300
Non-current liabilities	–
Net liabilities	6,300

Financial and business performance

Period from 16 July 2009 to 30 September 2009

There is no business activity during the period from its date of incorporation i.e. 16 July 2009 to 30 September 2009. The Target recorded nil turnover and a net loss of HK$6,300 arising from administrative expenses.

Financial resources and liquidity

Assets and liabilities

As at 30 September 2009, the Target did not hold any assets but recorded a net liabilities of HK$6,300.

Cash and cash equivalents

As at 30 September 2009, the Target did not have any cash and bank balances.

Number of employees

As at 30 September 2009, the Target had no employee.

Segmental information

No financial performance is recorded during the period as the company has no business activity during the period.

Capital structure

The Target was incorporated in the BVI on 16 July 2009 with an authorised capital of USD50,000. As at 30 September 2009, no share capital was issued.

Foreign currency risk

The Target has no business operation for the period, therefore, it does not have any significant exposure to risk resulting from changes in foreign currency exchange rates.

Capital commitment, charge on group assets and continent liabilities

The Target had no capital commitment, no continent liabilities and no charge on its assets as at 30 September 2009.

Significant investments held, material acquisitions and disposals

During the period, there were no investment held, no material acquisition or disposal of any subsidiary and associate of the Target.

Order Book

The Target has no business activities during the period. No order book is maintained by the Target.

Future Plans for Material Investments

The Target had no future plans for any material investment as at 30 September 2009 except for the acquisition of equity interests in Huihao Hong Kong as disclosed in note 15 in the accountants' report on the Target as set out in Appendix II to this circular.

An analysis of the Target and performance as compared with industry average

No comparison was made as the Target has no business operation noted during the period.

III. MANAGEMENT DISCUSSION AND ANALYSIS OF THE HUIHAO MEDICINE WHOLESALE GROUP

Financial summary

Set out below is the key financial data of the Huihao Medicine Wholesale Group, which is extracted from the accountants' report on the Huihao Medicine Wholesale Group contained in Appendix III to this circular.

	For the period ended 30 September	**For the year ended 31 March**		
	2009	**2009**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(audited)
Turnover	330,716	187,697	–	–
Gross profit	11,075	7,987	–	–
Gross profit margin	3.35%	4.26%	N/A	N/A
Profit/(loss) before taxation	317	3,753	(13)	(3)
Profit before tax margin	0.10%	2.00%	N/A	N/A
(Loss)/Profit after taxation	(113)	3,294	(13)	(3)
(Loss)/Profit after tax margin	N/A	1.75%	N/A	N/A

	As at 30 September	**As at 31 March**		
	2009	**2009**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(audited)
Non-current assets	7,683	8,172	–	–
Current assets	262,226	221,813	1,177	1,097
Current liabilities	265,620	225,578	202	109
Non-current liabilities	–	–	–	–
Net assets	4,289	4,407	975	988

** N/A: not applicable*

(i) Period ended 30 September 2009 and year ended 31 March 2009

Financial and business performance

Turnover for the period ended 30 September 2009 amounted to approximately HK$330,716,000 of which the entire turnover was generated from its pharmaceutical wholesale and distribution business. The sales for the year ended 31 March 2009 was approximately HK$187,697,000. According to the management of the Huihao Medicine Wholesale Group, the increase in the turnover in the period as compared to the full year results for the year ended 31 March 2009 was mainly because business of the Huihao Medicine Wholesale Group took place in August 2008 which resulted in shorter history during the year ended 31 March 2009.

Gross profit for the period ended 30 September 2009 amounted to approximately HK$11,075,000. The gross profit margin for the period ended 30 September 2009 and the year ended 31 March 2009 are 3.35% and 4.26% respectively. The lower margin for the period ended 30 September 2009 as compared to the financial year ended 31 March 2009 was due to full year purchase discounts was yet to be recorded during the period ended 30 September 2009. During the period, the major operating costs included selling and administrative expenses. The net profit before tax and net loss after tax amounted to approximately HK$317,000 and HK$113,000 respectively for the period ended 30 September 2009. The loss making result was due to the increased selling and administrative expenses recorded during the period and taxation expenses recorded during the period.

Financial resources and liquidity

Assets and liabilities

As at 30 September 2009, the non-current assets of the Huihao Medicine Wholesale Group amounted to approximately HK$7,683,000 of which mainly comprised office equipment of approximately HK$5,920,000 and motor vehicles of approximately HK$1,763,000.

As at 30 September 2009, the current assets of the Huihao Medicine Wholesale Group amounted to approximately HK$262,226,000 of which mainly comprised trade and other receivables and deposits of approximately HK$156,782,000 and inventories of approximately HK$49,777,000.

Trade receivables of the Huihao Medicine Wholesale Group was approximately HK$101,806,000 as at 30 September 2009, represented an increase of approximately 5.9% as compared to that of HK$96,151,000 as at 31 March 2009. Trade receivables turnover days is 112 days as at 30 September 2009 which had improved from trade receivables turnover days of 187 days as at 31 March 2009 due to better control over the receivables collection.

Other receivables amounted to HK$47,673,000 as at 30 September 2009 as compared to that of HK$30,122,000 as at 31 March 2009. The increase in other receivables is mainly because the increase in scale of operation and related expenses.

The Huihao Medicine Wholesale Group did not experience any material bad debts that required write-off for the period ended 30 September 2009.

As at 30 September 2009, the total current liabilities of the Huihao Medicine Wholesale Group amounted to approximately HK$265,620,000 which comprised trade payables of approximately HK$160,397,000, accruals and other payables of approximately HK$34,500,000 and bills payables of approximately HK$26,501,000.

Trade payables were approximately HK$160,397,000 as at 30 September 2009 as compared to that of HK$164,916,000 as at 31 March 2009. The level of trade payables maintained at similar level. The average trade payables turnover days had been shortened from 342 days as at 31 March 2009 to 184 days as at 30 September 2009 since there is better inventory control and improved procurement efficiency.

Accruals and other payables amounted to HK$34,500,000 as at 30 September 2009 as compared to that of HK$27,099,000 as at 31 March 2009. The increase are due to increase in scale of operation during the period.

The audited consolidated net assets of the Huihao Medicine Wholesale Group as at 30 September 2009 was approximately HK$4,289,000.

As at 30 September 2009, the Huihao Medicine Wholesale Group had an outstanding bank borrowing of HK$13,680,000. The Huihao Medicine Wholesale Group's borrowings are denominated in Renminbi, secured and calculate at a fixed rate basis.

Cash and cash equivalents

As at 30 September 2009 and 31 March 2009, cash and bank balances of the Huihao Medicine Wholesale Group amounted to approximately HK$5,984,000 and approximately HK$3,317,000 respectively. According to the management of the Huihao Medicine Wholesale Group, the increase in the cash and bank balances was mostly due to increase in scale of operation and more cash was required for operation.

Number of employees and remuneration polices

As at 30 September 2009 and 31 March 2009, the Huihao Medicine Wholesale Group had about 296 and 175 employees respectively and the total salary and other benefits for the period ended 30 September 2009 amounted to approximately HK$3,428,000. Employee remuneration was based on individual performance, working experience, qualifications and the prevailing industry practice.

Segmental information

No further information for the business or geographical segment analysis of Huihao Medicine Wholesale Group is provided since it only engages in pharmaceutical wholesale and distribution in the PRC.

Capital structure

As at 30 September 2009, the issued and paid up share capital of the holding company of the Huihao Medicine Wholesale Group amounted to HK$1,000,000.

Foreign currency risk

The Huihao Medicine Wholesale Group mainly operates in the PRC with all the transactions settled in Renminbi. Therefore, it did not have any significant exposure to risk resulting from changes in foreign currency exchange rates.

Gearing ratios

As at 30 September 2009, the Huihao Medicine Wholesale Group had current assets of approximately HK$262,226,000 and current liabilities of approximately HK$265,620,000. The current ratio (calculated by dividing current assets over the current liabilities) is approximately 98.72%.

As at 30 September 2009, the total liabilities of the Huihao Medicine Wholesale Group amounted to approximately HK$265,620,000, and the total assets of the Huihao Medicine Wholesale Group amounted to HK$269,909,000 and thus gearing ratio of the Huihao Medicine Wholesale Group (calculated by dividing the total liabilities over the total assets) is approximately 98.41%. The gearing ratio maintains at the similar level as compared to the gearing ratio of approximately 98.08% as at 31 March 2009 due to high level of current liabilities. The high level of gearing is mainly due to longer settlement period obtained from the suppliers.

Capital commitment, charge on group assets and contingent liabilities

The Huihao Medicine Wholesale Group had no significant capital commitment but an operating lease commitment of approximately HK$5,890,000 as at 30 September 2009. The Huihao Medicine Wholesale Group did not have any significant contingent liabilities as at 30 September 2009.

Save as the amount due from Huihao Sihai being pledged to banks to secure credit facilities and pledged bank deposit to secure bills payables as detailed in the accountants' report of the Huihao Medicine Wholesale Group contained in Appendix III to this circular *(note 26)*, the Huihao Medicine Wholesale Group did not have any charge on its assets as at 30 September 2009.

Significant investments held, material acquisitions and disposals

During the year ended 31 March 2009, Huihao Hong Kong acquired the entire equity interests in Fujian Province Fuzhou City Huihao Pharmaceutical Co. Ltd.[#]（福建省福州市惠好藥業有限公司）on 2 December 2008 which in turn is interested in 100% equity interests in Putian Medicine Co. Ltd.[#]（福建莆田惠好醫藥有限公司）and 100% equity interests in Fujian Huiming Medicine Co. Ltd.[#]（福建省惠明醫藥有限公司）.

Order Book

The Huihao Medicine Wholesale Group did not maintain any order book.

Future Plans for Material Investments

The Huihao Medicine Wholesale Group had no future plans for any material investment as at 30 September 2009.

An analysis of the Huihao Medicine Wholesale Group and performance as compared with industry average

The net profit margin for the pharmaceutical distribution and retail business is about 0.29% to 7%. As compared with the industry statistics, the net profit margin of the Huihao Medicine Wholesale Group of 1.75% for the year ended 31 March 2009 is within the range.

(ii) Year ended 31 March 2009 and 31 March 2008

Financial and business performance

The Huihao Medicine Wholesale Group began to consolidate the results of business since August 2008. Turnover for the year ended 31 March 2009 amounted to approximately HK$187,697,000 of which the entire turnover was generated from the wholesale and distribution of pharmaceutical products.

Gross profit for the year ended 31 March 2009 amounted to approximately HK$7,987,000. The gross profit margin for the year ended 31 March 2009 is 4.26%. During the year, the major operating costs included selling and administrative expenses.

The net profit before and after tax amounted to HK$3,753,000 and HK$3,294,000 respectively for the year ended 31 March 2009. The net profit margin before and after tax are 2.00% and 1.75% respectively for the year ended 31 March 2009. No comparison to the historical performance can be made as there is insignificant operating results for the year ended 31 March 2008.

Financial resources and liquidity

Assets and liabilities

As at 31 March 2009, the non-current assets of the Huihao Medicine Wholesale Group amounted to approximately HK$8,172,000 of which mainly comprised office equipment of approximately HK$6,316,000 and motor vehicles of approximately HK$1,856,000.

As at 31 March 2009, the current assets of the Huihao Medicine Wholesale Group amounted to approximately HK$221,813,000 of which mainly comprised trade and other receivables and deposits of approximately HK$128,780,000 and inventories of approximately HK$51,317,000,

Trade receivables of the Huihao Medicine Wholesale Group was approximately HK$96,151,000 as at 31 March 2009. Trade receivables turnover days is 187 days. Other receivables amounted to HK$30,122,000 as at 31 March 2009.

The Huihao Medicine Wholesale Group did not experience any material bad debts that required write-off for the year ended 31 March 2009.

As at 31 March 2009, the total liabilities of the Huihao Medicine Wholesale Group amounted to approximately HK$225,578,000 which comprised trade payables of approximately HK$164,916,000 and accruals and other payables of approximately HK$27,099,000.

Trade payables were approximately HK$164,916,000 as at 31 March 2009, and trade payables turnover days was 342 days. The trade payables turnover days was not a meaningful comparison as the company started to consolidate the results of the wholesale and distribution business since August 2008 while sales did not catch up during the year.

Accruals and other payables amounted to HK$27,099,000 as at 31 March 2009.

The audited consolidated net assets of the Huihao Medicine Wholesale Group as at 31 March 2009 was approximately HK$4,407,000.

No comparison to the historical assets and liabilities can be made as there was insignificant operating results for the year ended 31 March 2008 and the assets and liabilities were not significant.

As at 31 March 2009, the Huihao Medicine Wholesale Group had no outstanding bank borrowing.

Cash and cash equivalents

As at 31 March 2009, cash and bank balances of the Huihao Medicine Wholesale Group amounted to approximately HK$3,317,000.

Number of employees and remuneration polices

As at 31 March 2008 and 31 March 2009, the Huihao Medicine Wholesale Group had about one and 175 employees respectively and the total salaries and other benefits amounted to HK$101,000 and HK$2,393,000 respectively for the corresponding years. Employee remuneration was based on individual performance, working experience, qualifications and the prevailing industry practice.

Segmental information

No further information for the business or geographical segment analysis of the Huihao Medicine Wholesale Group is provided since it only engages in pharmaceutical wholesale and distribution in the PRC.

Capital structure

Huihao Hong Kong was incorporated in Hong Kong on 1 March 2004 with a registered capital of HK$1,000,000.

Foreign currency risk

The Huihao Medicine Wholesale Group mainly operates in the PRC with all the transactions settled in Renminbi. Therefore, it did not have any significant exposure to risk resulting from changes in foreign currency exchange rates.

Gearing ratio

As at 31 March 2009, the Huihao Medicine Wholesale Group had current assets of approximately HK$221,813,000 and current liabilities of approximately HK$225,578,000. The current ratio (calculated by dividing current assets over the current liabilities) is approximately 98.33% .

As at 31 March 2009, the total liabilities of the Huihao Medicine Wholesale Group amounted to approximately HK$225,578,000, and the total assets of the Huihao Medicine Wholesale Group amounted to HK$229,985,000 and thus gearing ratio of the Huihao Medicine Wholesale Group is approximately 98.08%. The high level of gearing is due to the utilization of interest-free financing by way of trade and other payables. No gearing applicable for the year ended 31 March 2008 since there is no significant assets and liabilities recorded for the year.

Capital commitment, charge on group assets and contingent liabilities

As at 31 March 2009, the Huihao Medicine Wholesale Group had no significant capital commitment and an operating lease commitment of approximately HK$6,328,000. The Huihao Medicine Wholesale Group did not have any significant contingent liabilities as at 31 March 2009. The Huihao Medicine Wholesale Group did not have any charge on its assets as at 31 March 2009.

Significant investments held, material acquisitions and disposals

During the two years ended 31 March 2009 and 31 March 2008, there were no material change on the investment held and also no material acquisition or disposal of any subsidiary and associate of the Huihao Medicine Wholesale Group.

Order Book

The Huihao Medicine Wholesale Group did not maintain any order book.

Future Plans for Material Investments

The Huihao Medicine Wholesale Group had no future plans for any material investment as at 31 March 2009 and 31 March 2008.

(iii) Year ended 31 March 2008 and 31 March 2007

Financial and business performance

The Huihao Medicine Wholesale Group has no operation during the two years ended 31 March 2008 and 31 March 2007, and therefore, no turnover or gross profit was recorded. The net loss before and after tax were insignificant during the years.

Financial resources and liquidity

Assets and liabilities

As at 31 March 2008, the Huihao Medicine Wholesale Group has current assets of HK$1,177,000 representing the amount due from a shareholder of HK$975,000 and other receivables of HK$202,000. The total liabilities was approximately HK$202,000.

Cash and cash equivalents

As at 31 March 2007 and 31 March 2008, there was no cash and bank balances of the Huihao Medicine Wholesale Group.

Number of employees and remuneration polices

As at 31 March 2007 and 31 March 2008, the Huihao Medicine Wholesale Group had one employee and the total salary and other benefits for the two years were approximately HK$101,000 and HK$101,000 respectively.

Segmental information

No financial performance was recorded during the years as the Huihao Medicine Wholesale Group had no business activity during the two years ended 31 March 2008 and 31 March 2007 respectively.

Capital structure

Huihao Hong Kong was incorporated in Hong Kong on 1 March 2004 with a registered capital of HK$1,000,000.

Foreign currency risk

The Huihao Medicine Wholesale Group has no business operation. Therefore, it did not have any significant exposure to risk resulting from changes in foreign currency exchange rates.

Gearing ratio

As at 31 March 2008 and 31 March 2007, the assets and liabilities of the Huihao Medicine Wholesale Group is not significant, accordingly no current ratio or gearing ratio analysis is done.

Capital commitment, charge on group assets and contingent liabilities

As at 31 March 2008 and 31 March 2007, Huihao Medicine Wholesale Group had no significant capital commitment, significant contingent liabilities nor any charge on its assets.

Significant investments held, material acquisitions and disposals

During the two years ended 31 March 2008 and 31 March 2007, there were no material change on the investment held and also no material acquisition or disposal of any subsidiary and associate of the Huihao Medicine Wholesale Group.

Order Book

There is no business activities noted during the years.

Future Plans for Material Investments

The Huihao Medicine Wholesale Group had no future plans for any material investment as at 31 March 2008 and 31 March 2007.

IV. MANAGEMENT DISCUSSION AND ANALYSIS OF HUIHAO SIHAI

Financial summary

Set out below is the key financial data of Huihao Sihai, which are extracted from the accountants' report on Huihao Sihai contained in Appendix IV to this circular.

	For the period ended 30 September	For the year ended 31 March		
	2009	**2009**	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	(audited)	(audited)	(audited)
Turnover	62,923	72,720	24,653	17,707
Gross profit	15,507	17,767	5,642	3,414
Gross profit margin	24.64%	24.43%	22.89%	19.28%
(Loss)/profit before taxation	(1,497)	(1,667)	1,101	(593)
Profit before tax margin	N/A	N/A	4.47%	N/A
(Loss)/profit after taxation	(1,577)	(1,732)	1,026	(593)
Profit after tax margin	N/A	N/A	4.16%	N/A

	As at 30 September	As at 31 March		
	2009	**2009**	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	(audited)	(audited)	(audited)
Non-current assets	16,323	14,971	10,456	10,387
Current assets	81,477	85,822	26,987	30,076
Current liabilities	89,149	90,565	25,483	29,529
Non-current liabilities	296	296	296	296
Net assets	8,355	9,932	11,664	10,638

** N/A: Not applicable*

(i) Period ended 30 September 2009 and year ended 31 March 2009

Financial and business performance

Turnover for the period ended 30 September 2009 amounted to approximately RMB62,923,000 of which the entire turnover was generated from pharmaceutical retail chain business. According to the management of Huihao Sihai, the increase in the turnover if annualised as compared to the turnover for the year ended 31 March 2009 was mostly due to the turnover generated by strategic relocation of drug stores to more desirable locations for more customer's access during the period which led to an increase in turnover.

Gross profit for the period ended 30 September 2009 amounted to approximately RMB15,507,000. The gross profit margin for the period ended 30 September 2009 and 31 March 2009 is 24.64% and 24.43% respectively and maintained at a similar level. During the period, the major operating costs included selling and administrative expenses.

The net loss before and after tax amounted to RMB1,497,000 and RMB1,577,000 respectively for the period ended 30 September 2009. As compared with the full year results of net loss before and after tax of RMB1,667,000 and RMB1,732,000 for the year ended 31 March 2009, the decrease in net loss was mostly due to the increase in operating costs in relation to the increase in drug stores during the period which has been set off partly by gain arising from change in fair value of investment properties during the period.

Financial resources and liquidity

Assets and liabilities

As at 30 September 2009, the non-current assets of Huihao Sihai amounted to approximately RMB16,323,000 of which mainly comprised prepaid lease payment of approximately RMB3,778,000, property, plant and equipment of approximately RMB4,583,000, investment properties of approximately RMB4,400,000 and available-for-sale financial assets of approximately RMB3,562,000.

As at 30 September 2009, the current assets of Huihao Sihai amounted to approximately RMB81,477,000 of which mainly comprised trade and other receivables and deposits of approximately RMB52,949,000 and inventories of approximately RMB23,756,000.

Trade receivables of Huihao Sihai was approximately RMB8,794,000 as at 30 September 2009, represented an increase of approximately 39.1% as compared to RMB6,324,000 as at 31 March 2009. Trade receivables turnover days is 51 days as at 30 September 2009 which had worsen from trade receivables turnover days of 32 days as at 31 March 2009. The increase in trade receivables turnover days was mainly due to the increasing emphasis on sales of products under the medical insurance program. The trade receivables are mainly generated from the sales of products under the medical insurance program where reimbursement will be made by the government.

Huihao Sihai did not experience any material bad debts that required write-off during the period ended 30 September 2009.

As at 30 September 2009, the total non-current liabilities of Huihao Sihai amounted to approximately RMB296,000 which is the supplementary retirement scheme cost payable to employee.

As at 30 September 2009, the total current liabilities of Huihao Sihai amounted to approximately RMB89,149,000 which comprised mainly trade and other payables of approximately RMB49,970,000, bank borrowing of approximately RMB14,000,000 and amounts due to related parties of approximately RMB24,676,000.

Trade payables were approximately RMB18,704,000 as at 30 September 2009, represented an increase of approximately 48.3% as compared to RMB12,610,000 as at 31 March 2009. Trade payables turnover days is 129 days as at 30 September 2009 which had increased from trade payables turnover days of 64 days as at 31 March 2009. The increase of trade payables and the increase in turnover days during the period were caused by the increase in purchases of merchandises to cope with the increased demand of products and to obtain a better price.

Accruals and other payables amounted to RMB30,338,000 as at 30 September 2009, as compared to that of RMB27,707,000 as at 31 March 2009. The increase are due to increase in scale of operation during the period.

The audited consolidated net assets of Huihao Sihai as at 30 September 2009 was approximately RMB8,355,000.

As at 30 September 2009, Huihao Sihai has an outstanding bank borrowing of RMB14,000,000. Huihao Sihai's borrowings are denominated in Renminbi. The bank borrowings are at a fixed rate and secured by land and building owned by a company invested by Huihao Sihai.

Cash and cash equivalents

As at 30 September 2009 and 31 March 2009, cash and bank balances of Huihao Sihai amounted to approximately RMB4,730,000 and approximately RMB6,330,000 respectively. According to the management of Huihao Sihai, the decrease in the cash and bank balances was mostly due to more cash was tied up with the operating lease prepayment during the period.

Number of employees and remuneration polices

As at 30 September 2009 and 31 March 2009, Huihao Sihai had about 519 and 712 employees respectively and the total salary and other benefits amounted to approximately RMB6,960,000 and RMB8,181,000 respectively for the same corresponding period/year. Employee remuneration was based on individual performance, working experience, qualifications and the prevailing industry practice.

Segmental information

No further information for the business or geographical segment analysis of Huihao Sihai has been presented as Huihao Sihai only engages in pharmaceutical retail chain business in the PRC.

Capital structure

Huihao Sihai was established in the PRC on 30 November 2001. As at 30 September 2009, Huihao Sihai had a registered capital of approximately RMB15,856,000 which was fully paid up.

Foreign currency risk

Huihao Sihai mainly operates in the PRC with all the transactions settled in RMB. Therefore, it did not have any significant exposure to risk resulting from changes in foreign currency exchange rates.

Gearing ratio

As at 30 September 2009, Huihao Sihai had current assets of approximately RMB81,477,000 and current liabilities of approximately RMB89,149,000. The current ratio, (calculated by dividing current assets over the current liabilities) was approximately 91.4%. The current ratio slightly improved from 94.8% as at 31 March 2009.

As at 30 September 2009, the total liabilities of Huihao Sihai amounted to RMB89,445,000, the total assets of Huihao Sihai amounted to RMB97,800,000 and thus gearing ratio of Huihao Sihai is approximately 91.5%. The gearing ratio of the company maintained at a similar level as compared with the gearing ratio of 90.1% as at 31 March 2009.

Capital commitment, charge on group assets and contingent liabilities

Huihao Sihai had no significant capital commitment. Huihao Sihai had an operating lease commitment of approximately RMB22,535,000 as at 30 September 2009. Huihao Sihai did not have any significant contingent liabilities as at 30 September 2009.

At 30 September 2009, certain prepaid lease payment of approximately RMB1,856,000 have been pledged to a bank to secure credit facilities granted to a company invested by Huihao Sihai.

At 30 September 2009, certain prepaid lease payment of approximately RMB2,061,000 have been pledged to a bank to secure credit facilities granted to an independent third party.

At 30 September 2009, certain investment properties of approximately RMB4,400,000 of Huihao Sihai have been pledged to a bank to secure credit facilities granted to a company invested by Huihao Sihai.

At 31 March 2009, certain prepaid lease payment of approximately RMB2,097,000 have been pledged to banks to secure credit facilities granted to an independent third party.

Save as disclosed, Huihao Sihai did not have any other charge on assets as at 30 September 2009 and 31 March 2009.

Significant investments held, material acquisitions and disposals

During the period, there were no material change on the investment held and also no material acquisition or disposal of any subsidiary and associate of Huihao Sihai.

Order Book

During the period, the benefits of additions of drug stores in the previous year began to materialise in terms of increased turnover.

Future Plans for Material Investments or Capital Assets

Huihao Sihai had no future plans for any material investments as at 30 September 2009.

An analysis of Huihao Sihai and performance as compared with industry average

The net profit margin for the pharmaceutical distribution and retail business is about 0.29% to 7%. Huihao Sihai recorded a loss during the period. Therefore, no comparison can be done.

(ii) Year ended 31 March 2009 and 31 March 2008

Financial and business performance

Turnover for the year ended 31 March 2009 amounted to approximately RMB72,720,000 of which the entire turnover was generated from sales of pharmaceutical products which represented an increase of 195.0% as compared to RMB24,653,000 for the year ended 31 March 2008. According to the management of Huihao Sihai, the increase in the turnover was mostly due to the turnover generated by new drug stores acquired or/and opened during the year.

Gross profit for the year ended 31 March 2009 amounted to approximately RMB17,767,000 which represented an increase of 214.9% as compared to RMB5,642,000 for the year ended 31 March 2008. The gross profit margin for the years ended 31 March 2009 and 31 March 2008 are 24.43% and 22.89% respectively and maintained at a similar level. During the years, the major operating costs included selling and administrative expenses. According to the management of Huihao Sihai, the increase in the gross profit was mostly due to the increase in turnover brought by the new drug stores during the year.

The net loss before and after tax amounted to RMB1,667,000 and RMB1,732,000 respectively for the year ended 31 March 2009, which had worsened from the net profit before tax and after tax for the year ended 31 March 2008 which amounted to RMB1,101,000 and RMB1,026,000 respectively. According to the management of Huihao Sihai, the net loss position was mostly due to the increase in operating costs in relation to the increase in drug stores during the year ended 31 March 2009 and gain arising from change in fair value of investment properties recorded for the year ended 31 March 2008.

Financial resources and liquidity

Assets and liabilities

As at 31 March 2009, the non-current assets of Huihao Sihai amounted to approximately RMB14,971,000 of which mainly comprised prepaid lease payment of approximately RMB3,832,000, property, plant and equipment of approximately RMB3,977,000, investment properties of approximately RMB3,600,000 and available-for-sale financial assets of approximately RMB3,562,000.

As at 31 March 2009, the current assets of Huihao Sihai amounted to approximately RMB85,822,000 of which mainly comprised trade and other receivables of approximately RMB61,288,000 and inventories of approximately RMB18,204,000.

Trade receivables of Huihao Sihai was approximately RMB6,324,000 as at 31 March 2009, represented an increase of approximately 144.0% as compared to RMB2,592,000 as at 31 March 2008. Trade receivables turnover days is 32 days as at 31 March 2009 which had improved from trade receivables turnover days of 38 days as at 31 March 2008. The trade receivables are mainly generated from the sales of products under the medical insurance program where reimbursement will be made by the government.

Huihao Sihai did not experience any material bad debts that required write-off for the year ended 31 March 2009.

As at 31 March 2009, the total non-current liabilities of Huihao Sihai amounted to approximately RMB296,000 which is the supplementary retirement scheme cost payable to employee.

As at 31 March 2009, the total current liabilities of Huihao Sihai amounted to approximately RMB90,565,000 which mainly comprised trade and other payables of approximately RMB42,433,000, bank borrowings of approximately RMB14,000,000 and amounts due to related parties of approximately RMB34,093,000.

Trade payables were approximately RMB12,610,000 as at 31 March 2009 represented an increase of approximately 256.5% as compared to RMB3,537,000 as at 31 March 2008. The increase was caused by the increased purchases of merchandises to cope with the increased demand of products from additional drug stores. Trade payables turnover period days is 64 days as at 31 March 2009 which had decreased slightly from trade payables turnover days of 69 days as at 31 March 2008.

Accruals and other payables amounted to approximately RMB27,707,000 as at 31 March 2009, as compared to approximately RMB6,624,000 as at 31 March 2008. The increase is mainly due to increase in scale of operation and related purchases and expenses.

The audited consolidated net assets of Huihao Sihai as at 31 March 2009 was approximately RMB9,932,000.

As at 31 March 2009, Huihao Sihai has an outstanding bank borrowing of RMB14,000,000. The borrowings are denominated in Renminbi. The bank borrowings are at a fixed rate and secured by the land and building owned by a company invested by Huihao Sihai.

Cash and cash equivalents

As at 31 March 2008 and 31 March 2009, cash and bank balances of Huihao Sihai amounted to approximately RMB1,310,000 and approximately RMB6,330,000 respectively. According to the management of Huihao Sihai, the increase in the cash and bank balances was mostly due to increase in the operating scale of the business.

Number of employees and remuneration polices

As at 31 March 2009 and 31 March 2008, Huihao Sihai had about 712 and 103 employees respectively and the total salary and other benefits amounted to approximately RMB8,181,000 and RMB2,244,000 respectively for the corresponding years. Employee remuneration was based on individual performance, working experience, qualifications and the prevailing industry practice.

Segmental information

No further information for the business or geographical segment analysis of Huihao Sihai has been presented as Huihao Sihai engages in pharmaceutical retail chain business in the PRC.

Capital structure

Huihao Sihai was established in the PRC on 30 November 2001. As at 31 March 2009, Huihao Sihai had a registered capital of approximately RMB15,856,000.

Foreign currency risk

Huihao Sihai mainly operates in the PRC with all the transactions settled in Renminbi. Therefore, it did not have any significant exposure to risk resulting from changes in foreign currency exchange rates.

Gearing ratio

As at 31 March 2009, Huihao Sihai had current assets of approximately RMB85,822,000 and current liabilities of approximately RMB90,565,000. The current ratio, (calculated by dividing current assets over the current liabilities) was approximately 94.8%. The current ratio has been worsened as compared to 105.9% as at 31 March 2008 because of the increase in the level of current liabilities.

As at 31 March 2009, the total liabilities of Huihao Sihai amounted to RMB90,861,000, the total assets of Huihao Sihai amounted to RMB100,793,000 and thus gearing ratio of Huihao Sihai was approximately 90.1%. The gearing ratio has been worsened as compared with the gearing ratio of 68.8% as at 31 March 2008 due to the increase in scale of operation which resulted in increase in trade and other payables during the year.

Capital commitment, charge on group assets and contingent liabilities

As at 31 March 2009 and 31 March 2008, Huihao Sihai had no significant capital commitment. Huihao Sihai had an operating lease commitment of approximately RMB33,117,000 as at 31 March 2009 compared to that of approximately RMB9,197,000 as at 31 March 2008. Huihao Sihai did not have any other significant contingent liabilities as at 31 March 2009.

At 31 March 2009, certain prepaid lease payment of approximately RMB2,097,000 have been pledged to banks to secure credit facilities granted to an independent third party.

Save as disclosed, Huihao Sihai did not have any charge on its assets as at 31 March 2009.

Significant investments held, material acquisitions and disposals

During the period, there were no material change on the investment held and also no material acquisition or disposal of any subsidiary and associate of Huihao Sihai.

Future Plans for Material Investments

Huihao Sihai had no future plans for any material investment as at 31 March 2009.

(iii) Year ended 31 March 2008 and 31 March 2007

Financial and business performance

Turnover for the year ended 31 March 2008 amounted to approximately RMB24,653,000 of which the entire turnover was generated from sales of pharmaceutical products which represented an increase of 39.2% as compared to RMB17,707,000 for the year ended 31 March 2007. According to the management of Huihao Sihai, the increase in the turnover was mostly due to increase of sales in the retail business.

Gross profit for the year ended 31 March 2008 amounted to approximately RMB5,642,000 which represented an increase of 65.3% as compared to RMB3,414,000 for the year ended 31 March 2007. The gross profit margin for the year ended 31 March 2008 and 31 March 2007 is 22.89% and 19.28% respectively. During the year, the major operating costs included selling and administrative expenses. According to the management of Huihao Sihai, the increase in the gross profit was mostly due to increase in purchase discounts caused by increasing purchases during the year.

The net profit before tax and after tax amounted to approximately RMB1,101,000 and RMB1,026,000 respectively for the year ended 31 March 2008, as compared to the net loss after tax for the year ended 31 March 2007 of approximately RMB593,000. According to the management of Huihao Sihai, the improved in net loss position was mostly due to improvement in the cost control that reduced the operating costs during the year and gain arising from change in fair value of investment properties.

Financial resources and liquidity

Assets and liabilities

As at 31 March 2008, the non-current assets of Huihao Sihai amounted to approximately RMB10,456,000 of which mainly comprised prepaid lease payment of approximately RMB3,194,000, investment properties of approximately RMB3,500,000 and available-for-sale financial assets of approximately RMB3,562,000.

As at 31 March 2008, the current assets of Huihao Sihai amounted to approximately RMB26,987,000 of which mainly comprised trade and other receivables and deposits of approximately RMB24,726,000 and inventories of approximately RMB951,000.

Trade receivables of Huihao Sihai was approximately RMB2,592,000 as at 31 March 2008, represented an increase of approximately 39.7% as compared to RMB1,855,000 as at 31 March 2007. Trade receivables turnover days is 38 days which is the same as to the trade receivables turnover days of 38 days as at 31 March 2007. The trade receivables are mainly generated from the sales of products under the medical insurance program where reimbursement will be made by the government.

Huihao Sihai did not experience any material bad debts that required write-off for the year ended 31 March 2008.

As at 31 March 2008, the total non-current liabilities of Huihao Sihai amounted to approximately RMB296,000 which is the supplementary retirement scheme cost payable to employee.

As at 31 March 2008, the total current liabilities of Huihao Sihai amounted to approximately RMB25,483,000 which mainly comprised trade and other payables of approximately RMB11,464,000 and bank borrowings of approximately RMB14,000,000.

Trade payables were approximately RMB3,537,000 as at 31 March 2008, represented an slight decrease of approximately 9.47% as compared to RMB3,907,000 as at 31 March 2007. The trade payables turnover days had been shortened from 106 days in 2007 to 69 days in 2008.

The audited consolidated net assets of Huihao Sihai as at 31 March 2008 was approximately RMB11,664,000.

As at 31 March 2008, Huihao Sihai has an outstanding bank borrowing of RMB14,000,000. The borrowings are denominated in Renminbi. The bank borrowings are at a fixed rate and secured by land and building owned by a company invested by Huihao Sihai.

Cash and cash equivalents

As at 31 March 2007 and 31 March 2008, cash and bank balances of Huihao Sihai amounted to approximately RMB956,000 and approximately RMB1,310,000 respectively. According to the management of Huihao Sihai, the increase in the cash and cash equivalents were mostly due to improved in cash flow from operation.

Number of employees and remuneration polices

As at 31 March 2007 and 31 March 2008, Huihao Sihai had about 74 and 103 employees respectively and the total salary and other benefits amounted to approximately RMB1,467,000 and RMB2,244,000 respectively for the same period. Employee remuneration was based on individual performance, working experience, qualifications and the prevailing industry practice.

Segmental information

No further information for the business or geographical segment analysis of Huihao Sihai has been presented as Huihao Sihai only engages in pharmaceutical retail chain business in the PRC.

Capital structure

Huihao Sihai was established in the PRC on 30 November 2001. As at 31 March 2008, Huihao Sihai had a registered capital of approximately RMB15,856,000.

Foreign currency risk

Huihao Sihai mainly operates in the PRC with all the transactions settled in RMB. Therefore, it did not have any significant exposure to risks resulting from changes in foreign currency exchange rates.

Gearing ratio

As at 31 March 2008, Huihao Sihai had current assets of approximately RMB26,987,000 and current liabilities of approximately RMB25,483,000. The current ratio, (calculated by dividing current assets over the current liabilities) was approximately 105.9%. The current ratio improved slightly as compared to 101.9% as at 31 March 2007.

As at 31 March 2008, the total liabilities of Huihao Sihai amounted to approximately RMB25,779,000, the total assets of Huihao Sihai amounted to approximately RMB37,443,000 and thus gearing ratio of Huihao Sihai is approximately 68.8%. The gearing ratio of the company has been improved as compared with the gearing ratio of 73.7% as at 31 March 2007 mainly due to the repayment of loan during the year.

Capital commitment, charge on group assets and contingent liabilities

As at 31 March 2008 and 31 March 2007, Huihao Sihai had no significant capital commitment. Huihao Sihai had an operating lease commitment of approximately RMB9,197,000 as at 31 March 2008 compared to that of approximately RMB8,905,000 as at 31 March 2007. Huihao Sihai did not have any significant contingent liabilities as at 31 March 2008.

Huihao Sihai did not have any charge on its assets as at 31 March 2008.

Significant investments held, material acquisitions and disposals

During the year, there were no material change on the investment held and also no material acquisition or disposal of any subsidiary and associate of the Huihao Sihai.

Future Plans for Material Investments or Capital Assets

Huihao Sihai had no future plans for any material investment as at 31 March 2008.

TERMS OF UP TO THE HK$290,000,000 CONVERTIBLE PREFERENCE SHARES

Summary of principal terms of the Convertible Preference Shares

Dividend:	holder of each Convertible Preference Share shall have the same entitlement to dividend as holder of the number of Ordinary Shares into which such Convertible Preference Share may be converted upon exercise of conversion rights attached thereto
Conversion price:	initially, the Notional Value of the Convertible Preference Shares of an amount equivalent to HK$0.06 which shall be convertible into one Ordinary Share or such adjusted price as may for the time being be applicable in accordance with this terms The conversion price will be subject to adjustments upon occurrence of certain dilution events
Conversion rights:	the Convertible Preference Shares are convertible at the option of the holder at any time after the Issue Date subject to the conversion restriction as set out in paragraph 5(D)
Redemption:	(A) holder of the Convertible Preference Shares shall have no right to redeem (B) the Company shall have no right to redeem other than for the purpose of conversion of the Convertible Preference Shares pursuant to these Terms
Ranking:	the Convertible Preference Shares rank (A) in priority to the ordinary shares of the Company and any other shares of the Company as to return of capital, and (B) pari passu with ordinary shares of the Company as to dividends.
Return of Capital:	On winding up of the Company, the holder of the Convertible Preference Shares shall be entitled to the return of capital on the basis of the Notional Value of the Convertible Preference Shares.

Transferability	the Convertible Preference Shares may be assigned or transferred to any transferee provided that such transferee may not be a connected person of the Company unless the necessary approval (if any) be obtained from the Hong Kong Stock Exchange and from the independent shareholders of the Company
Voting:	holders of the Convertible Preference Shares (in their capacity as such) will not be permitted to attend or vote at meetings of the Company, unless a resolution is proposed to vary the rights of holders of the Convertible Preference Shares or a resolution is proposed for the winding up of the Company
Listing:	the Convertible Preference Shares are not listed on any stock exchanges
Notional Value:	the value of HK$0.06 per Convertible Preference Share
Rights upon Liquidation:	on winding up of the Company, the holder of each Convertible Preference Share shall be entitled to the return of capital on the basis of the notional value of each Convertible Preference Share

1. INTERPRETATION

Unless the context otherwise defined, the following expressions used in these Terms shall have the following meanings:

(A) "Articles" means the articles of associations of the Company as amended from time to time;

"Auditors" means the auditors of the Company for the time being;

"Business Day" means a day (excluding a Saturday) on which banks in Hong Kong are open for business in Hong Kong throughout their normal business hours;

"Certificate" means a certificate issued by the Company in the name of the Convertible Preference Shareholder in respect of his holding of one or more Convertible Preference Shares;

"Closing Price" means the closing price per Ordinary Share on the Relevant Stock Exchange, as published by the Relevant Stock Exchange for one or more board lots of Ordinary Shares or, in the absence of any such published closing price, the last published closing price;

"Company" means Hua Xia Healthcare Holdings Limited;

"Conversion Date" means, subject to paragraph 5(G), 12 noon on the Business Day immediately following the date of the surrender of the relevant Certificate and delivery of the Conversion Notice therefor accompanied by the documents referred to in paragraph 5(B);

"Conversion Notice" means a notice, in such form as the Directors may from time to time specify, stating that a Convertible Preference Shareholder wishes to exercise the Conversion Right in respect of one or more Convertible Preference Shares;

"Conversion Number" means, in relation to any Convertible Preference Share, such number of Ordinary Shares as may, upon exercise of the Conversion Right, be converted at the Conversion Price in force on the relevant Conversion Date;

"Conversion Period" means, in respect of any Convertible Preference Share, subject to the conversion restrictions as set out in paragraph 5(D) any time commencing from the date of issue of such Conversion Preference Share and up to 4:00 p.m. (Hong Kong time) on the date of all Convertible Preference Shares being converted or purchased in full (or such earlier date as may be required under the Statutes) or HK Laws;

"Conversion Price" means initially, the Notional Value of the Convertible Preference Shares of an amount equivalent to HK$0.06 which shall be convertible into one Ordinary share or such adjusted price as may for the time being be applicable in accordance with this Terms;

"Conversion Right" means the right, subject to the provisions of the Terms, the Articles , the Statutes and to any other applicable fiscal or other laws or regulations to convert at any time during the Conversion Period any Convertible Preference Share, which shall be deemed to have a value equal to the Notional Value, into the Conversion Number of Ordinary Shares;

"Conversion Share(s)" means Ordinary Share(s) to be issued upon an exercise of the Conversion Rights;

"Convertible Preference Shares" means the non-voting convertible preference shares of HK$0.06 each in the capital of the Company, the rights of which are set out in these Terms;

"Convertible Preference Shareholder" means a person or persons who is or are registered in the register of members of the Company as a holder or joint holders of Convertible Preference Shares;

"Converting Shareholder" means a Convertible Preference Shareholder all or some of whose Convertible Preference Shares are being or have been converted;

"Dealing Day" means a day on which the Relevant Stock Exchange is open for business and on which trading in the Ordinary Shares or other relevant securities is not suspended;

"Directors" means the board of directors of the Company or the directors present at a meeting of directors at which a quorum is present;

"Dividend" means any dividend payable or distribution made pursuant to paragraph 2;

"Equity Share Capital" means issued share capital excluding any part thereof which neither as respect dividends nor as respects capital carries any right to participate beyond a specified amount in a distribution;

"GEM" means the Growth Enterprise Market of the Hong Kong Stock Exchange;

"HK Laws" means every act of the legislature of Hong Kong for the time being in force applying to or affecting the Company, its memorandum of association and/or the Articles or the Terms;

"Hong Kong" means the Hong Kong Special Administrative Region of the People's Republic of China;

"Hong Kong Stock Exchange" means The Stock Exchange of Hong Kong Limited;

"Issue Date" means, in respect of any Convertible Preference Share, the date on which the Convertible Preference Share was allotted and issued;

"GEM Listing Rules" means the Rules Governing the Listing of Securities on the GEM;

"Notional Value" means the value of HK$0.06 attributed to each Convertible Preference Share;

"Ordinary Shares" means fully paid ordinary shares of HK$0.05 each (or of such other nominal value in which such Ordinary shares are for the time being denominated following any consolidation or sub-division of shares which gives rise to an adjustment to the Conversion Price in accordance with paragraph 8) in the Company of the class listed on the GEM or, where the context so requires, shares resulting from the re-designation or re-classification of all the Ordinary Shares outstanding, provided that if all of the Ordinary Shares are replaced by other securities (all of which are identical), the expression "Ordinary Shares" shall thereafter refer to those other securities;

"Outstanding" means in relation to the Convertible Preference Shares, all the Convertible Preference Shares issued other than:

(A) those in respect of which Conversion Rights have been exercised and which have been cancelled in accordance with these Terms;

(B) those mutilated or defaced Convertible Preference Shares which have been surrendered in exchange for replacement Convertible Preference Shares pursuant to paragraph 16;

(C) (for the purpose only of determining how many Convertible Preference Shares are outstanding and without prejudice to their status for any other purpose) those Convertible Preference Shares alleged to have been lost, stolen or destroyed and in respect of which replacement Convertible Preference Shares have been issued pursuant to paragraph 16;

(D) those which have been purchased and cancelled as provided in paragraph 10;

"Record Date" means the date and time by which a subscriber or transferee of securities of the class in question would have to be registered in order to participate in the relevant distribution or rights;

"Registrar's Office" means the office of Hua Xia Healthcare Holdings Limited at Room 1902, 19/F Sing Pao Building, 101 King's Road, North Point, Hong Kong, or such office of such person or such other person as the Company may from time to time designate;

"Relevant Convertible Preference Shares" means a Convertible Preference Share which is to be converted pursuant to a Conversion Notice;

"Relevant Jurisdiction" means a jurisdiction in which the Company or any of its subsidiaries is incorporated, carries on business or holds any assets;

"Relevant Stock Exchange" means (A) the stock exchange on which the Ordinary Shares are at the relevant time principally traded, as determined by the Company, or (B) if, for the purposes of paragraph 8, the consideration at which any shares or securities are or are to be issued or transferred, or the relevant exercise, exchange or subscription price, if any, for such shares or securities, is to be fixed by reference to the price of such shares or securities on a particular stock exchange, that stock exchange;

"Statutes" means the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and every other law of the legislature of the Cayman Islands for the time being in force applying to or affecting the Company, its memorandum of association and/or the Articles or the Terms;

"Terms" means terms of the Convertible Preference Shares, as may be amended from time to time;

"Hong Kong dollars" or "HK$" means the lawful currency of Hong Kong.

(B) Under these Terms, references to:

"companies" include references to any bodies corporate however and wherever incorporated;

"distribution" include references to any dividend or other distribution (including a distribution in specie) or capitalisation issue;

"paragraphs" are references to the paragraphs of these Terms;

"property" include references to shares, securities, cash and other assets or rights of any nature;

"dates" and "times" are to dates and times in Hong Kong; and

a "gender" include any other gender.

2. INCOME, DIVIDEND AND OTHER DISTRIBUTIONS

Each Outstanding Convertible Preference Share shall confer, in case of any dividend or distribution being declared and paid by the Company to holders of the Ordinary Shares, on the holder thereof the same entitlement to dividend or distribution as holder of the number of Ordinary Shares into which such Convertible Preference Share may be converted upon exercise of Conversion Rights attached thereto.

3. CAPITAL

On a return of capital on liquidation or otherwise (but not on conversion or purchase) the Convertible Preference Shares shall confer on the Convertible Preference Shareholders the right to be paid, in priority to any return of assets in respect of any other class of shares in the capital of the Company, pari passu as between themselves an amount equal to the aggregate Notional Value of the Convertible Preference Shares. The Convertible Preference Shares shall not confer on the holders thereof any further or other right to participate in the assets of the Company.

4. RANKING

The Company shall not (unless such sanction has been given by the Convertible Preference Shareholders as would be required for a variation of the special rights attaching thereto or unless otherwise provided in the Articles) create or issue any shares ranking as regards order in the participation in the profits of the Company or in the assets of the Company on a winding up or otherwise in priority to the Convertible Preference Shares, but the Company may create or issue, without obtaining the consent of the Convertible Preference Shareholders, shares ranking pari passu in all respects (including as to class) with the Convertible Preference Shares and the existing and further Ordinary Shares.

5. CONVERSION

(A) Each Convertible Preference Share shall confer on the holder thereof the Conversion Right.

(B) Subject to paragraph 5(H), any Convertible Preference Shareholder may exercise the Conversion Right in respect of one or more Convertible Preference Shares held by him at any time during the Conversion Period subject to the provisions of the Statutes, the HK Laws and any other applicable fiscal and other laws and regulations by delivering a duly signed and completed Conversion Notice to the Registrar's Office accompanied by:

(1) the Certificates in respect of the Relevant Convertible Preference Shares and such other evidence (if any) as the Directors may reasonably require to prove the title of the person exercising such right (or, if such Certificates have been lost or destroyed, such evidence of title and such indemnity as the Directors may reasonably require); and

(2) a declaration and confirmation that the beneficial owner of the Relevant Convertible Preference Shares, and of the Conversion Shares, is not a resident or national of any foreign jurisdiction where the exercise of the Conversion Rights attached to the Relevant Convertible Preference Shares is prohibited by any law or regulation of that jurisdiction or where compliance with such laws or regulations would require filing or other action by the Company; or that delivery of the Relevant Convertible Preference Shares or Conversion Shares will not result in a breach of any exchange control, fiscal or other laws or regulations for the time being applicable.

A Conversion Notice shall not be effective if:

(i) it is not accompanied by the Certificates in respect of the Relevant Convertible Preference Shares and such other evidence (if any) as the Directors may reasonably require to prove the title of the person exercising such right (or, if such Certificates have been lost or destroyed, such evidence of title and such indemnity as the Directors may reasonably require);

(ii) it does not include a declaration and confirmation that the beneficial owner of the Relevant Convertible Preference Shares, and of the Conversion Shares, is not a resident or national of any foreign jurisdiction where the exercise of the Conversion Rights attached to the Relevant Convertible Preference Shares is prohibited by any law or regulation of that jurisdiction or where compliance with such laws or regulations would require filing or other action by the Company; or that delivery of the Relevant Convertible Preference Shares or Conversion Shares will not result in a breach of any exchange control, fiscal or other laws or regulations for the time being applicable.

(C) The number of Conversion Shares to be issued on each conversion shall be determined by dividing the aggregate Notional Value of the Relevant Convertible Preference Shares by the Conversion Price applicable on the Conversion Date provided that no fraction of an Ordinary Share arising on conversion shall be allotted and all fractional entitlements shall be dealt with in accordance with paragraph 13.

(D) Conversion of the Convertible Preference Shares shall be effected in such manner as the Directors shall subject to the Terms, the Articles, the Statutes, the HK Laws, and to any other applicable law and regulations, from time to time determine provided that no Conversion shall take place if (1) to do so would result in the Conversion Shares being issued at a price below their nominal value as at the applicable Conversion Date; (2) to the extent that following such exercise, the relevant Convertible Preference Shareholder and parties acting in concert with it, taken together, will directly or indirectly, control or be interested in 30 per cent. or more of the entire issued Ordinary Shares (or in such lower percentage as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers as being the level for triggering a mandatory general offer); or (3) if immediately after such conversion, the public float of the Shares falls below the minimum public float requirements stipulated under the GEM Listing Rules or as required by the Stock Exchange.

Without prejudice to the generality of the foregoing, any Convertible Preference Share may be converted by repurchase on the relevant Conversion Date out of:

(a) subject to the Statutes or HK Laws, the capital paid up on the Relevant Convertible Preference Shares; or

(b) out of profits of the Company; or

(c) the proceeds of a fresh issue of shares made for the purpose; or

(d) any combination of (a), (b) and (c), and in the case of any premium payable on such a repurchase, out of the Company's profits or the Company's share premium account or the capital paid up on the Relevant Convertible Preference Shares. Each Conversion Notice shall be deemed to authorise and instruct the Directors to retain any repurchase moneys otherwise payable to the Converting Shareholder and, in respect of the Relevant Convertible Preference Share, to apply the same in the subscription on such Converting Shareholder's behalf of the Conversion Shares (subject to the treatment of fractions described in paragraph 13) and, to the extent that conversion shall be effected out of the proceeds of a fresh issue of shares, where appropriate, each Conversion Notice shall be deemed:

(i) to appoint any person selected by the Directors as such Converting Shareholder's agent with authority to apply an amount equal to the repurchase moneys in respect of the Relevant Convertible Preference Shares in subscribing on such Converting Shareholder's behalf for the Conversion Shares (subject to the treatment of fractions described in paragraph 13); and

(ii) to authorise and instruct the Directors following the allotment of such Conversion Shares to pay the said repurchase moneys to such agent who shall be entitled to retain the same for his own benefit without being accountable therefor to such Converting Shareholder;

provided that if the Converting Shareholder has a registered address in any territory where in the absence of a registration statement or any other special formalities the allotment or delivery of any Conversion Shares would or might in the opinion of the Directors be unlawful or impracticable under the laws of such territory or any Relevant Jurisdiction, the Company shall as soon as reasonably practicable after the receipt of the relevant Conversion Notice allot the Conversion Number of the Ordinary Shares to the Converting Shareholder or to one or more third parties selected by the Company and on behalf of the Converting Shareholder sell the same to one or more third parties selected by the Company for the best consideration then reasonably obtainable by the Company. As soon as reasonably practicable following any such allotment and sale, the Company shall pay the Converting Shareholder an amount equal to the consideration received by it.

(E) Each Convertible Preference Shareholder irrevocably authorises the Company to effect the transactions required by paragraph 5(D) and for this purpose the Company may appoint any person to execute transfers, renunciations or other documents on behalf of the Convertible Preference Shareholder and generally may make all arrangements which appear to it to be necessary or appropriate in connection therewith.

(F) The Company shall allot and issue the Conversion Shares or, as the case may be, send the amount to which he is entitled pursuant to paragraph 5(D) to the Converting Shareholder and shall procure that certificates in respect of the Conversion Shares, together with a new Certificate for any unconverted Convertible Preference Shares comprised in the Certificate(s) surrendered by the Converting Shareholder, be issued as soon as practicable and in any event not later than fourteen (14) Business Days after the relevant Conversion Date.

(G) If and whenever any conversion takes place after the occurrence of any event falling within any sub-provision of paragraph 8(A) but before the amount of the relevant adjustment to the Conversion Price (if any) shall have been calculated in accordance with the provisions of paragraph 8(A), the Conversion Date shall be deemed to fall on the Business Day after the date the adjustment made to the Conversion Price in respect of the relevant event has become effective.

(H) In the event a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company at the same time it despatches such notice to each member of the Company shall give notice thereof to all Convertible Preference Shareholders (together with a notice of the existence of the provisions of this paragraph 5(H)) and thereupon, each Convertible Preference Shareholder shall be entitled to exercise all or any of his Conversion Rights at any time not later than fifteen (15) Business Days prior to the date of the general meeting of the Company by providing the Company a Conversion Notice duly completed and executed together with the Certificates, cashier orders and, where appropriate, other items listed in paragraphs 5(B)(1) and (2) whereupon the Company shall, subject to the Statutes and the HK Laws, as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the general meeting, allot the Conversion Shares to the Relevant Convertible Preference Shareholders credited as fully paid.

6. REDEMPTION

(A) holder of the Convertible Preference Shares shall have no right to redeem their Convertible Preference Shares.

(B) the Company shall have no right to redeem the Convertible Preference Shares.

Other than for the purpose of conversion of the Convertible Preference Shares pursuant to these Terms.

7. CONVERSION SHARES

The Conversion Shares shall, save as provided for in these provisions, rank pari passu in all respects with the Ordinary Shares in issue at the time the Conversion Shares are issued, and shall, subject to the proviso of this paragraph 7, entitle the holders thereof to all distributions paid or made on the Ordinary Shares by reference to a Record Date falling after the Conversion Date, provided that if a Record Date after the Conversion Date is in respect of any distribution in respect of any financial period of the Company ended prior to such Conversion Date, the holders of the Conversion Shares will not be entitled to such distribution.

8. ADJUSTMENTS TO THE CONVERSION PRICE

(A) Subject as hereinafter provided, the Conversion Price shall from time to time be adjusted in accordance with the following relevant provisions and so that if the event giving rise to any such adjustment shall be such as would be capable of falling within more than one of sub-paragraphs (1) to (7) inclusive of this paragraph 8, it shall fall within the first of the applicable paragraphs to the exclusion of the remaining paragraphs:

(1) If and whenever there shall be an alteration in the nominal value of the Ordinary Shares by reason of any consolidation or sub-division, the Conversion Price in force immediately prior thereto shall be adjusted by multiplying it by a fraction of which the numerator shall be the nominal value of one Ordinary Share immediately after such alteration and of which the denominator shall be the nominal value of one Ordinary Share immediately before such alteration and such adjustment shall become effective on the date on which such alteration takes effect.

(2) If and whenever the Company shall capitalise any amount of profits or reserves (including any share premium account or contributed surplus account) and apply the same in paying up in full the nominal value of any Ordinary Shares (other than any Ordinary Shares credited as fully paid out of distributable profits or reserves (including any share premium account or contributed surplus account) and issued in lieu of the whole or any part of a cash dividend or specie distribution which the holders of the Ordinary Shares concerned would or could otherwise have received and which would not have constituted a Capital Distribution (as defined in paragraph 8(B))), the Conversion Price in force immediately prior to the Record Date therefor shall be adjusted by a fraction of which the numerator shall be the aggregate nominal amount of the issued Ordinary Shares immediately before such issue and of which the denominator shall be the aggregate nominal amount of the issued Ordinary Shares immediately after such issue. Such adjustment shall be effective immediately after the Record Date for such issue.

(3) If and whenever the Company shall make any Capital Distribution, the Conversion Price in force immediately prior to such distribution shall be adjusted by multiplying it by the following fraction:

$$(K - L) \div K$$

where:

K is the Closing Price of one Ordinary Share on the Dealing Day immediately preceding the date on which the Capital Distribution is announced or (failing any such announcement), the Dealing Day immediately preceding the Record Date for the Capital Distribution;

L is the fair market value on the date of such announcement or (as the case may require) the Dealing Day immediately preceding the Record Date for the Capital Distribution, as determined in good faith by an approved merchant bank (selected at the option of the Company) or the Auditors of the portion of the Capital Distribution which is attributable to one Ordinary Share.

Provided that:

(a) if in the opinion of the relevant approved merchant bank or the Auditors (as the case may be), the use of the fair market value as aforesaid produces a result which is significantly inequitable, it may instead determine (and in such event the above formula shall be construed accordingly) the amount of the said Closing Price which should properly be attributed to the value of the Capital Distribution; and

(b) the provisions of this sub-paragraph (3) shall not apply in relation to the issue of Ordinary Shares paid out of profits or reserves and issued in lieu of a cash dividend nor to a purchase by the Company of its own Ordinary Shares in accordance with the provisions of the Articles and Statutes.

Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the Record Date for the Capital Distribution.

(4) If and whenever the Company shall offer to holders of Shares new Shares for subscription by way of rights, or shall grant to holders of Shares any options or warrants to subscribe for new Ordinary Shares, at a price which is less than 80 per cent. of the market price (as defined in paragraph 8(B)) at the date of the announcement of the terms of the offer or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of the announcement of such offer or grant by the following fraction:

$$(K + L) \div M$$

where:

K is the number of Ordinary Shares in issue immediately before the date of such announcement;

L is the number of Ordinary Shares which the aggregate of the amount (if any) payable for the rights, options or warrants and of the amount payable for the total number of new Ordinary Shares comprised therein would purchase at such market price; and

M is the number of Ordinary Shares in issue immediately before the date of such announcement plus the aggregate number of Ordinary Shares offered for subscription or comprised in the options or warrants.

Such adjustment shall become effective (if appropriate retroactively) from the commencement of the day next following the Record Date for the offer or grant.

(5) (a) If and whenever the Company or any other company shall issue wholly for cash any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Ordinary Shares and the total Effective Consideration (as defined below) per Ordinary Share initially receivable for such securities is less than 80 per cent. of the price which is the market price at the date of the announcement of the terms of issue of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the issue by the following fraction:

$$(K + L) \div (K + M)$$

where:

K is the number of Ordinary Shares in issue immediately before the date of the issue;

L is the number of Ordinary Shares which the total Effective Consideration receivable for the securities issued would purchase at such market price; and

M is the maximum number of new Ordinary Shares to be issued upon full conversion or exchange of, or the exercise in full of the subscription rights conferred by, such securities at the initial conversion or exchange rate or subscription price.

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

(b) If and whenever the rights of conversion or exchange or subscription attached to any such securities as are mentioned in section (a) of this sub-paragraph (5) are modified so that the total Effective Consideration per Ordinary Share initially receivable for such securities shall be less than 80 per cent. of the price which is the market price at the date of announcement of the proposal to modify such rights of conversion or exchange or subscription, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by the following fraction:

$$(K + L) \div (K + M)$$

where:

K is the number of Ordinary Shares in issue immediately before the date of such modification;

L is the number of Ordinary Shares which the total Effective Consideration receivable for the securities issued at the modified conversion or exchange price would purchase at the market price at the date of the announcement of such proposal; and

M is the maximum number of new Ordinary Shares to be issued upon full conversion or exchange of, or the exercise in full of the subscription rights conferred by, such securities at the modified conversion or exchange rate or subscription price.

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

For the purposes of this sub-paragraph (5), the "total Effective Consideration" receivable for the securities issued shall be deemed to be the consideration receivable by the issuer for the issue of any such securities plus the additional minimum consideration (if any) to be received by the issuer and/or the Company (if not the issuer) upon (and assuming) the full conversion or exchange thereof or the exercise in full of such subscription rights and the Effective Consideration per Ordinary Share initially receivable for such securities shall be such aggregate consideration divided by the number of Ordinary Shares to be issued upon (and assuming) such conversion or exchange at the initial conversion or exchange rate or the exercise of such subscription rights at the initial subscription price, in each case without any deduction for any commissions, discounts or expenses paid, allowed or incurred in connection with the issue.

(6) If and whenever the Company shall issue wholly for cash any Shares (other than Shares issued to employees, including directors of the Company or any of its subsidiaries, or their personal representatives, pursuant to an employee share scheme) at a price per Ordinary Share which is less than 80 per cent. of the market price current at the date of the announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of such announcement by a fraction of which the numerator is the number of Ordinary Shares in issue immediately before the date of such announcement plus the number of Ordinary Shares which the aggregate amount payable for the issue would purchase at such market price and the denominator is the number of Ordinary Shares in issue immediately before the date of such announcement plus the number of Ordinary Shares so issued. Such adjustment shall become effective on the date of the issue.

(7) If and whenever the Company shall purchase any Shares or securities issued by the Company or any of its subsidiaries which are convertible into or exchangeable for Ordinary Shares or any rights to acquire Ordinary Shares (other than on the Relevant Stock Exchange) and the Directors cancel such Ordinary Shares, securities convertible into or exchangeable for Shares or rights to acquire Ordinary Shares, the Directors may if they consider it appropriate make an adjustment to the Conversion Price, provided that the Directors shall have appointed an approved merchant bank or the Auditors to consider whether, for any reason whatever as a result of such purchases, an adjustment should be made to the Conversion Price fairly and appropriately to reflect the relative interests of the persons affected by such purchases by the Company and, if such approved merchant bank or the Auditors shall consider in its opinion that it is appropriate to make an adjustment to the Conversion Price, the Directors shall make an adjustment to the Conversion Price in such manner as such approved merchant bank or the Auditors shall certify to be, in its opinion, appropriate. Such adjustment shall become effective (if appropriate retroactively) from the close of business in Hong Kong on the Business Day immediately preceding the date on which such purchases by the Company are made.

(B) For the purposes of paragraph 8(A):

"announcement" shall include the releases of an announcement to the press or the delivery or transmission by telephone, telex or otherwise of an announcement to the Relevant Stock Exchange and "date of announcement" shall mean the date on which the announcement is first so released, delivered or transmitted;

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

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

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

"market price" means the average of the closing prices of one Ordinary Share on the Relevant Stock Exchange in respect of dealings in board lots for the five consecutive Dealing Days ending on the last Dealing Day preceding the day on or as of which the market price is to be ascertained.

(C) The provisions of sub-paragraphs (2), (3), (4), (5) and (6) of paragraph 8(A) shall not apply to:

(1) an issue of fully paid Ordinary Shares upon the exercise of any conversion rights attached to securities convertible into Ordinary Shares or upon exercise of any rights (including the Conversion Rights attaching to the Convertible Preference Shares) to acquire Ordinary Shares;

(2) an issue of Ordinary Shares or other securities of the Company or any subsidiary of the Company wholly or partly convertible into, or rights to acquire, Ordinary Shares to directors or employees of the Company or any of its subsidiaries or their personal representatives pursuant to an employee share scheme;

(3) an issue by the Company of Ordinary Shares or by the Company or any other subsidiary of the Company of securities wholly or partly convertible into or rights to acquire Ordinary Shares, in any such case in consideration or part consideration for the acquisition of any other securities, assets or business;

(4) an issue of Ordinary Shares pursuant to a scrip dividend scheme where an amount not less than the nominal amount of the Ordinary Shares so issued is capitalised and the market value of such Ordinary Shares is not more than 110 per cent. of the amount of the dividend which holders of the Ordinary Shares could elect to or would otherwise receive in cash, for which purpose the "market value" of an Ordinary Share shall mean the average of the closing prices on the Relevant Stock Exchange for five (or more) consecutive Dealing Days falling within the period of one month ending on the last day on which holders of Ordinary Shares may elect to receive or (as the case may be) not to receive the relevant dividend in cash; or

(5) the issue of the Convertible Preference Shares.

(D) Any adjustment to the Conversion Price shall be made to the nearest one cent (Hong Kong currency) so that any amount under half a cent (Hong Kong currency) shall be rounded down and any amount of half a cent (Hong Kong currency) or more shall be rounded up and in no event shall any adjustment (otherwise than upon the consolidation of Ordinary Shares into Ordinary Shares of a larger nominal amount) involve an increase in the Conversion Price. In addition to any determination which may be made by the Directors every adjustment to the Conversion Price shall be certified either (at the option of the Company) by the Auditors or by an approved merchant bank.

(E) Notwithstanding anything contained in these Terms, no adjustment shall be made to the Conversion Price in any case in which the amount by which the same would be reduced in accordance with the foregoing provisions of paragraph 8 would be less than one cent and any adjustment that would otherwise then be required to be made shall not be carried forward.

(F) If the Company or any of its subsidiaries shall in any way modify the rights attached to any share or loan capital so as wholly or partly to convert or make convertible such share or loan capital into, or attach thereto any rights to acquire, Ordinary Shares, the Company shall appoint an approved merchant bank or the Auditors to consider whether any adjustment to the Conversion Price is appropriate (and if such approved merchant bank or the Auditors shall certify that any such adjustment is appropriate the Conversion Price shall be adjusted accordingly).

(G) Notwithstanding the provisions of paragraph 8(A), in any circumstances where the Directors shall consider that an adjustment to the Conversion Price provided for under the said provisions should not be made or should be calculated on a different basis or that an adjustment to the Conversion Price should be made notwithstanding that no such adjustment is required under the said provisions, the Directors may appoint an approved merchant bank or the Auditors to consider whether for any reason whatever the adjustment to be made (or the absence of adjustment) would or might not fairly and appropriately reflect the relative interests of the persons affected thereby and, if such approved merchant bank or the Auditors shall consider this to be the case, the adjustment shall be modified or nullified or an adjustment made instead of no adjustment in such manner (including without limitation making an adjustment calculated on a different basis) as shall be certified by such approved merchant bank or the Auditors to be in its opinion appropriate.

(H) Whenever the Conversion Price is adjusted as herein provided, the Company shall give notice to the Convertible Preference Shareholders that the Conversion Price has been adjusted (setting forth the event giving rise to the adjustment, the Conversion Price in effect prior to such adjustment, the adjusted Conversion Price and the effective date thereof) and shall at all times thereafter so long as any of the Conversion Rights remains exercisable make available for inspection at the principal place of business for the time being of the Company and the Registrar's Office prior to all the Convertible Preference Shares being converted or purchased in full a signed copy of the said certificate of the Auditors or (as the case may be) of the relevant approved merchant bank or the Auditors and a certificate signed by a Director of the Company setting out the brief particulars of the event giving rise to the adjustment, the Conversion Price in effect prior to such adjustment, the adjusted Conversion Price and the effective date thereof.

9. UNDERTAKINGS

So long as any Convertible Preference Share remains capable of being converted into Ordinary Shares:

(1) the Company will use its best endeavours (a) to maintain a listing for all the issued Ordinary Shares on the GEM, (b) if and when the issued Convertible Preference Shares are listed on the GEM to maintain such listing for all the issued Convertible Preference Shares on the GEM and (c) to obtain and maintain a listing on the GEM for all Conversion Shares issued on the exercise of the Conversion Rights;

(2) the Company will send to each Convertible Preference Shareholder, by way of information, one copy of every circular, notice or other document sent to any other shareholders in the Company in their capacity as shareholders, at the same time as it is sent to such other shareholders;

(3) the Company shall procure that there shall be sufficient authorised but unissued share capital available for the purposes of satisfying the requirements of any Conversion Notice as may be given and the terms of any other securities for the time being in issue which are convertible into or have the right to subscribe for shares in the Company;

(4) the Company shall not, without the consent of the Convertible Preference Shareholders as a class (obtained in the manner provided in the Articles and these Terms) or unless otherwise permitted pursuant to these provisions:

(a) modify, vary, alter or abrogate the rights attaching to the Ordinary Shares as a class, which (for the avoidance of doubt) shall not be deemed to be so modified, varied, altered or abrogated by the creation or issue of any shares or securities contemplated by these provisions; or

(b) change the date to which its annual accounts are made up from 31 March; or

(c) effect any repayment of the Convertible Preference Shares otherwise than as provided for in these provisions; or

(d) issue any shares (other than Ordinary Shares or shares ranking pari passu in all respects (including as to class) with the Convertible Preference Shares constituting Equity Share Capital of the Company;

(5) except in such manner as may be permitted by the Articles, the Statutes or the HK Laws, the Company shall not reduce its share capital or any uncalled liability in respect thereof or any share premium account;

(6) if during such time when there are any Convertible Preference Shares outstanding an offer is made to the holders of Ordinary Shares (or all such shareholders other than the offeror and/or any company controlled by the offeror and/or any persons acting in concert with the offeror) to acquire the whole or any part of the Ordinary Shares and the Company becomes aware that the rights to cast more than 50% of the votes which may ordinarily be cast on a poll at a general meeting of the Company has or will become vested in the offeror and/or such companies or persons aforesaid, the Company shall (subject to any restrictions under any applicable laws, regulations, codes and/or rules) give notice to all Convertible Preference Shareholders of such vesting or future vesting within 7 days of its becoming so aware.

10. PURCHASE

Subject to the Articles, the Statutes or the HK Laws, the Company or any of its subsidiaries may at any time purchase any of the Convertible Preference Shares (by means available to all Convertible Preference Shareholders alike) at any price. Any Convertible Preference Shares so purchased or otherwise acquired by the Company or any of its subsidiaries may not be resold and in case such Convertible Preference Shares are purchased or otherwise acquired by the Company, such Convertible Preference Shares are to be cancelled, provided that nothing in this paragraph shall prohibit transfers of Convertible Preference Shares from any subsidiary of the Company to any other subsidiary of the Company.

11. MEETINGS

(A) The Convertible Preference Shares shall not confer on the holders thereof the right to receive notice of, or to attend and vote at, a general meeting of the Company, unless a resolution is to be proposed at a general meeting of the Company for winding up the Company or a resolution is to be proposed which if passed would (subject to any consents required for such purpose being obtained) vary or abrogate the rights or privileges of the Convertible Preference Shareholders, in which event the Convertible Preference Shares shall confer on the holder thereof the right to receive notice of, and to attend and vote at, that general meeting, save that such holders may not vote upon any business dealt with at such general meeting except the election of a chairman, any motion for adjournment or relating to the proceedings of the general meeting and the resolution for winding up or the resolution which if passed would (subject to any consents required for such purpose being obtained) so vary or abrogate the rights and privileges of the Convertible Preference Shareholders.

(B) If the Convertible Preference Shareholders are entitled to vote on any resolution, then at the relevant general meeting or separate general meeting of the Convertible Preference Shareholders, all resolutions put to the vote at the general meeting must be decided by way of poll and every Convertible Preference Shareholder who is present in person or by proxy or attorney or (being a corporation) by a duly authorised representative shall have one vote for each Conversion Share which would have been issued to him/it had he/it exercised the Conversion Right 48 hours preceding the date of such general meeting or separate general meeting of the Convertible Preference Shareholders.

12. PAYMENTS

(A) Unless any other manner of payment is agreed between the Company and any Convertible Preference Shareholder, payment of Dividends, other cash distributions and moneys due on conversion or any repurchase permitted by the Articles and these Terms to such Convertible Preference Shareholder shall be made by the Company posting a cheque in Hong Kong dollars (or in the case of payments which are to be made in another currency, such other currency) addressed to that Convertible Preference Shareholder at his registered address appearing on the Register as at the relevant Record Date and at his own risk.

(B) Subject to paragraph 12(A), where any property (including Conversion Shares and Certificates in respect of them) is to be allotted, transferred or delivered to any Convertible Preference Shareholder the Company may make such arrangements with regard to such allotment, transfer or delivery as it may deem appropriate and in particular, without limitation, may appoint any person on behalf of that Convertible Preference Shareholder to execute any transfers, renunciations or other document and may make arrangements for the delivery of any document or property to that Convertible Preference Shareholder at his/its risk. All share certificates and other documents of title to which any person is entitled shall be posted to him/it by the Company addressed to him/it at his/its registered address appearing on the Register as at the relevant Record Date or, if none, the date of posting and at his/its risk.

(C) All payments or distributions with respect to Convertible Preference Shares held jointly by two or more persons shall be paid or made to whichever of such persons is named first in the Register and the making of any payment or distribution in accordance with this sub-provision shall discharge the liability of the Company in respect thereof.

13. FRACTIONS

No fraction of an Ordinary Share arising on conversion shall be allotted to the holder of the Relevant Convertible Preference Share(s) otherwise entitled thereto but such fractions will, when practicable, be aggregated and sold and the net proceeds of sale will then be distributed pro rata among such holders unless in respect of any holding of Relevant Convertible Preference Shares the amount to be so distributed would be less than HK$100, in which case such amount will not be so distributed but will be retained for the benefit of the Company. Unless otherwise agreed between the Company and a Converting Shareholder, if more than one Convertible Preference Share shall fall to be converted pursuant to any one Conversion Notice, the number of Ordinary Shares to be issued upon conversion shall be calculated on the basis of the aggregate Notional Values of the Relevant Convertible Preference Shares. For the purpose of implementing the provisions of this paragraph 13, the Company may appoint some person to execute transfers, renunciations or other documents on behalf of persons entitled to any such fraction and generally may make all arrangements which appear to it to be necessary or appropriate for the settlement and disposal of fractional entitlements.

14. TAXATION

(A) All payments of amounts equal to the Notional Value, nominal amounts, premium (if any) and Dividends in respect of Convertible Preference Shares shall be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Cayman Islands or Hong Kong or any authority therein or thereof (other than any withholding or deduction on account of any income tax, capital gains tax or other tax or duties of a similar nature) unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, subject to the Company having sufficient profits available for distribution, the Company shall pay such additional amounts as may be necessary in order that the net amounts received by the Convertible Preference Shareholders after such withholding or deduction shall equal the respective amounts of the Notional Value, premium (if any) and Dividend which would have been receivable in respect of the Convertible Preference Shares in the absence of such withholding or deduction, except that no such additional amounts shall be payable with respect to any Convertible Preference Shareholder:

(1) who is liable to such taxes, duties, assessments or governmental charges in respect of any Convertible Preference Share by reason of such holder having some connection with the Cayman Islands or Hong Kong, as the case may be, other than by virtue of being a Convertible Preference Shareholder; or

(2) receiving such payment in the Cayman Islands or Hong Kong, as the case may be, and who would be able to avoid such withholding or deduction by satisfying any statutory requirements or by making a declaration or non-residence or other similar claim for exemption to the Cayman Islands or Hong Kong tax authority, as the case may be, but fails to do so.

(B) To the extent that the Company shall have insufficient profits available for distribution in order to permit it to pay all or any of such additional amounts as aforesaid the amount of any shortfall shall be treated for all purposes as arrears of Dividend only in circumstances when the Company has sufficient profits or distributable reserves available for distribution.

15. RESTRICTED HOLDERS

No Conversion Rights may be exercised by any Convertible Preference Shareholder who is a Restricted Holder (as hereinafter defined), and the exercise of any Conversion Rights by a Convertible Preference Shareholder shall constitute a confirmation, representation and warranty by the Converting Shareholder to the Company that such Converting Shareholder is not a Restricted Holder and that all necessary governmental, regulatory or other consents or approvals and all formalities have been obtained and observed by such Converting Shareholder to enable him to exercise legally and validly the relevant Conversion Rights, to hold the Conversion Shares allotted and issued upon exercise of the Conversion Rights and the Company to legally and validly allot the Conversion Shares. For the purposes of this paragraph 15, a "Restricted Holder" means a Convertible Preference Shareholder who is a resident or national of any jurisdiction other than Hong Kong under the laws and regulations of which an exercise of Conversion Rights by such Convertible Preference Shareholder or the performance by the Company of the obligations expressed to be assumed by it under these Terms and the Articles or the allotment and issue and holding of the Conversion Shares cannot be carried out lawfully or cannot be carried out lawfully without the Company first having to take certain actions in such jurisdiction.

16. REPLACEMENT OF CERTIFICATES

If any Certificate is mutilated, defaced, destroyed, stolen or lost, it may be replaced at the Registrar's Office upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Company may reasonably require and on payment of such fee not exceeding HK$50 as the Company may determine. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

17. NOTICES

Subject to the Statutes and HK Laws, except in the case of a Conversion Notice, a notice given pursuant to the provisions herein may be revoked with the consent in writing of the Company. Notices to Convertible Preference Shareholders shall be given in accordance with the Articles.

18. TRANSFERS AND CERTIFICATES

(A) The provisions of the Articles relating to the transfer of shares and share certificates shall apply in relation to the Convertible Preference Shares, subject to these provisions.

(B) The Company shall maintain and keep a full and complete register at such location in the Cayman Islands (but not in Hong Kong) as it shall from time to time determine of the Convertible Preference Shares and the Convertible Preference Shareholders from time to time, such register shall contain details of conversion and/or cancellation and the destruction of any Convertible Preference Shares and the issue of any replacement Certificates issued in substitution for any mutilated, defaced, lost, stolen or destroyed Certificates and of sufficient identification details of all Convertible Preference Shareholders from time to time (or, to the extent reasonably requested by the principal registrar of the Company in the Cayman Islands and agreed by the Company, such lesser details and/or information in relation to the Convertible Preference Shares as maintained by the principal registrar of the Company in the Cayman Islands).

(C) Where any Convertible Preference Share is intended to be transferable to a connected person (as defined in the GEM Listing Rules) of the Company (other than the associates (as defined in the GEM Listing Rules) of the transferring Convertible Preference Shareholder), such transfer shall comply with the requirements under the GEM Listing Rules and/or requirements imposed by the GEM (if any).

19. PRESCRIPTION

Any Convertible Preference Shareholder who has failed to claim distributions or other property or rights within six years of their having been made available to him will not thereafter be able to claim such distributions or other property or rights which shall be forfeited and reverted to the Company. The Company shall retain such distributions or other property or rights but shall not at any time be a trustee in respect of any such distributions or other property or rights nor accountable for any income or other benefits derived therefrom.

20. SEVERABILITY

If at any time one or more provisions hereof is or becomes invalid, illegal, unenforceable or incapable of performance in any respect under the laws of any Relevant Jurisdiction, the validity, legality, enforceability or performance in that jurisdiction of the remaining provisions hereof or the validity, legality, enforceability or performance under the laws of any other Relevant Jurisdiction of these or any other provisions hereof shall not thereby in any way be affected or impaired.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particular given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

(a) the information contained in this circular is accurate and complete in all material respects and is not misleading;

(b) there are no other matters the omission of which would make any statement in this circular misleading; and

(c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and upon full conversion of all CP Shares will be as follows:

Authorised:		*HK$*
10,000,000,000	Shares	500,000,000.00

Upon the Capital Increase becoming effective

Authorised:		*HK$*
30,000,000,000	Shares	1,500,000,000.00
Issued and fully paid:		
4,495,111,986	Shares as at the Latest Practicable Date	224,755,599.30
4,833,333,333	Shares to be issued upon full conversion of all CP Shares	241,666,666.65
9,328,445,319	Shares upon full conversion of all CP Shares	466,422,265.95

All the issued Shares rank pari passu with each other in all respects including the rights as to voting, dividends and return of capital. The Conversion CP Shares upon full conversion of the CP Shares to be allotted and issued will, when issued and fully paid, rank pari passu in all respects with the then existing Shares.

The Shares in issue are listed on the Stock Exchange. No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

As at the Latest Practicable Date, the Company has convertible notes with an outstanding principal amount of HK$6,500,000 conferring rights to the holders to convert a total of 30,805,687 Shares at a conversion price of HK$0.211 per Share.

As at the Latest Practicable Date, the Company has 202,860,833 outstanding Post-IPO Share Options, and 2,281,370 outstanding Pre-IPO Share Options which in aggregate entitling holders thereof to subscribe for 205,142,203 Shares. Save as disclosed above, the Company does not have any other outstanding options, convertible notes or securities in issue which are convertible or exchangeable into Shares.

3. DISCLOSURE OF INTERESTS

(a) Directors' and chief executive's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register to therein, or which were required, pursuant to the rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange, were as follows.

(i) Interests in Shares:

Name of Director/ chief executive of the Company	Number of Shares	Capacity	Position	Approximate percentage of the total issued share capital of the Company as at the Latest Practicable Date
Mr. Yung	1,209,605,000	Interest in controlled corporation *(Note 1)*	Long	26.91%
	4,848,802,083	Beneficial owner *(Note 2)*	Long	107.87%

Name of Director/ chief executive of the Company	Number of Shares	Capacity	Position	Approximate percentage of the total issued share capital of the Company as at the Latest Practicable Date
Mr. Zheng Gang	9,000,000	Beneficial owner	Long	0.20%

Note 1: These Shares are held through Easeglory.

Note 2: The 4,848,802,083 Shares represent (i) the 15,468,750 Shares beneficially owned by Mr. Yung as at the Latest Practicable Date, and (ii) the 4,833,333,333 Conversion CP Shares to be issued upon full conversion of the CP Shares.

(ii) Interests in Share Options under Post-IPO Share Option Scheme:

Name of Director/ chief executive of the Company	Exercise period	Exercise price	Number of share options	Position
Mr. Yung	30 September 2009 to 29 March 2019	HK$0.050	17,000,000	Long
Dr. Jiang Tao	30 September 2009 to 29 March 2019	HK$0.050	8,000,000	Long
Mr. Zheng Gang	30 September 2009 to 29 March 2019	HK$0.050	17,000,000	Long
Dr. Huang Jiaqing	30 September 2009 to 29 March 2014	HK$0.050	10,000,000	Long
Mr. Chen Jin Shan	30 September 2009 to 29 March 2019	HK$0.050	17,000,000	Long

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders

So far as is known to the Directors, as at the Latest Practicable Date, the following persons (other than Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 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 member of the Enlarged Group:

Name of Shareholders	Number of Shares	Position	Capacity	Approximate percentage of the total issued share capital of the Company
Easeglory *(Note)*	1,209,605,000	Long	Beneficial owner	26.91%
Mrs. Yung *(Note)*	6,075,407,083	Long	Interest of spouse	135.16%

Note:

The issued share capital of Easeglory is 100% beneficially owned by Mr. Yung. By virtue of her being the spouse of Mr. Yung, Mrs. Yung is deemed to be interested in 1,209,605,000 Shares held by Easeglory and 15,468,750 Shares, 17,000,000 share options and 4,833,333,333 CP Shares beneficially held by Mr. Yung in personal capacity. Save as Mr. Yung being a director of Easeglory, none of the Director is a director or employee of Easeglory.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO, or who was 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 member of the Enlarged Group.

4. DIRECTORS' SERVICE CONTRACTS

Mr. Yung, the executive Director and chairman of the Company has signed a letter of appointment with the Company for the monthly fee of HK$60,000 for a period of one year commencing from 1 February 2007 which will continue thereafter until terminated by either party giving to the other party not less than one month's notice in writing.

Dr. Jiang Tao has been appointed as an executive Director by way of letter of appointment with the Company for the monthly fee of HK$30,000 for a period of one year commencing from 3 January 2007 which will continue thereafter until terminated by either party giving to the other party not less than one month's notice in writing.

Mr. Zheng Gang has been appointed as an executive Director by way of letter of appointment with the Company for the monthly fee of HK$60,000 for a period of one year commencing from 1 August 2007 which will continue thereafter until terminated by either party giving to the other party not less than one month's notice in writing.

Mr. Chen Jin Shan has been appointed as an executive Director by way of letter of appointment with the Company for the monthly fees of HK$5,000 for a period of one year commencing from 25 April 2006 which will continue thereafter until terminated by either party giving to the other party not less than one month's notice in writing.

Dr. Huang Jiaqing has been appointed as an executive Director by way of a letter of appointment with the Company for the monthly fee of HK$10,000 for a period of one year commencing on 30 July 2009 and will continue thereafter until terminated by either party giving to the other party not less than one month's notice in writing.

Dr. Wong Yu Man, James has been appointed as a non-executive Director by way of a letter of appointment with the Company for the monthly fee of HK$10,000 for a period of one year commencing from 20 March 2007 which will continue thereafter until terminated by either party giving to the other party not less than one month's notice in writing.

Ms. Wong Ka Wai, Jeanne, an independent non-executive Director, has been appointed by way of a letter of appointment with the Company for the monthly fee of HK$5,000 for a period of one year commencing from 1 November 2007 which will continue thereafter until terminated by either party giving to the other party not less than one month's notice in writing.

Prof. Hu Shanlian, an independent non-executive Director, has been appointed by way of a letter of appointment with the Company for the monthly fee of HK$5,000 for a period of one year commencing on 30 July 2009 and will continue thereafter until terminated by either party giving to the other party not less than one month's notice in writing.

Prof. Lu Chuanzhen, an independent non-executive Director, has been appointed by way of a letter of appointment with the Company for the monthly fee of HK$5,000 for a period of one year commencing on 30 July 2009 and will continue thereafter until terminated by either party giving to the other not less than one month's notice in writing.

As at the Latest Practicable Date, none of the Directors has entered into any service contracts or proposed to enter into service contracts (excluding contracts expiring or terminating by the employer within one year without payment of any compensation other than statutory compensation). The remuneration and benefit in kind receivable by the Directors will not be directly varied in consequence of the Proposed Acquisition.

5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or the management Shareholders (as defined in the GEM Listing Rules) or their respective associates has any interest in a business which competes or may compete with the business of the Enlarged Group or have or may have any conflicts of interests with the Enlarged Group.

6. LITIGATION

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

7. MATERIAL CONTRACTS

The following contracts were entered into by the Enlarged Group (not being contracts entered into in the ordinary course of business) during the period of two years immediately preceding the Latest Practicable Date and are or may be material:

The Group:

(a) the agreement dated 15 February 2008 and entered into among the Company as vendor and Mr. Zheng Maolin as purchaser in relation to the disposal of the entire equity interest in Able Developments Limited ("Able") and the assignment of all the debts, liabilities and obligations of Able owing from or incurred by Able to the Company for a total consideration of HK$83,000,000;

(b) the conditional sale and purchase agreement dated 26 February 2008 and entered into among Ally Health International Limited, a wholly-owned subsidiary of the Company as purchaser, Yan Xuefeng as vendor and Large Forever Group Limited ("Large Forever") relating to (i) the sale and purchase of the entire issued share capital of Large Forever; and (ii) the subscription of 3,400 new shares in the share capital of Large Forever for a total consideration of HK$68,600,000;

(c) the conditional sale and purchase agreement dated 12 June 2008 and entered into among Famous Fast Limited, a wholly-owned subsidiary of the Company as purchaser, Lau Ming Wah as vendor and Smart Peak Limited ("Smart Peak") relating to (i) the sale and purchase of the entire issued share capital of Smart Peak; and (ii) the subscription of 3,499 new shares in the share capital of Smart Peak for a total consideration of HK$49,000,000;

(d) an underwriting agreement dated 5 September 2008 and entered into between the Company, Quam Securities Company Limited and Mr. Yung in relation to the issue of not less than 899,022,397 shares and not more than 908,794,083 shares by way of open offer and the termination notice dated 17 October 2008 issued by Quam Securities Company Limited to the Company;

(e) the underwriting agreement dated 24 December 2008 and entered into between the Company, Mr. Yung, Quam Securities Company Limited and Partners Capital Securities Limited in relation to the open offer with bonus issue;

(f) the loan agreement dated 14 October 2009 and entered into between Fujian Maidsen Enterprises Company Limited, a wholly-owned subsidiary of the Company, (the "Lender"), Zheng Jinqing and Zhu Min (the "Borrowers") and Zhuhai Zhongkangan Enterprises Management Limited, a wholly-owned subsidiary of the Company as confirmor ("Zhuhai Zhongkangan") in relation to the provision of a loan facility of up to RMB40 million to the Borrowers;

(g) the guarantee agreement dated 14 October 2009 and entered into between the Borrowers, the Lender and Zhuhai Jiulong Hospital Limited pursuant to which the Borrowers shall execute a share mortgage in favor of the Lender;

(h) the service agreement dated 14 October 2009 and entered into between Zhuhai Zhongkangan, the Borrowers and Zhuhai Jiulong Hospital Limited pursuant to which Zhuhai Zhongkangan agreed to provide hospital management service to Zhuhai Jiulong Hospital;

(i) the Framework Agreement and the Formal Agreement; and

(j) the sale and purchase agreement dated 29 January 2010 and entered into between Ally Health International Limited, a wholly-owned subsidiary of the Company, as vendor and Mr. Wu Pengxiang, as purchaser in respect of the disposal of the entire issued share capital of Direct Way Group Limited and Smart Peak Limited at the consideration of HK$4.5 million and HK$2 million respectively.

The Enlarged Group:

(a) the Control Agreements, which include the Loan Agreement, the Share Charge, the Exclusive Share Purchase Agreement, the Management Appointment Agreement, the Director's Undertakings and the Shareholder's Undertaking;

(b) the Trademarks Licence Agreement I and Trademarks Licence Agreement II; and

(c) the Trademarks Transfer Agreement I, the Trademarks Transfer Agreement II and their respective supplemental agreements.

8. DIRECTORS' INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS

(a) As at the Latest Practicable Date, save for Mr. Yung's interests in the Target none of the Directors had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Enlarged Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Enlarged Group since 31 March 2009, the date to which the latest published audited financial statements of the Enlarged Group were made up.

(b) As at the Latest Practicable Date, save for Mr. Yung's interests in the Target Group. none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Enlarged Group since 31 March 2009, being the date to which the latest published audited financial statements of the Company were made up, and which was significant in relation to the business of the Enlarged Group.

9. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given its opinions and advice which are included in this Circular:

Name	Qualifications
HLB Hodgson Impey Cheng	Chartered Accountants Certified Public Accountants
Veda Capital	a licensed corporation to conduct type 6 (advising on corporate finance) regulated activity under the SFO

1. As at the Latest Practicable Date, each of HLB Hodgson Impey Cheng and Veda Capital did not have 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 Enlarged Group.

2. Each of HLB Hodgson Impey Cheng and Veda Capital had given and had not withdrawn their respective written consent to the issue of this circular, with the inclusion of the references to its name and/or its opinion or report in the form and context in which it is included.

3. As at the Latest Practicable Date, each of HLB Hodgson Impey Cheng and Veda Capital did not have any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Enlarged Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Enlarged Group since 31 March 2009, the date to which the latest published audited consolidated financial statements of the Enlarged Group were made up.

10. AUDIT COMMITTEE

The Company established an audit committee on 2 November 2001 with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules. The primary duties of the audit committee are (i) to review the annual reports and accounts, interim and quarterly reports and given advice and comments thereon to the Directors; and (ii) to review and supervise the financial reporting process and internal controls of the Group. The audit committee comprises three independent non-executive Directors, namely, Ms. Wong Ka Wai, Jeanne, Prof. Hu. Shanlian and Prof. Lu Chuanzhen with Ms. Wong Ka Wai, Jeanne acting as the chairlady of the audit committee.

The Company has established a remuneration committee on 3 June 2005 in compliance with the code on corporate governance practices. The chairlady of the committee is Ms. Wong Ka Wai, Jeanne, and other members include Prof. Hu Shanlian and Prof. Lu Chuanzhen, all of them are the independent non-executive Directors. The role and function of the remuneration committee include the determination of the specific remuneration package of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and making recommendations to the Board. The remuneration committee considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

Independent non-executive Directors

Ms. Wong Ka Wai, Jeanne

Ms. Wong Ka Wai, Jeanne ("Ms. Wong"), aged 45, has over 20 years of experience in finance, accounting, taxation and corporate affairs. She is a member of the Institute of Chartered Accountants in Australia and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. Ms. Wong holds a Bachelor Degree in Economics from the University of Sydney, Australia and she is currently the Chief Financial Officer of Pang & Associates, a law firm in Hong Kong and the Managing Director of a private company providing consulting and management services. Ms. Wong is also currently an independent non-executive director and a member of the remuneration committee and the chairman of the audit committee of Cardlink Technology Group Limited which is listed on the GEM.

Save as disclosed above, Ms. Wong does not hold any positions with the Company and its subsidiaries, nor has she held any directorship in other listed public companies or any other major appointments and professional qualifications in the past three years. Ms. Wong does not have any relationship with any other Directors, senior management or substantial or controlling Shareholders.

Prof. Hu Shanlian

Prof. Hu Shanlian ("Prof. Hu"), aged 72, is a professor in health economics and has a master degree in science from the London School of Tropical Medicine and Hygiene. At Present, he is the director of Training Centre for Health Management and Pharmacoeconomics Research and Evaluation Centre at School of Public Health at Fudan University in the PRC. Prof. Hu is also the director of Health Development Research Centre in the Shanghai Bureau of Health. Prof. Hu also held senior positions in the National Health Economic Institution and China Network of Training and Research in Health Economics and Financing between 1991 and 2005, which were supported by the Ministry of Health of the PRC and World Bank respectively.

Save as disclosed above, Prof. Hu does not hold any positions with the Company and its subsidiaries, nor has he held any directorship in other listed public companies or any other major appointments and professional qualifications in the past three years. Prof. Hu does not have any relationship with any other Directors, senior management or substantial or controlling Shareholders.

Prof. Lu Chuanzhen

Prof. Lu Chuanzhen ("Prof. Lu"), aged 71, is a neurologist and has over 40 years of medical professional experience. Prof. Lu is currently the lifetime professor of Shanghai Huashan Hospital in the PRC and a director in the World Health Organisation's Neuroscience Research and Training Centre. Prof. Lu is also the chairman and director of the Institute of Neurology in Shanghai Medical University, the chairman of the Chinese Association of Neurology and chairman of the Shanghai association of Neurology in the Chinese Medical Society. Prof. Lu also has an international membership with New York Academy of Sciences.

Save as disclosed above, Prof. Lu does not hold any positions with the Company and its subsidiaries, nor has he held any directorship in other listed public companies or any other major appointments and professional qualifications in the past three years. Prof. Lu does not have any relationship with any other Directors, senior management or substantial or controlling Shareholders.

11. GENERAL

(1) Mr. Yung is the compliance officer of the Company. He is a registered economist in the Fujian Province in the PRC.

(2) Mr. Lam Williamson is the Company secretary. He is a member of the Certified Practising Accountant in Australia and a member of the Hong Kong Institute of Certified Public Accountants.

(3) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

(4) The head office and principal place of business of the Company in Hong Kong is at Room 1902, 19/F., Sing Pao Building, No. 101 King's Road, North Point, Hong Kong.

(5) The principal share registrar and transfer office of the Company is Butterfield Fulcrum Group (Cayman) Limited at Butterfield House, 68 Fort Street, P.O. Box 705, George Town, Grand Cayman, Cayman Islands, British West Indies.

(6) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Tengis Limited located at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(7) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company at Room 1902, 19/F., Sing Pao Building, No. 101 King's Road, North Point, Hong Kong during normal business hours from the date of this circular up to and including Wednesday, 3 March 2010:

(a) the memorandum and articles of associations of the Company;

(b) the annual reports of the Company for the two years ended 31 March 2008 and 31 March 2009 respectively;

(c) the unaudited interim report of the Company for the six months ended 30 September 2009;

(d) the accountants' reports from HLB Hodgson Impey Cheng on the Target, the text of which is set out in appendix II to this circular;

(e) the accountants' reports from HLB Hodgson Impey Cheng on the Huihao Medicine Wholesale Group, the text of which is set out in appendix III to this circular;

(f) the accountants' reports from HLB Hodgson Impey Cheng on the Huihao Sihai, the text of which is set out in appendix IV to this circular;

(g) the unaudited pro forma statement of the Enlarged Group, the text of which is set out in appendix V to this circular;

(h) the letter from HLB Hodgson Impey Cheng on the unaudited pro forma statement of the Enlarged Group, the text of which is set out in appendix V to this circular;

(i) the material contracts referred to in the paragraph headed "Material contracts" in this appendix;

(j) the written consents referred to in the paragraph headed "Experts and consents" in this appendix;

(k) each of the service contracts referred to in paragraph headed "Directors Service Contract" in this appendix; and

(l) this circular.

HUA XIA HEALTHCARE HOLDINGS LIMITED
華夏醫療集團有限公司*
(incorporated in the Cayman Islands with limited liability)
(Stock Code: 8143)

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (the "**EGM**") of Hua Xia Healthcare Holdings Limited (the "**Company**") will be held at 11:00 a.m. on Wednesday, 3 March 2010 at Room 1902, 19/F., Sing Pao Building, No. 101 King's Road, North Point, Hong Kong for the following purpose of considering and, if thought fit, passing with or without amendments, the following ordinary resolutions:

ORDINARY RESOLUTIONS

1. "**THAT**

(a) sale and purchase agreement dated 13 November 2009 (the "**Agreement**") and entered into between Timely Hero Enterprises Limited, a wholly-owned subsidiary of the Company, as purchaser, and Mr. Yung (the "**Vendor**") as vendor in relation to the sale and purchase of 1 share of US$1.00 in the share capital of Nuture Fit Limited (the "**Target**"), representing its entire issued share capital; and (ii) all the obligations, liabilities and indebtedness owing or incurred by the Target to the Vendor, whether actual, contingent or deferred and irrespective whether or not the same is due and payable as at completion of the Agreement for a consideration of HK$600,000,000 subject to adjustment (a copy of the Agreement is marked "A" and produced to the EGM and signed by the chairman of the EGM for identification purpose) and the transactions contemplated thereunder be and are hereby ratified, confirmed and approved;

(b) subject to the ordinary resolutions no. 2 and no. 3 below being duly passed, the creation, allotment and issue of 4,833,333,333 CP Shares (as defined in ordinary resolution no. 2 below) be and is hereby approved;

(c) the allotment and issue of ordinary shares of HK$0.05 each in share capital of the Company (the "**Conversion CP Shares**") of which may fall to be issued upon the exercise of the conversion rights attached to the CP Shares be and is hereby approved;

(d) the unconditional specific mandate granted to the Directors to exercise the powers of the Company to allot, issue and deal with the Conversion CP Shares be and is hereby approved; and

* *For identification purpose only*

(e) any one or more of the directors (the "**Directors**") of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents which he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Agreement including but not limited to the allotment and issue of CP Shares and the Conversion CP Shares and the transactions contemplated thereunder".

2. "**THAT**

(a) the authorised share capital of the Company be and is hereby increased from HK$500,000,000 divided into 10,000,000,000 shares of HK$0.05 each (the "**Shares**") to HK$1,500,000,000 divided into 22,000,000,000 Shares and 8,000,000,000 non-voting convertible preference shares of HK$0.06 each ("**CP Shares**") with the rights and restrictions as set out in the terms of the CP Shares as referred to in the ordinary resolution no. 3 below by the creation of an additional 12,000,000,000 Shares and 8,000,000,000 CP Shares in the Company (the "**Proposed Increase in Authorised Share Capital**"); and

(b) any one or more of the Directors be and is/are hereby authorised do all such acts and things and execute all such documents which he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Proposed Increase in Authorised Share Capital."

3. "**THAT**

(a) the terms of the CP Shares as set out in appendix VII to the circular of the Company dated 11 February 2010 (a copy of the terms of the CP Shares is marked "B" and produced to the EGM and signed by the chairman of the EGM for identification purpose only) be and is hereby approved, and shall, subject to the articles of association of the Company, constitute the entire terms of the CP Shares;

(b) any one or more of the Directors be and is/are hereby authorised do all such acts and things and execute all such documents which he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the terms of the CP Shares."

By order of the Board
Hua Xia Healthcare Holdings Limited
Yung Kwok Leong
Chairman

Hong Kong, 11 February 2010

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place of business in Hong Kong:
Room 1902, 19/F
Sing Pao Building
No. 101 King's Road
North Point, Hong Kong

Notes:

1. A member entitled to attend and vote at the EGM is entitled to appoint one or more proxy (if he is the holder of two or more shares) to attend and, subject to the provisions of the articles of association of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

2. A form of proxy for use at the EGM is enclosed with the circular of the Company dated 11 February 2010. Whether or not you intend to attend the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the EGM or any adjournment thereof, should he so wish.

3. In order to be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority must be deposited at the Company's principal place of business in Hong Kong at Room 1902, 19/F., Sing Pao Building, No. 101 King's Road, North Point, Hong Kong, not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof.

4. In the case of joint holders of shares, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holders are present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.