



Annual Report **2009**



香港體檢及醫學診斷控股有限公司
HONG KONG HEALTH CHECK AND LABORATORY
HOLDINGS COMPANY LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code : 397)

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Dr. Fung Yiu Tong, Bennet (*Chairman*)

Mr. Lee Chik Yuet (*Deputy Chairman*)

Mr. Cho Kwai Yee, Kevin

Dr. Cho Kwai Chee

Miss Choi Ka Yee, Crystal

Mr. Siu Kam Chau

Mr. Hui Ka Wah, Ronnie, *JP*

Independent Non-executive Directors

Mr. Chan Chi Yuen

Mr. Lo Chun Nga

Mr. Chik Chi Man

COMPANY SECRETARY

Mr. Siu Kam Chau

AUDIT COMMITTEE

Mr. Chan Chi Yuen

Mr. Lo Chun Nga

Mr. Chik Chi Man

AUDITORS

HLB Hodgson Impney Cheng

Chartered Accountants

Certified Public Accountants

31st Floor, Gloucester Tower, The Landmark

11 Pedder Street, Central

Hong Kong SAR

REGISTERED OFFICE

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Shop 2B & 2C, Level 1

Hilton Plaza Commercial Centre

3-9 Shatin Centre Street

Shatin, New Territories

Hong Kong

PRINCIPAL BANKERS

Dah Sing Bank Limited

The Hong Kong and Shanghai Banking

Corporation Limited

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Pembroke

Bermuda

HONG KONG BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

Tricor Tengis Limited

26/F, Tesbury Centre

28 Queen's Road East

Hong Kong

WEBSITE

www.hkhealthcheck.com

Chairman's Statement

On behalf of Hong Kong Health Check and Laboratory Holdings Company Limited ("Hong Kong Health Check" or the "Group"), I am pleased to present this annual report for the year ended 31 March 2009 to our shareholders.

BUSINESS REVIEW

2008 was a year of solid performance for Hong Kong Health Check. For the year ended 31 March 2009, we have made good strides in improving and differentiating ourselves in the market through implementing a strategy that emphasizes quality services for our clients. Despite the recent economic gloom, we managed to grow our business healthily and are expecting steady growth in 2009. The turnover of the Group for the year ended 31 March 2009 stood at approximately HK\$106,538,000.

Strong Foundation Spurs Healthy Business Growth

The HKSAR Government is now providing citizens incentives for consuming private healthcare services so as to reduce their healthcare burden. Being a key player in the preventive healthcare market, Hong Kong Health Check has been playing a major role in the government's medical reform scheme.

The continuous efforts in optimizing our one-stop comprehensive services have been rewarded with a swift expansion of our client base. Besides maintaining strong ties and co-operative partnerships with private clinics and the Hospital Authority, we also seek to leverage our market position and increase the clientele base of non-referral customers.

Maximizing Operational Efficiency

While Hong Kong Health Check is not immune to the adverse effects of the worldwide economic downturn, it has been putting its utmost efforts in streamlining its operation so as to improve the operational efficiency and contain costs.

During the year, the Group has expanded its facilities and service scope to meet the growing needs of customers. We have established up to 8 health check and diagnosis centers over the years, providing quality services to citizens in densely populated districts such as Jordan, Kwun Tong, Causeway Bay, Sha Tin and Yuen Long.

The Group is striving hard to consolidate its network of services, and improve its operational efficiency through consolidation of various health check outlets and integration of the services so as to enhance the economies of scale.

Chairman's Statement

Promising Business Opportunities in China

According to the China Market Intelligence Centre, there are now approximately 5,000 health check centres in China. Nearly 90% of health check services are provided by hospitals. In 2008, the turnover of China's health check market was approximately RMB 15 billion, with an annual growth rate of 30-40%. China's macro economy and favourable healthcare market development provide excellent business opportunities for Hong Kong Health Check.

Building on its strength and experience in the medical diagnostic services industry, the Group has been expanding its presence in China this year. The first-of-its-kind health check centre, "Zhongshanyi Town Health Health Check Centre" located in the Tianhe District in Guangzhou, is equipped with cutting-edge medical diagnostic facilities and technology. The China project is on track though the development pace is not as quick as previously expected. The "Zhongshanyi Town Health Health Check Centre" will strive to become one of the largest health check and medical diagnostic centres in Guangzhou.

PROSPECT

Strengthen Market-Leading Position in Local Community

Hong Kong Health Check will continue to optimize its business to meet the growing customer needs for comprehensive and quality health check service. We are executing our strategic expansion plan to grow our health check business through an aggressive yet disciplined acquisition approach. On 11 May 2009, we raised our equity interest in Group Benefit Development Limited ("Group Benefit"), a local company that specializes in the provision of medical diagnostic scanning and laboratory services, to 98.53%. The move will bring 4 more health check centers under the Group's control. This will further increase Hong Kong Health Check's market share and customer base in the local health check industry, strengthening its market-leading position.

The Group also plans to roll out a re-branding exercise and review its marketing strategy to reinforce the brand image in the community. This will be a firm-wide revamp of the corporate image and marketing position, so that our strong competitive edge in providing quality and professional laboratory and diagnostic imaging services could be well recognized and accepted. This will no doubt further enhance our market leading position.

Strategic Investments Providing Strong Growth Potentials

The Group will further enhance its treasury function and better manage its surplus financial resources. It will strengthen its cash management scheme and invest in stock portfolio which includes both listed and unlisted securities. It is hoped that through better treasury management and portfolio investment, the Group could bring to investors better value and return. Also, the Group will invest in property market, targeting mainly retail and office properties in prime locations. It is anticipated that the property investment will provide attractive source of rental income for the Group, as well as good locations for the Group to open new satellite laboratory centers so as to expand its chain laboratory network.

Chairman's Statement

In order to cope with the tough market condition, the Group will consider diversifying its business, besides maintaining and enhancing its health check and medical diagnostic services business. New business opportunities will be explored and it is hoped that through diversification of business, the Group could capitalize on any business opportunities arising from the economic recovery.

In the coming year, Hong Kong Health Check will continue seeking good investment opportunities and expanding its scale. We are committed to maximizing Hong Kong Health Check's value and strengthening its foothold in the local community, and delivering to shareholders good value.

Introduce Revolutionary Health Check Concept in China

The China health check and medical diagnosis market will be boosted by the booming health-conscious middle class citizens, and demand for superior healthcare services is tremendously high. The Group is devoted to providing world-class health check and medical diagnostic and imaging services in China, and to raising public awareness of the power of preventive healthcare and regular check-ups. By replicating the successful model in Hong Kong, Hong Kong Health Check will strive to develop a well-branded health check chain in Guangdong province in the coming year.

The Board is also pleased to announce the change in the end of the Group's fiscal year from 31 March to 31 December. The change will take effect immediately with the current financial year of the Group ending on 31 December 2009.

A new era is well under way in the healthcare sector. We are optimistic thanks to the opportunities ahead. Hong Kong Health Check has positioned itself for long-term success and to lead the industry into the future. We thank for your continued support and will continue to explore investment opportunities and bring profitable return to all shareholders.

Management Discussion and Analysis

FINANCIAL REVIEW

The Group is set to build momentum thanks to the steady growth in the health check and medical diagnostic business. The Group's turnover soared 51.9% to approximately HK\$106,538,000 (2008: approximately HK\$70,132,000), reflecting the success of our strategic business plan and operation. Revenue was driven primarily by the core provision of health check and medical diagnostic services.

Due to the loss arising from (1) the loss attributable to the holding of the convertible bonds of a subsidiary and a jointly-controlled entity ("CHI CB") issued by Core Healthcare Investment Holdings Limited ("Core Healthcare") (stock code: 8250), a subsidiary of the Group; (2) the diminution in value of the CHI CB which is reflected in the financial statements of the Group; (3) the impairment of goodwill attributable to Core Healthcare which arose from the securities exchange offer launched by the Group for the shares of Core Healthcare during the year; (4) the estimated fair value of share-based payments expenses relating to the share options granted by the Group during the year; (5) the financial tsunami causing an investment loss for the investment activity carried out in accordance with the Group's treasury management policy; and (6) the operating loss caused by the adverse operating environment, loss attributable to equity holders of the Company for the year ended 31 March 2009 was approximately HK\$637,879,000 (2008: Profit of approximately HK\$43,077,000).

Factors (1), (2), (3) and (4) discussed above are non-cash in nature and do not have any cash flow impact on the Group.

In view of the Group's active expansion of its core health check and medical diagnostic services business and seeking for potential acquisitions or expansion, the Board does not recommend the payment of final dividend.

REVIEW OF OPERATIONS

Rapid Growth Further Strengthens Market Positioning

During the year, the Group's provision of health check and medical diagnostic services achieved sound results. Turnover increased by 51.9% to approximately HK\$106,538,000. The demand for health check services continues to grow as public awareness increases on regular health check-ups.

With the establishment of satellite medical diagnostic centers in the densely populated districts, Hong Kong Health Check boasts an extensive network and offers comprehensive health check and medical diagnostic services to customers, generating a steady source of revenue and improving the Group's financial position.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2009, the Group held cash and bank balances of approximately HK\$152,472,000 (2008: approximately HK\$118,700,000). Net current assets amounted to approximately HK\$218,061,000 (2008: approximately HK\$455,781,000). Current ratio (defined as total current assets divided by total current liabilities) was 15.2 times (2008: 20.2 times).

As at 31 March 2009, the Group had no outstanding bank and other borrowings (2008: approximately HK\$292,443,000).

The Group's bank balances were denominated in Hong Kong dollars and Renminbi, risk in exchange rate fluctuation would not be material.

CAPITAL STRUCTURE

As at 31 March 2009, the Group had shareholders' equity of approximately HK\$327,941,000 (2008: approximately HK\$558,650,000).

As from 9 September 2008, the final closing date of a voluntary conditional securities exchange offer made by Hong Kong Health Check to acquire all the issued shares of the Core Healthcare (other than those already held by Hong Kong Health Check and parties acting in concert with it), Core Healthcare became the subsidiary of the Hong Kong Health Check. Hong Kong Health Check issued 8,482,507,980 consideration shares in connection with the voluntary conditional securities exchange offer.

The Company has exercised its right to redeem the Convertible Bond II with principal amounts of HK\$80,000,000 and HK\$220,000,000 in June and September 2008 respectively.

In October 2008, the Company has exercised its right to redeem the Convertible Note I with a principal amount of HK\$40,000,000.

On 27 November 2008, the placing agent and the Company entered into the placing agreement pursuant to which, the Company agreed to place, through the placing agent, 2,600,000,000 placing shares, on a best effort basis, to not fewer than six placees who and whose ultimate beneficial owners are to be third parties independent of the Company and its connected persons and not connected persons (as defined in the Listing Rules) of the Company at a price of HK\$0.011 per placing share. The placing was completed on 12 December 2008.

Management Discussion and Analysis

On 3 March 2009, The Group announced to implement the capital reorganization that every 50 existing shares will be consolidated into one consolidated share and the issued share capital of the Company will be reduced through a cancellation of the paid up capital of the Company to the extent of HK\$0.49 on each of the issued consolidated shares such that the nominal value of each issued consolidated share will be reduced from HK\$0.50 to HK\$0.01. The capital reorganization became effective on 6 April 2009. Details of these are disclosed in an announcement of the Company dated 3 March 2009.

HUMAN RESOURCES AND REMUNERATION POLICY

As at 31 March 2009, the Group employed approximately 140 employees. The Group continues to maintain and upgrade the capabilities of its workforce by providing them with adequate and regular training. The Group remunerates its employees mainly based on industry practices and individual's performance and experience. On top of regular remuneration, discretionary bonus and share option may be granted to eligible staff by reference to the Group's performance as well as individual's performance. In addition, the Group provides provident fund to its employees in accordance with the statutory requirements of the respective jurisdictions in where the employees reside.

CHARGES ON GROUP ASSETS

As at 31 March 2009, certain property, plant and equipment of the Group with carrying value of approximately HK\$41,613,000 and bank deposits of HK\$10,000,000 were pledged to secure general bank facilities granted to the Group.

Profiles of Directors and Senior Management

EXECUTIVE DIRECTORS

Dr. Fung Yiu Tong, Bennet, aged 42, Chairman of the Company. Dr. Fung graduated from the University of Hong Kong and holds the qualifications of MBBS (HK), MRCP, DCH (London), DFM (CUHK) and Dip Med (CUHK). He is responsible for the strategic development of the Group's health check business. He is in-charge of the overall supervision of the medical health check division of the Group. Dr. Fung was appointed as an executive director and chairman of the Company on 22nd May 2006 and 13th March 2007 respectively.

Mr. Lee Chik Yuet, aged 55, Deputy Chairman of the Company. Mr. Lee graduated from the Chinese University of Hong Kong with a bachelor degree in Social Science. He also holds a bachelor degree and a master degree in Laws from the University of Hong Kong. He joined the Group in March 2007. Before joining the Company, Mr. Lee had been a practicing solicitor for more than 13 years in Hong Kong specialized in commercial, corporate finance and investment laws and practice in Hong Kong and the Mainland China. He is now mainly responsible for investment and operation of the Group in the Mainland China.

Mr. Cho Kwai Yee, Kevin, aged 47, Chief Executive Officer of the Company. Mr. Cho graduated from Newcastle Upon Tyne University in United Kingdom with a bachelor degree in 1990. He also holds a Diploma in Management Studies from The Hong Kong Polytechnic University. He has been holding various senior executive positions in a number of corporations. He is the brother of Dr. Cho Kwai Chee who is an executive director of the Company. He joined the Group in March 2006.

Dr. Cho Kwai Chee, aged 45, graduated from the University of Hong Kong and holds the qualifications of MBBS (HK), FHKCFP, FRACGP, DCH (London), DCH (RCP&SI), DCH (Glasgow) and DPD (Cardiff). He is also the Permanent President of Hong Kong Shatin Industries and Commerce Association Limited, the District President of Yau Tsim District of Scout Association of Hong Kong, the Vice President of the Association of Hong Kong Professionals, the Vice Chairman of United We Stand Foundation Limited and Director of Health Check Charity Funds Limited. Dr. Cho is responsible for directing the Group's overall business and development strategies. He is the brother of Mr. Cho Kwai Yee, Kevin, an executive director of the Company. Dr. Cho is also an executive director and Chief Executive Officer of Town Health International Holdings Company Limited, a company whose shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited. He joined the Group in July 2007.

Miss Choi Ka Yee, Crystal, aged 28, graduated from Boston College in the United States of America with a bachelor's degree of science in accountancy. She also holds a master's degree in corporate finance from the Hong Kong Polytechnic University. Miss Choi has extensive knowledge in accounting and corporate finance. Miss Choi is a member of the Chinese People's Political Consultative Conference Jieyang Guangdong Province, general committee member of the Chamber of Hong Kong Listed Companies, the Vice Chairman of Youth Professionals Committee of the Association of Hong Kong Professionals, the chairman of United We Stand Foundation Limited and Director of Health Check Charity

Profiles of Directors and Senior Management

Funds Limited. Miss Choi is also an executive director and chairman of Town Health International Holdings Company Limited, a company whose shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited. She joined the group in March 2006. Miss Choi is also the director of Early Light International (Holdings) Limited, E. Lite (Choi's) Holdings Limited and E. Lite Property Management Limited.

Mr. Siu Kam Chau, aged 44, holds a bachelor degree in accountancy from the City University of Hong Kong. He is a fellow of The Association of Chartered Certified Accountants and The Hong Kong Institute of Certified Public Accountants. He is also a certified public accountant (practising). Mr. Siu had worked in an international accounting firm and a number of listed groups. He has over 20 years of working experience in accounting, company secretary and corporate finance and has extensive knowledge in fund raising and merger and acquisition activities. He is also an independent non-executive director of Wang On Group Limited, a company whose shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited. He joined the Group in March 2006.

Dr. Hui Ka Wah, Ronnie, J.P., aged 45, Finance Director of the Company. Dr. Hui graduated from the University of Hong Kong and holds the qualifications of MBBS (HK), MRCP (UK), DCH (Ireland), DCH (Glasgow), FHKAM (Paed) and FHKC Paed. Dr. Hui is a specialist in Paediatrics and is the Principal of a private medical clinic in Hong Kong since 1991. Dr. Hui is also a CFA Charterholder and holds a MBA degree conferred by Universitas 21 Global. Dr. Hui is an independent non-executive director of Winbox International (Holdings) Limited and Suncorp Technologies Limited. He is also an executive director of Town Health International Holdings Company Limited, the chairman and chief executive officer of Core Healthcare Investment Holdings Limited, the issued shares of which are listed on the Main Board and GEM Board of the Stock Exchange of Hong Kong Limited respectively. During the past three years, Dr. Hui had once been the independent non-executive director of Oriental Ginza Holdings Limited (formerly CASH Retail Management Group Limited), CASH Financial Services Group Limited and CIAM Group Limited (formerly E-2 Capital (Holdings) Limited). He joined the Group in July 2007.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Chi Yuen, aged 43, holds a bachelor degree with honours in Business Administration and a master of science degree in Corporate Governance and Directorship. He is a fellow member of The Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants and is an associate member of The Institute of Chartered Accountants in England and Wales. Mr. Chan is a practicing certified public accountant and has extensive experience in financial management, corporate finance and corporate governance. Mr. Chan is currently an executive director of Kong Sun Holdings Limited and an independent non-executive director of China Sciences Conservational Power Limited, Premium Land Limited, Superb Summit International Timber Company Limited and Richly Field China Development Limited. Mr. Chan was an executive director of New Times Energy Corporation Limited since 10 May 2006 and was redesignated as a non-executive director from 25 October 2006 onwards. He was also an executive director of Amax Entertainment Holdings Limited from August 2005 to January 2009 and China E-Learning Group Limited (formerly known as "Prosticks International Holdings Limited") (stock code: 8055) from July 2007 to September 2008 and an independent non-executive director of Golden Resorts Group Limited from September 2004 to October 2005. Mr. Chan joined the Group in January 2005. He is also the chairman of the audit committee and a member of the remuneration committee of the Company.

Profiles of Directors and Senior Management

Mr. Lo Chun Nga, aged 58, has over 29 years experience in business management in Hong Kong and People's Republic of China. Mr. Lo is currently a director of The Hong Kong Commerce and Industry Associations Limited and also a director of Hong Kong Shatin Industries and Commerce Association Limited. Mr. Lo joined the Group in May 2006. He is also a member of the audit committee and the chairman of the remuneration committee of the Company.

Mr. Chik Chi Man, aged 55, has over 41 years experience in the building and construction industry in Hong Kong. Mr. Chik is currently the Vice Chairman of Sha Tin East District Scout Council and also the treasury of the committee in Sha Tin District of the Friends of the Community Chest. In July 2006, Mr. Chik has been awarded the Chief Executive's Commendation for Community Service by The Government of the Hong Kong Special Administrative Region. Mr. Chik joined the Group in October 2006. He is also the member of the audit committee and remuneration committee of the Company.

SENIOR MANAGEMENT

Dr. Wynnie Lam Wai Man, graduated from Hong Kong University, holds the following medical degrees, including MBBS (HKU), MD (CUHK), FRCR (UK), FHKAM (Radiology) and FHKCR (HK). She has been an academic staff serving the Medical Faculty of Chinese University of Hong Kong since 1994. During her academic years, she has published more than 230 papers in indexed journals with her main research interest in MRI and CT. Currently she is in the editorial board for two overseas medical journals, namely European Journal of Radiology and Journal of Cardiovascular Magnetic Resonance. She is also the invited reviewer for many other indexed journals, including Stroke, Journal of Magnetic Resonance Imaging and Clinical Radiology. Besides medical qualifications, she also holds MBA (University of Hull) and LLB(2nd upper Hons, London University). She has joined the Company since August 2008 and has held the position of Chief of Radiology Department in the Group.

Dr. Chan Po Nin, David, currently as consultant radiologist of the Group. Dr. Chan graduated from the Chinese University of Hong Kong and holds the qualifications of MBChB (CUHK), FRCR (UK), FHKCR and FHKAM (Radiology). He joined the Group in August 2006.

Ms. Carrie Woo, currently as General Manager of the Group. Her primary responsibilities include overseeing operational issues among different business units within the Group as well as assisting the Group CEO in enhancing and driving the performance and efficiencies of the operation of the Group. Ms. Woo has 21 years of professional experience in the healthcare and medical field and has taken up senior management roles since 2000. She is a Registered Nurse and holds a Bachelor's degree in Psychology from the Azusa Pacific University, California. Prior to joining the Group in February 2007, she was worked for a number of major hospitals and healthcare organizations.

Mr. Lam Chun Kei, currently as Financial Controller of the Group. Mr. Lam holds a bachelor degree in Accountancy from the City University of Hong Kong. He is a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. Mr. Lam has over 11 years of experience in accounting, auditing and financial management and previously worked in an international accounting firm and a listed group. He joined the Group in August 2007.

Report of the Directors

The directors of the Company (“Directors”) present their annual report and the audited consolidated financial statements for the year ended 31 March 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of the Company’s principal subsidiaries are set out in Note 21 to the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the Group’s performance by principal activities and geographical locations of operations for the year ended 31 March 2009 is set out in Note 9 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2009 and the state of affairs of the Company and of the Group as at that date are set out in the consolidated financial statements on pages 29 to 123 of this report.

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

SUBSIDIARIES

Details of acquisition/disposal of subsidiaries during the year are set out in Notes 38 and 39 to the consolidated financial statements.

Details of the Company’s principal subsidiaries as at 31 March 2009 are set out in Note 21 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment of approximately HK\$18,495,000 for the expansion of the Group’s business.

Details of movements in property, plant and equipment of the Group during the year are set out in Note 19 to the consolidated financial statements.

Report of the Directors

CONVERTIBLE BONDS

Details of the convertible bonds issued by the Group are set out in Note 33 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in Note 34 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

SHARE OPTION SCHEME

Particulars of the Company's share option scheme are set out in Note 35 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 March 2009, the Company repurchased its own shares as follows:

Month of repurchase	Number of shares repurchased	Price per share		Aggregate consideration HK\$
		Highest HK\$	Lowest HK\$	
September 2008	110,000,000	0.053	0.045	5,590,000
October 2008	<u>320,000,000</u>	0.039	0.024	<u>9,730,000</u>
	<u>430,000,000</u>			<u>15,320,000</u>

The above shares were cancelled and accordingly the issued share capital of the Company was reduced by the par value of these shares which amounted to HK\$4,300,000. Apart from the repurchase of the shares as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year ended 31 March 2009.

Report of the Directors

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in Note 37 to the consolidated financial statements and in the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

As at 31 March 2009, the Company had no retained profits available for cash distribution and/or distribution in specie. Under the Companies Act 1981 of Bermuda (as amended), the Company's contributed surplus in the amount of approximately HK\$29,390,000 is not available for distribution as at 31 March 2009.

MAJOR SUPPLIERS AND CUSTOMERS

For the year ended 31 March 2009, the percentage of turnover attributable to the Group's five largest customers is less than 30% of the Group's total turnovers. The five largest suppliers of the Group and the largest supplier accounted for approximately 35% and 17% of the Group's total purchases respectively.

As far as the Directors are aware, none of the directors, their associates or shareholders (who to the knowledge of the directors own more than 5% of the Company's issued share capital) were interested at any time during the year in any of the above customers and suppliers.

DIRECTORS

The Directors during the financial year and up to the date of this report were:

Executive Directors

Dr. Fung Yiu Tong, Bennet (*Chairman*)

Mr. Lee Chik Yuet (*Deputy Chairman*)

Mr. Cho Kwai Yee, Kevin

Dr. Cho Kwai Chee

Miss Choi Ka Yee, Crystal

Mr. Siu Kam Chau

Dr. Hui Ka Wah, Ronnie, *JP*

Independent non-executive Directors

Mr. Chan Chi Yuen

Mr. Lo Chun Nga

Mr. Chik Chi Man

Report of the Directors

In accordance with Bye-law 99, Mr. Lee Chik Yuet, Dr. Cho Kwai Chee and Dr. Hui Ka Wah, Ronnie, JP will retire from the office of Directors by rotation at the annual general meeting. In addition, Mr. Siu Kam Chau wishes to retire from the office of Director at the annual general meeting.

Due to other business commitments which require more of their dedication, each of Dr. Hui Ka Wah, Ronnie, JP and Mr. Siu Kam Chau, both being executive Directors, will not offer himself for re-election at the annual general meeting.

Mr. Lee Chik Yuet and Dr. Cho Kwai Chee will offer themselves for re-election as Directors.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of emoluments of Directors and the five highest paid individuals of the Group are set out in Notes 15 and 16 to the consolidated financial statements.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the section headed "CONTINUING CONNECTED TRANSACTION" below, no contracts of significance to which the Company or any of its subsidiaries was a party and in which any director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Report of the Directors

CONTINUING CONNECTED TRANSACTION

The continuing connected transaction not exempt under Rule 14A of the Listing Rules

The Company entered into the service agreement with Town Health International Holdings Company Limited (“Town Health”), pursuant to which the Company agreed to appoint Town Health to provide consultation and management services, to the Company for a term of 30 months. The Company shall pay to Town Health a service fee up to HK\$7,000,000 for any period of twelve calendar months during the term of the service agreement. Such fee is based on numbers of hours spent by the general doctors or, as the case may be, the senior doctor of Town Health for providing the services times their respective rates. Miss Choi Ka Yee, Crystal is the daughter of Dr. Choi Chee Ming, GBS, JP, who is a non-executive director of Town Health and has a controlling equity interest in Town Health.

The Independent non-executive Directors have reviewed the continuing connected transaction and the report of the auditors and have confirmed that the transaction has been entered into by the Company in the ordinary course of its business, on normal commercial terms, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The continuing connected transaction has also been reviewed by the independent auditor of the Company who have confirmed that during the year the continuing connected transaction:–

- (i) has received the approval of the Company’s board of Directors;
- (ii) is in accordance with the pricing policies of the Company;
- (iii) has been entered into in accordance with the relevant agreements governing them; and
- (iv) has not exceeded the caps.

Report of the Directors

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

(I) *Interests and short positions in shares, underlying shares and debentures of the Company*

At 31 March 2009, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company:

Name of Director	Capacity	Number of ordinary shares held	Percentage of the Company's issued share capital
Dr. Cho Kwai Chee (Note 1)	Held by controlled corporation	1,487,144,878	8.77%
Miss Choi Ka Yee, Crystal (Note 2)	Held by controlled corporation	100,000,000	0.59%

Note:

1. Dr. Cho Kwai Chee is interested in 50.1% of the issued share capital of Broad Idea International Limited ("Broad Idea") and pursuant to the SFO, is deemed to be interested in the same block of 1,487,144,878 shares which Broad Idea is interested or is deemed to be interested in.
2. Miss Choi Ka Yee, Crystal is taken to be interested in those shares in which Central View International Limited, a company which is wholly and beneficially owned by her, is interested.

Save as disclosed above, as at 31 March 2009, none of the Directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.



Report of the Directors

(II) *Share options*

The Company adopted a share option scheme on 17 November 2003 (the “Scheme”), for the primary purpose of providing incentives to Directors and employees. Under the Scheme, the Company may grant options to eligible persons, including Directors and its subsidiaries, to subscribe for shares in the Company.

Particulars of the Scheme and details of movements of share options during the year ended 31 March 2009 are set out in Note 35 to the consolidated financial statements.

DIRECTORS RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section headed “DIRECTORS’ INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES”, at no time during the year was the Company or any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangements to enable the directors or chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors or chief executives, nor any of their spouses or children under the age of 18, had any rights to subscribe the securities of the Company, or had exercised any such rights during the year.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2009, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO shows that, the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Long positions in ordinary shares of the Company:

Name of shareholder	Capacity	Number of ordinary shares held	Percentage of the Company's issued share capital
Dr. Cho Kwai Chee (Note 1)	Held by controlled corporation	1,487,144,878	8.77%
Dr. Choi Chee Ming, GBS, JP (Note 1)	Held by controlled corporation	1,487,144,878	8.77%
Broad Idea (Note 2)	Held by controlled corporation	1,487,144,878	8.77%
Town Health (Note 3)	Held by controlled corporation	1,487,144,878	8.77%
Town Health (BVI) Limited (Note 4)	Held by controlled corporation	1,487,144,878	8.77%
Top Act Group Limited (Note 4)	Benefit owner	1,487,144,878	8.77%

Report of the Directors

Note:

1. Dr. Cho Kwai Chee and Dr. Choi Chee Ming, GBS, JP is interested in 50.1% and 49.9% respectively of the issued share capital of Broad Idea and pursuant to the SFO, is deemed to be interested in the same block of 1,487,144,878 shares which Broad Idea is interested or is deemed to be interested in.
2. Broad Idea is interested in 27.46% of Town Health and is, pursuant to the SFO, deemed to be interested in the same block of 1,487,144,878 shares Town Health is interested, or deemed to be interested in.
3. Town Health owns a 100% of Town Health (BVI) Limited and is deemed under the SFO to be interested in the same block of 1,487,144,878 shares which Town Health (BVI) Limited is or deemed to be interested in.
4. Town Health (BVI) Limited owns the entire issued share capital of Top Act Group Limited which is the immediate shareholder of 1,487,144,878 shares. Pursuant to the SFO, Town Health (BVI) Limited is deemed to be interested in the same block of 1,487,144,878 shares owned by Top Act Group Limited.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 March 2009.

POST BALANCE SHEET EVENTS

Details of the significant events occurring after the balance sheet date are set out in Note 47 to the consolidated financial statements.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the board of Directors on the basis of their merit, qualifications and competence.

The emoluments of the Directors are decided by the board of Directors, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to eligible persons, details of the scheme are set out in Note 35 to the consolidated financial statements.

Report of the Directors

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules as at the date of this report.

CORPORATE GOVERNANCE

Principal corporate governance practices as adopted by the Company are set out in the Corporate Governance Report on Pages 22 to 26 of this report.

AUDITORS

The consolidated financial statements were audited by Messrs. HLB Hodgson Impey Cheng who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Fung Yiu Tong, Bennet

Chairman

Hong Kong, 21 July 2009



Corporate Governance Report

The board of directors (the “Directors”) of the Company (the “Board”) is committed to maintaining a high standard of corporate governance. The Board believes that a high standard of corporate governance will provide a framework for the Group to formulate the business strategies and policies, and manage the associated risks through effective internal control procedures. It will also enhance the transparency of the Group and strengthen the accountability to the shareholders and creditors.

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The Company has complied with all the applicable code provisions in the Code throughout the year ended 31 March 2009, except that the Independent non-executive Directors are appointed with no specific terms which is a deviation from code provision A.4.1 of the Code.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the “Model Code”) as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all the Directors, all the Directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 March 2009.

BOARD OF DIRECTORS

Up to the date of this report, the Board comprises ten members, seven of which are executive Directors, namely Dr. Fung Yiu Tong, Bennet who is the Chairman of the Board, Mr. Lee Chik Yuet who is the Deputy Chairman of the Board, Mr. Cho Kwai Yee, Kevin, Dr. Cho Kwai Chee, Miss Choi Ka Yee, Crystal, Mr. Siu Kam Chau and Dr. Hui Ka Wah, Ronnie JP. The other three members are independent non-executive Directors, namely Mr. Chan Chi Yuen, Mr. Lo Chun Nga and Mr. Chik Chi Man.

The Board held four meetings during the year ended 31 March 2009. The Board is responsible for the formulation of the Group’s business strategies and overall policies, and monitoring the performance of the management. The executive Directors are delegated the power to execute the business strategies, develop and implement the policies in the daily operation of the Group. The independent non-executive Directors provide their professional advices to the Group whenever necessary.

All Directors have full and timely access to all the information and accounts of the Group. The Directors may seek independent professional advice at the expense of the Company.

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Dr. Fung Yiu Tong, Bennet, the Chairman of the Company and Mr. Cho Kwai Yee, Kevin, Chief Executive Officer since 2006, have segregated and clearly defined roles.

INDEPENDENCE NON-EXECUTIVE DIRECTORS

The Company has received written confirmation from each of the independent non-executive Directors as regards to their independence to the Company as required under the Listing Rules.

The Company considers that each of the independent non-executive Directors is independent to the Company.

None of the independent non-executive Directors is appointed for a specific term but are subject to rotation and re-election at the annual general meeting in accordance with the Company's Bye-laws.

REMUNERATION COMMITTEE

The Remuneration Committee has adopted specific written terms of reference in accordance with the provisions set out in the Code. The principal duties of the Remuneration Committee are to formulate the Company's remuneration policy and recommend remuneration packages for all the Directors and senior management to the Board for approval. The Company's remuneration policy is to provide a competitive level of remuneration in accordance with current market conditions to attract and motivate the Directors and staff for their contribution.

Up to the date of this report, the Remuneration Committee comprises three independent non-executive Directors, namely Mr. Lo Chun Nga, who is the Chairman of the Remuneration Committee, Mr. Chan Chi Yuen and Mr. Chik Chi Man.

The Remuneration Committee held one meeting during the year ended 31 March 2009. The Remuneration Committee reviewed the remuneration policy of the Company, assessed the performance of the executive Directors and senior management and recommended specific remuneration packages of all the Directors and senior management to the Board.

NOMINATION OF DIRECTORS

The Company does not have a nomination committee. The Board as a whole is responsible for the procedure of agreeing the nomination of appropriate person for election by shareholders at the annual general meeting, either to fill a casual vacancy or as an addition to the existing directors.

Corporate Governance Report

The notice of the annual general meeting contains detailed information on election of Directors including detailed biography of all Directors standing for election or re-election to enable shareholders to make an informed decision on their election.

AUDITORS' REMUNERATION

The remuneration payable to the Group's auditors, HLB Hodgson Impey Cheng, for its audit services and non-audit services for the year ended 31 March 2009 are analyzed as follows:

	HK\$'000
Audit services	
Audit fee for the year ended 31 March 2009	<u>680</u>
Non-audit services	
Tax compliance	60
Acting as reporting accountants to report on certain financial information included in the Company's circulars issued during the year ended 31 March 2009	<u>200</u>
	<u>260</u>
Total	<u><u>940</u></u>

AUDIT COMMITTEE

The Audit Committee has adopted specific written terms of reference in accordance with the provisions set out in the Code. The principal duties of the Audit Committee is to consider the appointment and remuneration of the external auditor, to monitor the integrity of the Group's financial statements with focus on the changes in accounting policies and practices, major judgmental areas, significant audit adjustments, going concern assumptions, and compliance with accounting standards, the Listing Rules and other legal requirements, and to review the Group's financial reporting system and internal control procedures.

The Audit Committee comprises three independent non-executive Directors, namely Mr. Chan Chi Yuen as the Chairman of the Audit Committee, Mr. Lo Chun Nga and Mr. Chik Chi Man.

Corporate Governance Report

The Audit Committee held two meetings during the year ended 31 March 2009. The Audit Committee reviewed the Group's financial statements for the year ended 31 March 2008 and for the six months ended 30 September 2008 respectively, discussed audit scope and findings with the Company's auditors and reviewed the Group's financial reporting system and internal control procedures. The Audit Committee also approved the remuneration of the Company's auditors for their audit services for the year.

The Audit Committee has reviewed the Group's audited financial statements for the year ended 31 March 2009 with the Directors.

ATTENDANCE OF DIRECTORS AT MEETINGS

The attendance of the Directors at the meetings of the Board, the Audit Committee and the Remuneration Committee during the year ended 31 March 2009 is set out below:

Name of the Director	Number of meetings attended/held		
	Board	Audit Committee	Remuneration Committee
<i>Executive Directors</i>			
Dr. Fung Yiu Tong, Bennet	4/4	—	—
Mr. Lee Chik Yuet	4/4	—	—
Mr. Cho Kwai Yee, Kevin	4/4	—	—
Dr. Cho Kwai Chee	4/4	—	—
Miss. Choi Ka Yee, Crystal	4/4	—	—
Mr. Siu Kam Chau	4/4	—	—
Dr. Hui Ka Wah, Ronnie, JP	4/4	—	—
<i>Independent non-executive Directors</i>			
Mr. Chan Chi Yuen	4/4	2/2	1/1
Mr. Lo Chun Nga	4/4	2/2	1/1
Mr. Chik Chi Man	4/4	2/2	1/1

The background of the page features a light blue overlay on a photograph. On the left, there are laboratory glassware including beakers and a microscope. On the right, a group of people, including a man and a woman, are shown in an outdoor setting, possibly a park or field, with one man holding the hand of a child.

Corporate Governance Report

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility for preparing the accounts which give a true and fair view of the state of affairs of the Group and of the loss and cash flows for the year ended 31 March 2009 in accordance with the disclosure requirements the Companies Ordinance. The Directors have prepared the accounts on a going concern basis, and have selected appropriate accounting policies and applied them consistently, with applicable disclosures required under the Listing Rules and pursuant to statutory requirements.

The statement issued by the auditors of the Company regarding their reporting responsibilities is set out in details in the Independent Auditors' Report on Page 27 to 28.

INTERNAL CONTROLS

The Directors have the overall responsibility for internal control, including risk management, and sets appropriate policies having regard to the objectives of the Group. The Directors, through the Audit Committee, have continued to review the effectiveness of the Group's system of financial and non-financial controls. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. Controls are monitored by management review and by a programme of internal audits.

Independent Auditors' Report



國 衛 會 計 師 事 務 所
Hodgson Impey Cheng

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

Chartered Accountants
Certified Public Accountants

TO THE SHAREHOLDERS OF HONG KONG HEALTH CHECK AND LABORATORY HOLDINGS COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Hong Kong Health Check and Laboratory Holdings Company Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 29 to 123 which comprise the consolidated and company balance sheets as at 31 March 2009, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.



Independent Auditors' Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements 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 consolidated financial statements.

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, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2009 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng

Chartered Accountants

Certified Public Accountants

Hong Kong, 21 July 2009

Consolidated Income Statement

For the year ended 31 March 2009

	Notes	2009 HK\$'000	2008 HK\$'000
Revenue	8	106,538	70,132
Other income	10	8,066	8,896
Changes in inventories and clinical supplies consumed		(36,785)	(20,425)
Employee benefits expense		(78,785)	(61,090)
Depreciation expense		(15,989)	(13,307)
Loss on fair value changes on held-for-trading investments		(56,612)	(25,491)
Gain on disposal of subsidiaries	11	–	37,250
Finance costs	12	(10,053)	(20,149)
Impairment losses on goodwill	20	(553,972)	–
Share of results of a jointly controlled entity	22	(203,581)	235,642
Gain/(Loss) on early redemption of convertible bonds issued by the Company		57,293	(1,087)
Gain on fair value changes of convertible bonds issued by a listed subsidiary which were classified as financial liabilities designated as at fair value through profit or loss		253,828	–
Loss on fair value changes of conversion options embedded in convertible bonds held by the Group		(13,197)	–
Loss on fair value changes of early redemption options embedded in convertible bonds issued by the Company	33	(14,554)	(122,063)
Other operating expenses		(58,857)	(46,752)
(Loss)/Profit before tax		(616,660)	41,556
Income tax	13	2,220	494
(Loss)/Profit for the year	14	(614,440)	42,050
Attributable to:			
Equity holders of the Company	17	(637,879)	43,077
Minority interests		23,439	(1,027)
		(614,440)	42,050
Dividends		–	–
(Loss)/Earnings per share			(Restated)
– Basic (HK dollars per share)	18	(3.00)	0.54
– Diluted (HK dollars per share)	18	(3.58)	(Restated) 0.54

Consolidated Balance Sheet

At 31 March 2009

	Notes	2009 HK\$'000	2008 HK\$'000
Non-current assets			
Property, plant and equipment	19	119,164	118,239
Goodwill	20	–	22,121
Interest in a jointly controlled entity	22	–	233,510
Available-for-sale investments	23	23,785	31,210
		142,949	405,080
Current assets			
Inventories of clinical supplies, at cost		891	763
Trade and other receivables	24	34,625	14,239
Amount due from a related party	25	–	50,120
Amount due from a jointly controlled entity	26	–	33,706
Tax recoverable		–	510
Held-for-trading investments	27	35,437	200,981
Conversion options embedded in convertible bonds held by the Group	23	–	33,994
Early redemption options embedded in convertible bonds issued by the Company	33	–	14,554
Pledged bank deposits	28	10,000	12,000
Bank balances and cash	29	152,472	118,700
		233,425	479,567
Current liabilities			
Trade and other payables	30	15,364	13,546
Bank and other borrowings – due within one year	31	–	10,240
		15,364	23,786
Net current assets		218,061	455,781

Consolidated Balance Sheet

At 31 March 2009

	Notes	2009 HK\$'000	2008 HK\$'000
Total assets less current liabilities		361,010	860,861
Non-current liabilities			
Deferred tax	32	9,514	19,527
Convertible bonds	33	–	282,203
		9,514	301,730
Net assets		351,496	559,131
Capital and reserves			
Share capital	34	169,571	45,596
Reserves		158,370	513,054
Equity attributable to equity holders of the Company		327,941	558,650
Minority interests		23,555	481
Total equity		351,496	559,131

The financial statements were approved and authorized for issue by the board of directors on 21 July 2009 and were signed on its behalf by:

Fung Yiu Tong, Bennet

Director

Cho Kwai Yee, Kevin

Director

Balance Sheet

At 31 March 2009

	Notes	2009 HK\$'000	2008 HK\$'000
Non-current assets			
Interests in subsidiaries	21	–	–
Current assets			
Amounts due from subsidiaries	21	315,976	602,265
Other receivables	24	808	435
Held-for-trading investments	27	26,277	4,074
Early redemption options embedded in convertible bonds issued by the Company	33	–	14,554
Bank balances and cash	29	92,158	90,569
		435,219	711,897
Current liabilities			
Amounts due to subsidiaries	21	88,190	12,387
Other payables	30	5,205	6,497
		93,395	18,884
Net current assets		341,824	693,013
Total assets less current liabilities		341,824	693,013
Non-current liabilities			
Deferred tax	32	–	9,142
Convertible bonds	33	–	282,203
		–	291,345
Net assets		341,824	401,668
Capital and reserves			
Share capital	34	169,571	45,596
Reserves	37	172,253	356,072
		341,824	401,668

Fung Yiu Tong, Bennet

Director

Cho Kwai Yee, Kevin

Director

Consolidated Statement Of Changes In Equity

For the Year ended 31 March 2009

	Attributable to equity holders of the Company											
	Share capital	Share premium	Capital redemption reserve	Contributed surplus	Translation reserve	Convertible bonds equity reserve	Share-based payments reserve	Investment revaluation reserve	Accumulated losses	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2007	26,298	58,452	861	29,390	(1,499)	16,062	90	-	(120,941)	8,713	10,508	19,221
Share of investment revaluation reserve of a jointly controlled entity recognized directly in equity	-	-	-	-	-	-	-	(2,132)	-	(2,132)	-	(2,132)
Profit/(Loss) for the year	-	-	-	-	-	-	-	-	43,077	43,077	(1,027)	42,050
Total recognized income and expense for the year	-	-	-	-	-	-	-	(2,132)	43,077	40,945	(1,027)	39,918
Acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	-	-	-	(9,000)	(9,000)
Disposal of subsidiaries	-	-	-	-	1,769	-	-	-	-	1,769	-	1,769
Recognition of equity-settled share-based payments	-	-	-	-	-	-	11,200	-	-	11,200	-	11,200
Recognition of equity component of convertible bonds	-	-	-	-	-	289,282	-	-	-	289,282	-	289,282
Deferred tax	-	-	-	-	-	(10,894)	-	-	-	(10,894)	-	(10,894)
Early redemption of convertible bonds	-	-	-	-	-	(108,027)	-	-	39,648	(68,379)	-	(68,379)
Issue of new shares by way of placements	7,800	140,400	-	-	-	-	-	-	-	148,200	-	148,200
Transaction costs attributable to issue of new shares	-	(10,587)	-	-	-	-	-	-	-	(10,587)	-	(10,587)
Repurchase of shares	(180)	(3,499)	-	-	-	-	-	-	-	(3,679)	-	(3,679)
Issue of shares upon conversion of convertible bonds	11,678	211,086	-	-	-	(70,684)	-	-	-	152,080	-	152,080
At 31 March 2008	45,596	395,852	861	29,390	270	115,739	11,290	(2,132)	(38,216)	558,650	481	559,131

Consolidated Statement Of Changes In Equity

For the Year ended 31 March 2009

	Attributable to equity holders of the Company											
	Share capital	Share premium	Capital redemption reserve	Contributed surplus	Translation reserve	Convertible bonds equity reserve	Share-based payments reserve	Investment revaluation reserve	Accumulated losses	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2008	45,596	395,852	861	29,390	270	115,739	11,290	(2,132)	(38,216)	558,650	481	559,131
Share of investment revaluation reserve of a jointly controlled entity recognized directly in equity	-	-	-	-	-	-	-	2,132	-	2,132	-	2,132
(Loss)/Profit for the year	-	-	-	-	-	-	-	-	(637,879)	(637,879)	23,439	(614,440)
Total recognized income and expense for the year	-	-	-	-	-	-	-	2,132	(637,879)	(635,747)	23,439	(612,308)
Acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	-	-	-	(365)	(365)
Recognition of equity-settled share-based payments	-	-	-	-	-	-	15,282	-	-	15,282	-	15,282
Early redemption of convertible bonds	-	-	-	-	-	(126,633)	-	-	835	(125,798)	-	(125,798)
Deferred tax	-	-	-	-	-	10,894	-	-	-	10,894	-	10,894
Issue of new shares by way of placements	26,000	2,600	-	-	-	-	-	-	-	28,600	-	28,600
Issue of new shares under a securities exchange offer	84,825	347,783	-	-	-	-	-	-	-	432,608	-	432,608
Transaction costs attributable to issue of new shares	-	(8,793)	-	-	-	-	-	-	-	(8,793)	-	(8,793)
Repurchase of shares	(4,300)	(11,020)	-	-	-	-	-	-	-	(15,320)	-	(15,320)
Issue of shares upon exercise of share options	17,450	64,649	-	-	-	-	(14,534)	-	-	67,565	-	67,565
At 31 March 2009	169,571	791,071	861	29,390	270	-	12,038	-	(675,260)	327,941	23,555	351,496

Consolidated Cash Flow Statement

For the year ended 31 March 2009

	Notes	2009 HK\$'000	2008 HK\$'000
Operating activities			
(Loss)/Profit for the year		(614,440)	42,050
Adjustments for:			
Income tax		(2,220)	(494)
Gain on disposal of subsidiaries		–	(37,250)
Loss on disposal of property, plant and equipment		1,581	–
Finance costs		10,053	20,149
Interest income		(3,200)	(7,401)
Depreciation		15,989	13,307
Total equity-settled share-based payments expenses		15,282	11,200
Impairment losses on goodwill		553,972	–
Share of results of a jointly controlled entity		203,581	(235,642)
(Gain)/Loss on early redemption of convertible bonds issued by the Company		(57,293)	1,087
Gain on fair value changes of convertible bonds issued by a listed subsidiary which were classified as financial liabilities designated as at fair value through profit or loss		(253,828)	–
Loss on fair value changes of conversion options embedded in convertible bonds held by the Group		13,197	–
Loss on fair value changes of early redemption options embedded in convertible bonds issued by the Company		14,554	122,063
Operating cash flows before movements in working capital		(102,772)	(70,931)
Inventories		(79)	(401)
Held-for-trading investments		288,139	(200,910)
Trade and other receivables		3,868	5,128
Trade and other payables		237	(3,055)
Cash generated by/(used in) operations		189,393	(270,169)
Hong Kong profits tax paid		(1,156)	(748)
Net cash generated by/(used in) operating activities		188,237	(270,917)
Investing activities			
Interest received		3,200	7,156
Dividends received from a jointly controlled entity		32,061	–
Purchase of available-for-sale investments		–	(23,785)
Purchase of property, plant and equipment		(16,011)	(38,770)
Proceeds from disposal of property, plant and equipment		–	55
Acquisition of additional interest in a subsidiary	38	(365)	(9,000)
Acquisition of subsidiaries	38	178,169	–
Disposal of subsidiaries	39	–	(87)
Advances to a related party		–	(75,000)
Repayment of amount due from a related party		50,120	25,000
Repayment of/(advance to) a jointly controlled entity		33,706	(75,000)
Decrease/(increase) in pledged bank deposits		2,000	(2,000)
Net cash generated by/(used in) investing activities		282,880	(191,431)

Consolidated Cash Flow Statement

For the year ended 31 March 2009

	2009 HK\$'000	2008 HK\$'000
Financing activities		
Interest paid	(2,811)	(6,464)
Proceeds from issue of shares	96,165	148,200
Proceeds from issue of convertible bonds	–	750,000
Payments for share issue expenses	(8,793)	(10,587)
Payments for repurchase of shares	(15,320)	(3,679)
Payments for early redemption of convertible bonds	(496,622)	(294,000)
Repayment of borrowings	(10,240)	(20,710)
	<hr/>	<hr/>
Net cash (used in)/generated by financing activities	(437,621)	562,760
	<hr/>	<hr/>
Net increase in cash and cash equivalents	33,496	100,412
Cash and cash equivalents at the beginning of the financial year	118,700	18,288
Effect of foreign exchange rate changes	276	–
	<hr/>	<hr/>
Cash and cash equivalents at the end of the financial year	<u>152,472</u>	<u>118,700</u>
	<hr/>	<hr/>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	<u>152,472</u>	<u>118,700</u>

Notes to the Financial Statements

For the year ended 31 March 2009

I. GENERAL

Hong Kong Health Check and Laboratory Holdings Company Limited (the “Company”) was incorporated in Bermuda as an exempted company with limited liability and its shares have been listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 13 October 1993. The Company’s registered office is situated at Canon’s Court, 22 Victoria Street, Hamilton HM 12, Bermuda, and its principal place of business is situated at Shop 2B & 2C, Level 1, Hilton Plaza Commercial Centre, 3-9 Shatin Centre Street, Shatin, New Territories, Hong Kong.

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

The Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in the establishment of health check centers in Hong Kong and the acquisition of established health check centers in Hong Kong for the provision of health check, advanced diagnostic imaging services, day care observation services and medical laboratory related services to the public.

During the year ended 31 March 2009, as a result of a securities exchange offer launched by the Group for the shares of Core Healthcare Investment Holdings Limited (“Core Healthcare”) which was completed on 9 September 2008, the Group acquired control over Core Healthcare. Core Healthcare is a company incorporated in the Cayman Islands with limited liability and its shares are listed on the Growth Enterprise Market (“GEM”) of the Stock Exchange. Through its subsidiaries, Core Healthcare is principally engaged in the provision of diagnostic testing services and products and related research and development, advertising and public relationship services and investment holding.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has applied the following amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Notes to the Financial Statements

For the year ended 31 March 2009

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

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

HKFRSs (Amendments)	Improvements to HKFRSs ¹
HKFRSs (Amendments)	Improvements to HKFRSs 2009 ²
HKAS 1 (Revised)	Presentation of Financial Statements ³
HKAS 23 (Revised)	Borrowing Costs ³
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ⁴
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ³
HKAS 39 (Amendment)	Eligible hedged items ⁴
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate ³
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ³
HKFRS 3 (Revised)	Business Combinations ⁴
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments ³
HKFRS 8	Operating Segments ³
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives ⁵
HK(IFRIC) – Int 13	Customer Loyalty Programmes ⁶
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate ³
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation ⁷
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners ⁴
HK(IFRIC) – Int 18	Transfers of Assets from Customers ⁸

Notes to the Financial Statements

For the year ended 31 March 2009

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(Continued)*

- ¹ Effective for annual periods beginning on or after 1 January 2009 except 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, 1 July 2009 and 1 January 2010, as appropriate
- ³ Effective for annual periods beginning on or after 1 January 2009
- ⁴ Effective for annual periods beginning on or after 1 July 2009
- ⁵ Effective for annual periods ending on or after 30 June 2009
- ⁶ Effective for annual periods beginning on or after 1 July 2008
- ⁷ Effective for annual periods beginning on or after 1 October 2008
- ⁸ Effective for transfers on or after 1 July 2009

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after 1 April 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent’s ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). 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.

Notes to the Financial Statements

For the year ended 31 March 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation (Continued)

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 recognized 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 recognized and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognized 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 recognized. 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 recognized immediately in profit or loss.

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 recognized.

Notes to the Financial Statements

For the year ended 31 March 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on an acquisition of a subsidiary 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 subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalized goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated 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 asset in the unit. Any impairment loss for goodwill is recognized directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalized is included in the determination of the amount of profit or loss on disposal.

Notes to the Financial Statements

For the year ended 31 March 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognizing its share of further losses. An additional share of losses is provided for and a liability is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Where a group entity transacts with a jointly controlled entity of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant jointly controlled entity.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' (disposal groups') previous carrying amount and fair value less costs to sell.

Notes to the Financial Statements

For the year ended 31 March 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from the provision of health check and related services is recognized when services are provided.

Revenue from the sales of products is recognized on the transfer of risks and rewards of ownership which generally coincide with the time when goods are delivered and title has passed.

Interest income from a financial asset excluding financial assets at fair value through profit or loss is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments excluding financial assets at fair value through profit or loss is recognized when the shareholders' rights to receive payment have been established.

Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognized.

Notes to the Financial Statements

For the year ended 31 March 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing (the Group as lessee)

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

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (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 balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. 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 recognized in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognized in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in equity, in which cases, the exchange differences are also recognized directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognized as a separate component of equity (the translation reserve). Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

Notes to the Financial Statements

For the year ended 31 March 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies (Continued)

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognized in the translation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalized as part of the cost of those assets. Capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. To the extent that fixed-rated bank borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalized borrowing costs reflected the hedged interest rate.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

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

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

Notes to the Financial Statements

For the year ended 31 March 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation (Continued)

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

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

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

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

Notes to the Financial Statements

For the year ended 31 March 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of tangible and intangible assets (other than goodwill)

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. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. 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 recognized 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 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, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as revaluation increase under that standard.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the first-in, first-out method.

Financial instruments

Financial assets and financial liabilities are recognized on the balance sheet 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. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Notes to the Financial Statements

For the year ended 31 March 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments (Continued)

Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognized and derecognized 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 amortized 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 recognized on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL, of which interest income is included in net gains or losses.

Financial assets at fair value through profit or loss

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Notes to the Financial Statements

For the year ended 31 March 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments (Continued)

Financial assets (Continued)

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

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial assets.

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 (including trade receivables, loan receivables, other receivables, pledged bank deposits, bank balances and cash) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss on financial assets below).

Notes to the Financial Statements

For the year ended 31 March 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments (Continued)

Financial assets (Continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments. The Group designated debt element of convertible bonds and certain unlisted equity securities as available-for-sale financial assets.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognized in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognized in equity is removed from equity and recognized in profit or loss (see accounting policy in respect of impairment loss on financial assets below).

For 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 and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy in respect of impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. 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 asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment. For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

Notes to the Financial Statements

For the year ended 31 March 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, an impairment loss is recognized in profit or loss when 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount 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 loss will not be reversed in subsequent periods.

The carrying amount of the financial asset 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 recognized in profit or loss. When a trade 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 measured at amortized 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 recognized, the previously recognized 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 amortized cost would have been had the impairment not been recognized.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognized directly in equity. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Notes to the Financial Statements

For the year ended 31 March 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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 financial liabilities at FVTPL and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortized 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 recognized on an effective interest basis other than those financial liabilities designated as at FVTPL, of which the interest expense is included in net gains or losses.

Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL has two subcategories, including financial liabilities held for trading and those designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Notes to the Financial Statements

For the year ended 31 March 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Financial liabilities at fair value through profit or loss (Continued)

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

At each balance sheet date subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss includes any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities (including bank and other borrowings, trade payables and other payables) are subsequently measured at amortized cost, using the effective interest method.

Notes to the Financial Statements

For the year ended 31 March 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Convertible bonds issued by the Company

Convertible bonds issued by the Company that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the bonds into equity, is included in equity (convertible bonds equity reserve).

In subsequent periods, the liability component of the convertible bonds is carried at amortized cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible bonds equity reserve until the conversion option is exercised (in which case the balance stated in convertible bonds equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bonds equity reserve will be released to retained profits. No gain or loss is recognized in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and amortized over the period of the convertible bonds using the effective interest method.

Equity instruments

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

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Notes to the Financial Statements

For the year ended 31 March 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments (Continued)

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognized in profit or loss.

Financial guarantee contracts

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 a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognized initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with HKAS 18 Revenue.

Derecognition

Financial assets are derecognized 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 receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Notes to the Financial Statements

For the year ended 31 March 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

For grants of share options which are conditional upon satisfying specified vesting conditions, the fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve). The impact of the revision of the original estimates during the vesting period, if any, is recognized in profit or loss with a corresponding adjustment to share options reserve.

For share options which are vested at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

At the time when the share options are exercised, the amount previously recognized in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in share options reserve will be transferred to retained profits.

Share options granted to suppliers and consultants

Share options granted in exchange for goods or services are measured at the fair value of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognized as expenses immediately, unless the goods or services qualify for recognition as assets. Corresponding adjustments are made to equity (share options reserve).

Cash-settled share-based payment transactions

For cash-settled share-based payments, the Group measures the goods or services acquired and the liability incurred at the fair value of the liability. At each balance sheet date, the liability is remeasured at its fair value until the liability is settled, with any changes in fair value recognized in profit or loss.

Notes to the Financial Statements

For the year ended 31 March 2009

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management makes various estimates based on past experiences, expectations of the future and other information. The key sources of estimation uncertainty that may significantly affect the amounts recognized in the consolidated financial statements are disclosed below:

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value.

Impairment loss on receivables

The policy for allowance for bad and doubtful debts of the Group is based on the evaluation of collectability of accounts and on management's estimate. In determining whether impairment is required, the Group takes into consideration the likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognized on the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and the carrying value.

Estimated fair value of embedded derivatives

Determining the fair value of embedded derivatives requires estimation on the assumptions used in the Binomial model and the Black-Scholes option pricing model. The Binomial model and the Black-Scholes option pricing model require the Group to estimate volatilities of the share price and a suitable discount rate in order to calculate the fair value. At 31 March 2009, the Group did not hold any conversion options and early redemption options embedded in convertible bonds as all the underlying convertible bonds have been fully redeemed during the year ended 31 March 2009. At 31 March 2008, the fair values of the conversion options embedded in convertible bonds held by the Group and the early redemption options embedded in convertible bonds issued by the Group were approximately HK\$33,994,000 and HK\$14,554,000 respectively.

Notes to the Financial Statements

For the year ended 31 March 2009

5. 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 maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

At 31 March 2009, the capital structure of the Group consisted of debt, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

Net debt-to-equity ratio

The Group reviews the capital structure on a semi-annual basis and considers the cost of capital and the risks associated with each class of capital.

The net debt-to-equity ratio at the year-end was as follows:

	2009	2008
	HK\$'000	HK\$'000
Debt (i)	–	292,443
Cash and cash equivalents	<u>(152,472)</u>	<u>(118,700)</u>
Net debt	<u>(152,472)</u>	<u>173,743</u>
Equity (ii)	351,496	559,131
Net debt-to-equity ratio	N/A	31%

(i) Debt comprised bank and other borrowings and convertible bonds as detailed in Notes 31 and 33 respectively.

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

Notes to the Financial Statements

For the year ended 31 March 2009

6. CATEGORIES OF FINANCIAL INSTRUMENTS

	Notes	2009 HK\$'000	2008 HK\$'000
Financial assets			
Loans and receivables:			
– Trade and other receivables	24	34,625	14,239
– Amount due from a related party	25	–	50,120
– Amount due from a jointly controlled entity	26	–	33,706
– Pledged bank deposits	28	10,000	12,000
– Bank balances and cash	29	152,472	118,700
Available-for-sale financial assets:			
– Available-for-sale investments	23	23,785	31,210
Fair value through profit or loss:			
– Held-for-trading investments	27	35,437	200,981
– Conversion options embedded in convertible bonds held by the Group classified as held-for-trading	23	–	33,994
– Early redemption options embedded in convertible bonds issued by the Company classified as held-for-trading	33	–	14,554
Financial liabilities			
Amortized cost:			
– Trade and other payables	30	15,364	13,546
– Bank and other borrowings	31	–	10,240
– Convertible bonds	33	–	282,203

Notes to the Financial Statements

For the year ended 31 March 2009

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include available-for-sale investments, trade and other receivables, amounts due from a jointly controlled entity and a related party, held-for-trading investments, pledged bank deposits, bank balances and cash, trade and other payables, bank and other borrowings and convertible bonds. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

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

(i) Currency risk

During the year ended 31 March 2009, the Group mainly operated in Hong Kong and the majority of the Group's transactions and balances as at and for the year ended 31 March 2009 were denominated in Hong Kong dollars. The directors consider that the currency risk is not significant and the Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

(ii) Interest rate risk

At 31 March 2009, the Group was exposed to cash flow interest rate risk in relation to variable-rate bank deposits. At 31 March 2008, the Group was exposed to cash flow interest rate risk in relation to variable-rate bank deposit, bank borrowings, and exposed to fair value interest rate risk in relation to the debt element of the CHI CB (included in available-for-sale investments). The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of prime rate arising from the Group's variable-rate bank deposit.

Notes to the Financial Statements

For the year ended 31 March 2009

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Market risk (Continued)

(ii) Interest rate risk (Continued)

Sensitivity analysis

- (I) The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the balance sheet date. For variable-rate bank balances and bank borrowings, the analysis is prepared assuming the amounts outstanding at the balance sheet date were outstanding for the whole year. A 50 basis point increase or decrease 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 loss for the year ended 31 March 2009 would decrease/increase by approximately HK\$1,101,000 (2008: the Group's profit for the year ended 31 March 2008 would increase/decrease by approximately HK\$1,022,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank deposits (2008: its variable-rate bank deposits and bank borrowings).

- (II) The sensitivity analyses below had been determined based on the exposure to interest rates for the debt element of the CHI CB at 31 March 2008. The analysis was prepared assuming the amounts outstanding at 31 March 2008 were outstanding for the whole year. A 50 basis point increase or decrease was 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 investment revaluation reserve would increase/decrease by approximately HK\$62,500 at 31 March 2008. This was mainly attributable to the Group's exposure to interest rates on its debt element of the CHI CB at 31 March 2008.

(iii) Price risk on listed securities under held-for-trading investments

The Group is exposed to equity price risk through its investments held for trading and derivative financial instruments. The Group's equity price risk is mainly concentrated on listed equity instruments quoted in the respective stock exchanges. The management manages this exposure by closely monitoring the price risk and maintaining a portfolio of investments with different risks.

Notes to the Financial Statements

For the year ended 31 March 2009

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Market risk (Continued)

(iii) Price risk on listed securities under held-for-trading investments (Continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks of investments held for trading at the reporting date.

If the prices of the respective equity instruments had been 5% higher/lower and all other variables were held constant, the Group's loss for the year ended 31 March 2009 would decrease/increase by approximately HK\$1,772,000 (2008: the Group's profit for the year ended 31 March 2008 would increase/decrease by approximately HK\$10,049,000) as a result of the changes in fair value of held-for-trading investments.

(iv) Price risk on conversion options/early redemption options embedded in convertible bonds

The Group was required to estimate the fair value of the conversion options/early redemption options embedded in the convertible bonds at each balance sheet date with changes in fair value to be recognized in the consolidated income statements as long as the convertible bonds were outstanding. The fair value adjustments would be affected either positively or negatively, amongst others, by the changes in share price volatility of the convertible bonds issuers.

In management's opinion, the sensitivity analyses had not been presented as such analyses were unrepresentative of the inherent market risk as the pricing model used in the fair value valuation of the conversion options/early redemption options embedded in the convertible bonds involves multiple variables and certain variables are interdependent.

Credit risk

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 is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated balance sheet.

In order to minimize 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 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.

Notes to the Financial Statements

For the year ended 31 March 2009

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

The Group's concentration of credit risk by geographical locations is mainly in Hong Kong, which accounted for 100% (2008: 100%) of the total trade receivables as at 31 March 2009. The Group has no significant concentration of credit risk by customers, with exposure spread over a number of counterparties and customers.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	Less than 1 year HK\$'000	1 – 2 years HK\$'000	2 – 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
At 31 March 2009					
Non-derivative financial liabilities					
Trade and other payables	<u>15,364</u>	<u>-</u>	<u>-</u>	<u>15,364</u>	<u>15,364</u>
At 31 March 2008					
Non-derivative financial liabilities					
Trade and other payables	13,546	-	-	13,546	13,546
Bank and other borrowings	10,240	-	-	10,240	10,240
Convertible bonds	<u>5,315</u>	<u>46,458</u>	<u>308,975</u>	<u>360,748</u>	<u>282,203</u>
	<u>29,101</u>	<u>46,458</u>	<u>308,975</u>	<u>384,534</u>	<u>305,989</u>

Notes to the Financial Statements

For the year ended 31 March 2009

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Fair value

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

- the fair values of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices;
- the fair values of other financial assets and financial liabilities (excluding 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; and
- for an option-based derivative, the fair value is estimated using either using the Binomial model or the Black-Scholes model and fair values of derivative instruments are calculated with reference to the valuation carried out by Greater China Appraisal Limited (“GCAL”), an independent firm of professional valuers not connected with the Group. GCAL possesses appropriate qualifications and recent experiences in the valuation of similar derivative instruments.

Except for the convertible bonds issued by the Company as detailed in Note 33, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at either amortized cost or fair value through profit or loss in the consolidated financial statements approximate their fair values.

8. REVENUE

Revenue represents the aggregate of the net amounts received and receivable from third parties for the year. An analysis of the Group’s revenue for the year is as follows:

	2009 HK\$’000	2008 HK\$’000
Provision of health check and related services	106,471	70,132
Sales of healthcare and pharmaceutical products	67	—
	<u>106,538</u>	<u>70,132</u>

Notes to the Financial Statements

For the year ended 31 March 2009

9. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

Business segments

	Provision of health check and related services (including sales of healthcare and pharmaceutical products)		Trading of securities		Consolidated	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
REVENUE						
Segment revenue	<u>106,538</u>	<u>70,132</u>	<u>-</u>	<u>-</u>	<u>106,538</u>	<u>70,132</u>
RESULTS						
Segment results	(593,459)	(40,538)	(57,248)	(26,599)	(650,707)	(67,137)
Unallocated income					3,924	7,401
Unallocated corporate expenses					(39,613)	(28,301)
Gain on disposal of subsidiaries					-	37,250
Finance costs					(10,053)	(20,149)
Share of results of a jointly controlled entity					(203,581)	235,642
Gain/(Loss) on early redemption of convertible bonds issued by the Company					57,293	(1,087)
Gain on fair value changes of convertible bonds issued by a listed subsidiary which were classified as financial liabilities designated as at fair value through profit or loss					253,828	-
Loss on fair value changes of conversion options embedded in convertible bonds held by the Group					(13,197)	-
Loss on fair value changes of early redemption options embedded in convertible bonds issued by the Company					(14,554)	(122,063)
(Loss)/Profit before tax					(616,660)	41,556
Income tax					2,220	494
(Loss)/Profit for the year					<u>(614,440)</u>	<u>42,050</u>

Notes to the Financial Statements

For the year ended 31 March 2009

9. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments (Continued)

	Provision of health check and related services (including sales of healthcare and pharmaceutical products)		Trading of securities		Consolidated	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
BALANCE SHEET ASSETS						
Segment assets	135,429	130,496	35,437	200,981	170,866	331,477
Interest in a jointly controlled entity					–	233,510
Unallocated corporate assets					205,508	319,660
Consolidated total assets					376,374	884,647
LIABILITIES						
Segment liabilities	8,481	6,656	–	–	8,481	6,656
Unallocated corporate liabilities					16,397	318,860
Consolidated total liabilities					24,878	325,516
OTHER INFORMATION						
Capital addition (excluding goodwill)	18,495	38,770	–	–	18,495	38,770
Addition of goodwill	531,851	–	–	–	531,851	–
Impairment losses on goodwill	553,972	–	–	–	553,972	–
Depreciation of property, plant and equipment	15,989	13,307	–	–	15,989	13,307
Equity-settled share-based payments expenses	15,282	11,200	–	–	15,282	11,200

Geographical segments

No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers in Hong Kong and over 90% of the Group's assets are located in Hong Kong.

Notes to the Financial Statements

For the year ended 31 March 2009

10. OTHER INCOME

	2009 HK\$'000	2008 HK\$'000
Interest income on:		
Debt securities classified as available-for-sale investments	50	–
Bank deposits	2,442	7,156
Amount due from a related party	83	120
Amount due from a jointly controlled entity	625	125
	<hr/>	<hr/>
Total interest income	3,200	7,401
Dividend income from listed investments classified as held-for-trading	670	–
Income from provision of advertising and public relationship services	1,238	–
Sundry income	2,958	1,495
	<hr/>	<hr/>
	8,066	8,896

11. GAIN ON DISPOSAL OF SUBSIDIARIES

The amount represented the gain on disposal of the Group's entire equity interests in Rollstone Limited and its wholly owned subsidiary, 上海凱祥服飾有限公司, during the year ended 31 March 2008. The subsidiaries disposed did not contribute significantly to the Group's operating results and cash flows for the year ended 31 March 2008.

12. FINANCE COSTS

	2009 HK\$'000	2008 HK\$'000
Interest on:		
– Bank borrowings wholly repayable within five years	58	1,070
– Bank overdrafts	64	81
– Convertible bonds issued by the Company	9,931	18,998
	<hr/>	<hr/>
	10,053	20,149

Notes to the Financial Statements

For the year ended 31 March 2009

13. INCOMETAX

	2009 HK\$'000	2008 HK\$'000
Current tax:		
– Hong Kong profits tax	–	–
– Under/(Over) provision of current tax in prior years	125	(3)
	<u>125</u>	<u>(3)</u>
Deferred tax (Note 32):		
– Current year	(1,230)	(491)
– Attributable to a change in tax rate	(1,115)	–
	<u>(2,345)</u>	<u>(491)</u>
Tax credit for the year	<u>(2,220)</u>	<u>(494)</u>

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2008: 17.5%) of the estimated assessable profit for the year.

No People's Republic of China (the "PRC") income tax has been provided in respect of the Group's PRC subsidiary since it incurred tax losses for the year (2008: Nil).

Notes to the Financial Statements

For the year ended 31 March 2009

13. INCOME TAX (Continued)

The tax credit for the year can be reconciled to the (loss)/profit before tax per the consolidated income statement as follows:

	2009 HK\$'000	2008 HK\$'000
(Loss)/Profit before tax	<u>(616,660)</u>	<u>41,556</u>
Tax at the Hong Kong profits tax rate of 16.5% (2008: 17.5%)	(101,749)	7,272
Tax effect of expenses not deductible for tax purpose	153,001	25,108
Tax effect of income not taxable for tax purpose	(56,650)	(43,857)
Under/(Over) provision of current tax in prior years	125	(3)
Decrease in opening deferred tax liability resulting from a decrease in applicable tax rate	(1,115)	–
Tax effect of tax losses not recognized	<u>4,168</u>	<u>10,986</u>
Tax credit for the year	<u>(2,220)</u>	<u>(494)</u>

14. (LOSS)/PROFIT FOR THE YEAR

	2009 HK\$'000	2008 HK\$'000
(Loss)/Profit for the year has been arrived at after charging:		
Staff costs:		
– Directors' emoluments (Note 15)	4,567	4,373
– Other staff costs	57,893	44,727
– Other staff retirement benefits scheme contributions	1,384	1,221
– Equity-settled share-based payments expenses	<u>14,941</u>	<u>10,769</u>
	<u>78,785</u>	<u>61,090</u>
Auditors' remuneration	680	720
Cost of inventories recognized as an expense	36,785	20,425
Depreciation of property, plant and equipment	15,989	13,307
Loss on disposal of property, plant and equipment	1,581	–
Operating lease rentals in respect of land and buildings	14,828	10,137
Total equity-settled share-based payments expenses	<u>15,282</u>	<u>11,200</u>

Notes to the Financial Statements

For the year ended 31 March 2009

15. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to every director of the Company were as follows:

	Fees	Salaries and other benefits	Performance bonus	Contributions to retirement benefits scheme	Total emoluments
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
For the year ended 31 March 2009					
<i>Executive directors</i>					
Dr. Fung Yiu Tong, Bennet	–	240	–	12	252
Mr. Lee Chik Yuet	–	2,240	–	12	2,252
Mr. Cho Kwai Yee, Kevin	–	360	–	12	372
Dr. Cho Kwai Chee	–	300	–	–	300
Miss Choi Ka Yee, Crystal	–	600	–	–	600
Mr. Siu Kam Chau	–	248	–	12	260
Dr. Hui Ka Wah, Ronnie, JP	200	220	–	3	423
<i>Independent non-executive directors</i>					
Mr. Chan Chi Yuen	60	–	–	–	60
Mr. Lo Chun Nga	24	–	–	–	24
Mr. Chik Chi Man	24	–	–	–	24
Total	308	4,208	–	51	4,567

Notes to the Financial Statements

For the year ended 31 March 2009

15. DIRECTORS' EMOLUMENTS (Continued)

	Fees	Salaries and other benefits	Performance bonus	Contributions to retirement benefits scheme	Total emoluments
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
For the year ended 31 March 2008					
<i>Executive directors</i>					
Dr. Fung Yiu Tong, Bennet	–	1,470	–	12	1,482
Mr. Lee Chik Yuet	–	1,500	–	12	1,512
Mr. Cho Kwai Yee, Kevin	–	360	–	12	372
Dr. Cho Kwai Chee (Appointed on 9 July 2007)	–	–	–	–	–
Miss Choi Ka Yee, Crystal	–	560	–	–	560
Mr. Siu Kam Chau	–	240	–	12	252
Dr. Hui Ka Wah, Ronnie, JP (Appointed on 9 July 2007)	–	87	–	–	87
<i>Independent non-executive directors</i>					
Mr. Chan Chi Yuen	60	–	–	–	60
Mr. Lo Chun Nga	24	–	–	–	24
Mr. Chik Chi Man	24	–	–	–	24
Total	108	4,217	–	48	4,373

Notes to the Financial Statements

For the year ended 31 March 2009

16. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2008: two) were directors of the Company whose emoluments are included in the disclosures in Note 15 above. The emoluments of the remaining four (2008: three) individuals were as follows:

	2009 HK\$'000	2008 HK\$'000
Salaries and other benefits	10,079	6,479
Performance bonus	–	86
Contributions to retirement benefits scheme	48	36
	<u>10,127</u>	<u>6,601</u>

Their emoluments fell within the following bands:

	Number of individuals	
	2009 HK\$'000	2008 HK\$'000
Nil – HK\$1,500,000	–	–
HK\$1,500,001 – HK\$2,000,000	1	3
HK\$2,000,001 – HK\$2,500,000	1	–
HK\$2,500,001 – HK\$3,000,000	–	–
HK\$3,000,001 – HK\$3,500,000	2	–
	<u>4</u>	<u>3</u>

During the year, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Financial Statements

For the year ended 31 March 2009

17. (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The (loss)/profit attributable to the equity holders of the Company includes a loss of approximately HK\$464,882,000 (2008: a loss of approximately HK\$176,614,000) which has been dealt with in the financial statements of the Company.

18. (LOSS)/EARNINGS PER SHARE

For the year ended 31 March 2009

Loss	HK\$'000
Loss for the year attributable to ordinary equity holders of the Company and for the purpose of basic loss per share	(637,879)
Effect of dilutive potential ordinary shares:	
– Interest expenses on convertible bonds issued by the Company	9,931
– Gain on early redemption of convertible bonds issued by the Company	(57,293)
– Loss on fair value changes of early redemption options embedded in convertible bonds issued by the Company	14,554
– Deferred tax effect	(952)
Adjustment to the share of post-acquisition results of a listed subsidiary based on dilution of its earnings per share assuming conversion of the CHI CB	<u>(161,978)</u>
Loss for the purpose of diluted loss per share	<u><u>(833,617)</u></u>

Notes to the Financial Statements

For the year ended 31 March 2009

18. (LOSS)/EARNINGS PER SHARE *(Continued)*

Number of shares	Number of shares '000
Weighted average number of ordinary shares for the purpose of basic loss per share (as adjusted for the share consolidation which became effective on 6 April 2009 (Note 47))	212,607
Effect of dilutive potential ordinary shares:	
– Share options issued by the Company	–
– Convertible bonds issued by the Company	<u>20,376</u>
Weighted average number of ordinary shares for the purpose of diluted loss per share (as adjusted for the share consolidation which became effective on 6 April 2009 (Note 47))	<u>232,983</u>
Basic loss per share	<u>(HK\$3.00)</u>
Diluted loss per share	<u>(HK\$3.58)</u>

For the year ended 31 March 2009, the computation of diluted loss per share did not assume the exercise of the Company's outstanding share options since their exercise would result in a decrease in loss per share.

For the year ended 31 March 2008

The calculation of basic earnings per share attributable to the ordinary equity holders of the Company for the year ended 31 March 2008 was based on the profit for the year attributable to equity holders of the Company of approximately HK\$43,077,000 and on the weighted average number of ordinary shares of approximately 80,421,000 as retrospectively adjusted for the share consolidation which became effective on 6 April 2009 (Note 47).

For the year ended 31 March 2008, the computation of diluted earnings per share did not assume the exercise of the Company's outstanding share options and the conversion of the Company's outstanding convertible bonds since their exercise would result in an increase in earnings per share.

Notes to the Financial Statements

For the year ended 31 March 2009

19. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Plant, machinery and equipment HK\$'000	Office equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
COST						
At 1 April 2007	13,965	91,481	2,819	247	–	108,512
Additions	14,727	20,390	2,738	915	–	38,770
Disposals	(55)	(12,158)	–	(34)	–	(12,247)
At 31 March 2008	28,637	99,713	5,557	1,128	–	135,035
Acquisition of subsidiaries	1,309	991	184	–	–	2,484
Additions	4,900	9,275	1,060	212	564	16,011
Disposals	(1,432)	(1,139)	(182)	(8)	–	(2,761)
At 31 March 2009	33,414	108,840	6,619	1,332	564	150,769

Notes to the Financial Statements

For the year ended 31 March 2009

19. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Leasehold improvements HK\$'000	Plant, machinery and equipment HK\$'000	Office equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
DEPRECIATION AND IMPAIRMENT						
At 1 April 2007	493	15,032	110	46	–	15,681
Provided for the year	2,289	10,513	425	80	–	13,307
Eliminated on disposals	–	(12,158)	–	(34)	–	(12,192)
At 31 March 2008	2,782	13,387	535	92	–	16,796
Provided for the year	3,410	11,725	672	130	52	15,989
Eliminated on disposals	(378)	(791)	(3)	(8)	–	(1,180)
At 31 March 2009	5,814	24,321	1,204	214	52	31,605
CARRYING AMOUNTS						
At 31 March 2009	<u>27,600</u>	<u>84,519</u>	<u>5,415</u>	<u>1,118</u>	<u>512</u>	<u>119,164</u>
At 31 March 2008	<u>25,855</u>	<u>86,326</u>	<u>5,022</u>	<u>1,036</u>	<u>–</u>	<u>118,239</u>

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvements	:	10% to 20%
Plant, machinery and equipment	:	10% to 20%
Office equipment	:	10% to 40%
Furniture and fixtures	:	10% to 40%
Motor vehicles	:	20%

Notes to the Financial Statements

For the year ended 31 March 2009

20. GOODWILL

	HK\$'000
COST	
At 1 April 2007 and 31 March 2008	<u>22,121</u>
Additions arising from:	
– Acquisition of Core Healthcare (Note 38(a))	528,800
– Acquisition of Hong Kong Health Management Limited (Note 38(b))	51
– Acquisition of China Natural Pharmaceutical Holdings Company Limited (Note 38(c))	<u>3,000</u>
	<u>531,851</u>
At 31 March 2009	<u>553,972</u>
IMPAIRMENT	
At 1 April 2007 and 31 March 2008	<u>–</u>
Impairment loss recognized in respect of:	
– Polyray Technology Limited and Polylyght Technology Limited	22,121
– Core Healthcare	528,800
– Hong Kong Health Management Limited	51
– China Natural Pharmaceutical Holdings Company Limited	<u>3,000</u>
	<u>553,972</u>
At 31 March 2009	<u>553,972</u>
CARRYING AMOUNTS	
At 31 March 2009	<u><u>–</u></u>
At 31 March 2008	<u><u>22,121</u></u>

Notes to the Financial Statements

For the year ended 31 March 2009

20. GOODWILL (Continued)

During the financial year, the Group assessed the recoverable amount of goodwill, and determined that goodwill arising from a number of acquisitions undertaken in the current year and a prior year was fully impaired. The recoverable amount of the operations was assessed by reference to value in use. A discount rate of 17% per annum was applied in the value in use model.

Impairment testing on goodwill

As explained in Note 9, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill has been allocated to the cash-generating unit (“CGU”) representing the business segment which is principally engaged in the provision of health check and related services. The recoverable amount of the 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 17% per annum. Another key assumption for the value-in-use calculation is the budgeted gross margins, which are determined based on the CGU’s past performance and management’s expectations for the market development.

21. INTERESTS IN SUBSIDIARIES

Company	2009 HK\$'000	2008 HK\$'000
Unlisted shares at cost, net of provision for impairment losses	—	—

Particulars of the Company’s principal subsidiaries at 31 March 2009 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Principal activities	Attributable equity interest held by the Company	
				Directly	Indirectly
Hong Kong Health Check and Medical Diagnostic Centre Limited	Hong Kong	Ordinary share HK\$1	Provision of health check and related services	—	100%
Prosperity Management Limited	Hong Kong	Ordinary share HK\$1	Provision of administrative services	—	100%
Polyray Technology Limited	Hong Kong	Ordinary shares HK\$17,000	Provision of health check and related services	—	100%

Notes to the Financial Statements

For the year ended 31 March 2009

21. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Principal activities	Attributable equity interest held by the Company	
				Directly	Indirectly
Polylight Technology Limited	Hong Kong	Ordinary shares HK\$3,200,000	Provision of health check and related services	–	100%
Classicime Investments Limited	British Virgin Islands	Ordinary share US\$1	Investment holding	–	100%
Nicefit Limited	British Virgin Islands	Ordinary share US\$1	Securities trading	100%	–
International Health Decoding Group Limited	Hong Kong	Ordinary shares HK\$915	Provision of health check and related services	–	100% (2008: 81.96%)
Hong Kong Health Check and Laboratory Group Limited (formerly known as Charm Advance Limited)	British Virgin Islands	Ordinary share US\$1	Investment holding	100%	–
Hong Kong Health Check Centre Limited	Hong Kong	Ordinary share HK\$1	Investment holding	–	100%
Well Goal Management Limited	Hong Kong	Ordinary share HK\$1	Holding of trademark	–	100%
Town Health Medical Technology (China) Company Limited	British Virgin Islands	Ordinary shares US\$1,000	Not yet commenced business	–	100%
Wealth Treasure Group Limited	British Virgin Islands	Ordinary share US\$1	Investment holding	–	100%
Hong Kong Gastrointestinal Endoscopy Investigations Centre Limited	Hong Kong	Ordinary share HK\$1	Not yet commenced business	–	100%
Hong Kong Health Check Centre Membership Limited	Hong Kong	Ordinary share HK\$1	Not yet commenced business	–	100%
Team Profit (China) Limited	Hong Kong	Ordinary share HK\$1	Investment holding	–	100%
HK Health Check Limited	Hong Kong	Ordinary share HK\$1	Not yet commenced business	–	100%

Notes to the Financial Statements

For the year ended 31 March 2009

21. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Principal activities	Attributable equity interest held by the Company	
				Directly	Indirectly
Hong Kong Health Check Prenatal Diagnostic Centre Limited	Hong Kong	Ordinary share HK\$1	Not yet commenced business	–	100%
International Health Check and Laboratory Holdings Company Limited	Hong Kong	Ordinary share HK\$1	Not yet commenced business	–	100%
China Health Check and Laboratory Holdings Company Limited	Hong Kong	Ordinary share HK\$1	Not yet commenced business	–	100%
Joy Surplus International Limited	British Virgin Islands	Ordinary share US\$1	Not yet commenced business	–	100%
Speedco Pacific Limited	British Virgin Islands	Ordinary share US\$1	Investment holding	–	100%
廣東康健醫院管理有限公司 (transliterated as Guangdong Town Health Hospital Management Co. Ltd.) ("Guangdong Town Health") (Note (i))	PRC	Registered capital RMB 50 million (of which RMB 15 million had been paid up at 31 March 2009)	Not yet commenced business	–	100%
Fair Jade Group Limited	British Virgin Islands	Ordinary share HK\$1	Investment holding	–	100%
Core Healthcare Investment Holdings Limited (Note (ii))	Cayman Islands	Ordinary shares HK\$7,381,745	Investment holding	–	60.12%
China Universal Limited (Note (ii))	Hong Kong	Ordinary share HK\$1	Investment in listed securities	–	60.12%
Core Healthcare Products Limited (Note (ii))	Hong Kong	Ordinary shares HK\$2	Sales of health food and pharmaceutical products	–	60.12%

Notes to the Financial Statements

For the year ended 31 March 2009

21. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Principal activities	Attributable equity interest held by the Company	
				Directly	Indirectly
Core Medical Technology Limited (Note (ii))	Hong Kong	Ordinary shares HK\$12,000,000	Provision of diagnostic testing services and products and related research and development	–	60.12%
Hong Kong Hepatitis Diagnostic Centre Limited (Note (ii))	Hong Kong	Ordinary shares HK\$100	Provision of diagnostic testing services relating to certain liver diseases	–	60.12%
Chemosino International Limited (Note (ii))	British Virgin Islands	Ordinary share US\$1	Investment holding	–	60.12%
Hong Kong Health Management Limited (Note (ii))	Hong Kong	Ordinary share HK\$1	Provision of diagnostic testing services and related marketing promotion services	–	60.12%
Next Dimension Advertising Limited (Note (ii))	Hong Kong	Ordinary shares HK\$100	Provision of advertising and public relationship services	–	60.12%
Hong Kong Genius Obstetrics Service Consultancy Company Limited (Note (ii))	Hong Kong	Ordinary share HK\$1	Provision of consultancy services	–	60.12%
Fairy Empire Investment Limited (Note (ii))	British Virgin Islands	Ordinary share US\$1	Investment holding	–	60.12%
China Natural Pharmaceutical Holdings Company Limited (Note (ii))	Cayman Islands	Ordinary share US\$1	Investment holding	–	60.12%

Notes:

- (i) Guangdong Town Health is a limited liability company established in the PRC with an initial operational term of 30 years from 15 January 2008 to 15 January 2038.
- (ii) The ordinary shares of Core Healthcare are listed on GEM. The financial year-end of Core Healthcare and its subsidiaries is 30 June.

Notes to the Financial Statements

For the year ended 31 March 2009

21. INTERESTS IN SUBSIDIARIES (Continued)

Amounts due to and due from subsidiaries

The amounts due from and due to subsidiaries as shown on the Company's balance sheet are unsecured, interest-free and repayable on demand.

A provision for impairment against the amounts due from subsidiaries of approximately HK\$120,000,000 (2008: Nil) was recognized at 31 March 2009 as the recoverable amounts of the amounts due from subsidiaries with reference to the net asset value of the respective subsidiaries were estimated to be less than their carrying amounts. Accordingly, the carrying amounts of the related amounts due from subsidiaries were reduced to their recoverable amounts.

22. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2009 HK\$'000	2008 HK\$'000
Cost of unlisted investment in a jointly controlled entity	–	–
Share of post acquisition profits, net of dividends received	–	235,642
Share of post acquisition reserves	–	(2,132)
	<u>–</u>	<u>233,510</u>

As at 31 March 2009, the Group had interests in the following jointly controlled entity:

Name of entity	Form of business structure	Place of incorporation	Principal place of operation	Class of shares held	Proportion of nominal value of issued capital held by the Group	Proportion of voting power held	Principal activity
Precious Success Group Limited	Incorporated	British Virgin Islands	Hong Kong	Ordinary	50%	50%	Investment holding

Notes to the Financial Statements

For the year ended 31 March 2009

22. INTEREST IN A JOINTLY CONTROLLED ENTITY *(Continued)*

The summarized financial information in respect of the Group's jointly controlled entity (which is accounted for using the equity method) is set out below:

	2009	2008
	HK\$'000	HK\$'000
Debt element of the CHI CB <i>(Notes (i) and (ii))</i>	–	77,638
Conversion option element of the CHI CB <i>(Notes (i) and (ii))</i>	–	456,793
	<hr/>	<hr/>
Total assets	–	534,431
Total liabilities	–	(67,412)
	<hr/>	<hr/>
Net assets	–	467,019
	<hr/>	<hr/>
Group's share of net assets of the jointly controlled entity	–	233,510
	<hr/>	<hr/>
Income <i>(Note (iii))</i>	18,990	471,533
	<hr/>	<hr/>
Expenses <i>(Note (iv))</i>	(426,151)	(250)
	<hr/>	<hr/>
(Loss)/Profit for the year	(407,161)	471,283
	<hr/>	<hr/>
Group's share of result of the jointly controlled entity for the year	(203,581)	235,642
	<hr/>	<hr/>

Notes to the Financial Statements

For the year ended 31 March 2009

22. INTEREST IN A JOINTLY CONTROLLED ENTITY *(Continued)*

Notes:

- (i) During the year ended 31 March 2008, the Group and Spring Biotech Limited (a wholly-owned subsidiary of Town Health International Holdings Company Limited (“Town Health”)) formed the above jointly controlled entity to subscribe for the unlisted convertible bonds issued by Core Healthcare (“CHI CB”) with an aggregate principal amount of HK\$150,000,000. On 28 March 2008, the jointly controlled entity transferred to each of the Group and Spring Biotech Limited the CHI CB with principal amount of HK\$10,000,000. At 31 March 2008, the jointly controlled entity held the CHI CB with an aggregate principal amount of HK\$130,000,000, of which the debt element and the conversion option element were separately accounted for. The methods and assumptions applied for the valuation of the CHI CB are set out in Note 23.
- (ii) On 30 March 2009, all outstanding CHI CB were early redeemed by Core Healthcare at a redemption amount equal to 100% of the principal amount of the CHI CB.
- (iii) Included in the income of the jointly controlled entity for the period ended 31 March 2008 was a gain of approximately HK\$469,564,000 representing the gain on fair value changes of the conversion option embedded in the CHI CB between the date of subscription and 31 March 2008.
- (iv) Included in the expenses of the jointly controlled entity for the period ended 31 March 2009 were a loss of approximately HK\$33,007,000 representing the loss on redemption of the debt element of the CHI CB and a loss of approximately HK\$ 393,139,000 representing the loss on fair value changes of the conversion option embedded in the CHI CB between 1 April 2008 and 30 March 2009, being the date of redemption of the CHI CB by Core Healthcare.

23. AVAILABLE-FOR-SALE INVESTMENTS

	2009	2008
	HK\$'000	HK\$'000
Unlisted equity securities <i>(Note (a))</i>	23,785	23,785
Unlisted convertible debt securities <i>(Note (b))</i>	—	7,425
	23,785	31,210

Notes to the Financial Statements

For the year ended 31 March 2009

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

Notes:

- (a) The unlisted equity securities represent the Group's investment in approximately 48.87% equity interest in Group Benefit Development Limited ("Group Benefit"), a private limited liability company incorporated in Hong Kong which is principally engaged in the provision of medical diagnostic scanning and laboratory services in Hong Kong. This equity interest is not classified as an associate as the Group does not have significant influence over Group Benefit. The Group does not have representation on the board of directors and does not participate in the policy-making processes of Group Benefit.

The investment is measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

- (b) During the year ended 31 March 2008, the Group acquired the CHI CB with a principal amount of HK\$10,000,000 from the Group's jointly controlled entity on 28 March 2008 at a consideration of approximately HK\$41,419,000. The consideration was settled by the amount due from a jointly controlled entity. The CHI CB carried interest at 1% per annum payable annually in arrears, with a maturity date of 30 January 2012. The CHI CB were, at the option of the holders, convertible into ordinary shares of Core Healthcare at a conversion price of HK\$0.019 per share (subject to adjustments) at any time between the date of issue and the maturity date.

As the economic characteristics and risks of the embedded conversion option were not closely related to those of the host debt contract, the embedded conversion option was separately accounted for as derivatives and measured at fair value. The Group had classified the debt element of the CHI CB held by the Group as available-for-sale investment. The fair values of the debt element and the conversion option element of the CHI CB were determined by the directors of the Company with reference to the valuation performed by GCAL. Changes in fair values of the debt element and the conversion option element of the CHI CB were reflected in equity and in the consolidated income statement, respectively. Income was recognized on an effective interest basis for the debt element and was included in other income on the consolidated income statement.

The fair values of the debt element and the conversion option element of the CHI CB held by the Group as at 31 March 2008 amounted to approximately HK\$7,425,000 and HK\$33,994,000, respectively.

Notes to the Financial Statements

For the year ended 31 March 2009

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

Notes: (Continued)

(b) *(Continued)*

The methods and assumptions applied for the valuation of the CHI CB were as follows:

(1) Valuation of debt element

The fair value of the debt element was calculated based on the present value of the contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to the credit rating of the convertible bonds issuer and remaining time to maturity. The effective interest rate of the debt element at 31 March 2008 was 10.59%.

(2) Valuation of conversion option element

The Black-Scholes option pricing model was used for valuation of conversion option element. The inputs into the model were share price of HK\$0.148, conversion price of HK\$0.019, volatility of 88.85%, dividend yield of nil, option life of 3.84 years, and risk free rate of 1.84%. Volatility of the share prices was estimated by the average annualized standard deviations of the continuously compounded rates of return of the share prices of Core Healthcare.

During the year ended 31 March 2009, as a result of a securities exchange offer launched by the Group for the shares of Core Healthcare which was completed on 9 September 2008, the Group acquired control over Core Healthcare. Accordingly, the financial information of Core Healthcare has been included in the consolidated financial information of the Group from the effective date of acquisition, and the CHI CB held by the Group were eliminated on consolidation of the assets and liabilities of Core Healthcare. Subsequently, on 30 March 2009, all outstanding CHI CB were early redeemed by Core Healthcare at a redemption amount equal to 100% of the principal amount of the CHI CB.

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For the year ended 31 March 2009

24. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Trade receivables	8,504	5,660	–	–
Other receivables	26,121	8,579	808	435
Total trade and other receivables	<u>34,625</u>	<u>14,239</u>	<u>808</u>	<u>435</u>

Notes:

- (i) Most of the patients of the medical check centers settle in cash. The Group allows an average credit period of 30 to 90 days to its trade customers.

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

	Group		Company	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
0-60 days	6,205	3,364	–	–
61-90 days	752	817	–	–
Over 90 days	1,547	1,479	–	–
	<u>8,504</u>	<u>5,660</u>	<u>–</u>	<u>–</u>

- (ii) Included in the Group's trade receivable balance are debtors with an aggregate carrying amount of approximately HK\$1,547,000 (2008: HK\$1,479,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 132 days (2008: 117 days). These receivables relate to a wide range of customers for whom there is no recent history of default.
- (iii) The Group's trade and other receivables at 31 March 2009 included an amount of HK\$1,312,000 (2008: HK\$383,600) that is denominated in Renminbi.

Notes to the Financial Statements

For the year ended 31 March 2009

25. AMOUNT DUE FROM A RELATED PARTY

The amount due from a related party, Spring Biotech Limited, was unsecured, interest bearing at 1% per annum and repayable on demand. Spring Biotech Limited is the joint venturer of the Group's jointly controlled entity, Precious Success Group Limited, and is a wholly-owned subsidiary of Town Health. The amount was fully settled during the year ended 31 March 2009.

26. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

The amounts due was unsecured, bearing interest at rates as determined by the shareholders and repayable on demand. The amount was fully settled during the year ended 31 March 2009.

27. HELD-FOR-TRADING INVESTMENTS

	Group		Company	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
FAIR VALUE				
Unlisted investment funds	7,040	196,907	–	–
Listed equity securities in Hong Kong	28,397	4,074	26,277	4,074
	<u>35,437</u>	<u>200,981</u>	<u>26,277</u>	<u>4,074</u>

The fair values of the listed equity securities held for trading were determined based on the quoted market bid prices available on the Stock Exchange.

28. PLEDGED BANK DEPOSITS

The amount represents deposits pledged to banks to secure banking facilities granted to the Group. The deposits have been pledged to secure short-term bank borrowings and are therefore classified as current assets.

The deposits carry interest rate at 1% (2008: 2.42%) per annum. The pledged bank deposits will be released upon the settlement of relevant borrowings.

Notes to the Financial Statements

For the year ended 31 March 2009

29. BANK BALANCES AND CASH

Bank balances and cash comprises cash held by the Group and bank balances that bear interest at prevailing market rates ranging from 0.1% to 2.42% (2008: 0.9% to 1.4%) per annum and have original maturity of three months or less.

Bank balances and cash of the Group include an amount of approximately HK\$11,795,000 (2008: HK\$16,407,000) that is denominated in Renminbi and kept in Mainland China. The conversion of these Renminbi denominated balances into foreign currencies and the remittance of these funds out of Mainland China is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

30. TRADE AND OTHER PAYABLES

	Group		Company	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Trade payables	3,335	1,717	–	–
Other payables	12,029	11,829	5,205	6,497
	<u>15,364</u>	<u>13,546</u>	<u>5,205</u>	<u>6,497</u>

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

	Group		Company	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
0-60 days	3,191	1,429	–	–
61-90 days	8	22	–	–
Over 90 days	136	266	–	–
	<u>3,335</u>	<u>1,717</u>	<u>–</u>	<u>–</u>

Notes to the Financial Statements

For the year ended 31 March 2009

31. BANK AND OTHER BORROWINGS

	Group		Company	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Bank revolving loans (Note (i))	-	10,000	-	-
Other loan (Note (ii))	-	240	-	-
	<u>-</u>	<u>10,240</u>	<u>-</u>	<u>-</u>
Carrying amount repayable:				
On demand or within one year	<u>-</u>	<u>10,240</u>	<u>-</u>	<u>-</u>

Notes:

- (i) At 31 March 2008, the bank revolving loans were secured and denominated in Hong Kong dollars. The effective interest rates (which were also equal to contracted interest rates) ranged from 5.01% to 6.17% per annum. The bank revolving loans were fully settled during the year ended 31 March 2009.
- (ii) At 31 March 2008, the other loan was unsecured, interest-free and repayable on demand. The other loan was fully settled during the year ended 31 March 2009.

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For the year ended 31 March 2009

32. DEFERRED TAX

The followings are the major deferred tax balances recognized and movements thereon during the current and prior year:

Deferred tax liabilities

Group	Accelerated	Convertible	Total
	tax depreciation	bonds	
	HK\$'000	HK\$'000	HK\$'000
At 1 April 2007	9,124	–	9,124
Charge/(credit) to the consolidated income statement for the year	2,397	(1,752)	645
Charge to equity for the year	–	26,716	26,716
Credit to equity for the year	–	(15,822)	(15,822)
At 31 March 2008	11,521	9,142	20,663
Credit to the consolidated income statement for the year	(295)	(952)	(1,247)
Eliminated on redemption	–	(7,668)	(7,668)
Effect of change in tax rate	(658)	(522)	(1,180)
At 31 March 2009	10,568	–	10,568

Notes to the Financial Statements

For the year ended 31 March 2009

32. DEFERRED TAX (Continued)

Deferred tax assets

Group	Tax losses HK\$'000
At 1 April 2007	–
Credit to the consolidated income statement for the year	<u>1,136</u>
At 31 March 2008	1,136
Charge to the consolidated income statement for the year	(17)
Effect of change in tax rate	<u>(65)</u>
At 31 March 2009	<u>1,054</u>

For the purpose of balance sheet presentation, the deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

Group	2009 HK\$'000	2008 HK\$'000
Deferred tax assets	1,054	1,136
Deferred tax liabilities	<u>(10,568)</u>	<u>(20,663)</u>
At 31 March 2009	<u>(9,514)</u>	<u>(19,527)</u>

At 31 March 2009, the Group has unused tax losses of approximately HK\$303,114,000 (2008: HK\$201,980,000) available for offset against future profits that may be carried forward indefinitely. No deferred tax asset has been recognized in respect of the tax losses due to the unpredictability of future profit streams.

Notes to the Financial Statements

For the year ended 31 March 2009

32. DEFERRED TAX (Continued)

The followings are the major deferred tax balances recognized and movements thereon during the current and prior year:

Deferred tax liabilities

Company	Convertible bonds HK\$'000
At 1 April 2007	–
Credit of the consolidated income statement for the year	(1,752)
Charge to equity for the year	26,716
Credit to equity for the year	<u>(15,822)</u>
At 31 March 2008	9,142
Credit to the consolidated income statement for the year	(952)
Eliminated on redemption	(7,668)
Attributable to a change in tax rate	<u>(522)</u>
At 31 March 2009	<u><u>–</u></u>

At 31 March 2009, the Company has unused tax losses of approximately HK\$77,069,000 (2008: HK\$72,654,000) available for offset against future profits that may be carried forward indefinitely. No deferred tax asset has been recognized in respect of the tax losses due to the unpredictability of future profit streams.

Notes to the Financial Statements

For the year ended 31 March 2009

33. CONVERTIBLE BONDS

Group and Company

Convertible bonds issued by the Company

Convertible Notes I

On 23 February 2006, the Company issued convertible bonds with an aggregate principal amount of HK\$60,000,000 (the “Convertible Notes I”) to Top Act Group Limited, a subsidiary of Town Health. The Convertible Notes I bore interest at 1% per annum payable half yearly in arrears, with a maturity date of 22 February 2010. The Convertible Notes I were, at the option of the holders, convertible into ordinary shares of the Company at an initial conversion price of HK\$0.041 per share (subject to adjustments) at any time between the date of issue and the maturity date. Any unredeemed and unconverted convertible notes would be redeemed at 100% of the outstanding principal amount together with any accrued interest in cash at the maturity date.

On 9 July 2007, the Convertible Notes I with aggregate principal amount of HK\$20,000,000 were converted into ordinary shares of the Company at the conversion price of HK\$0.041 per share.

On 13 October 2008, the Convertible Bonds I with aggregate principal amount of HK\$40,000,000 were early redeemed by the Company at a consideration of HK\$40,000,000.

Tranche One CN II and Tranche Two CN II

In September 2006, the Company issued convertible bonds with an aggregate principal amount of HK\$40,000,000 (the “Tranche One CN II”) to independent investors. The Tranche One CN II bore interest at 1% per annum payable half yearly in arrears, with a maturity date of September 2010. The Tranche One CN II were, at the option of the holders, convertible into ordinary shares of the Company at an initial conversion price of HK\$0.041 per share (subject to adjustments) at any time between the date of issue and the maturity date. Any unredeemed and unconverted convertible notes would be redeemed at 100% of the outstanding principal amount together with any accrued interest in cash at the maturity date.

In December 2006, the Company issued convertible bonds with an aggregate principal amount of HK\$20,000,000 (the “Tranche Two CN II”) to independent investors. The Tranche Two CN II bore interest at 1% per annum payable half yearly in arrears, with a maturity date of December 2010. The Tranche Two CN II were, at the option of the holders, convertible into ordinary shares of the Company at an initial conversion price of HK\$0.041 per share (subject to adjustments) at any time between the date of issue and the maturity date. Any unredeemed and unconverted convertible notes would be redeemed at 100% of the outstanding principal amount together with any accrued interest in cash at the maturity date.

Notes to the Financial Statements

For the year ended 31 March 2009

33. CONVERTIBLE BONDS *(Continued)*

Group and Company (Continued)

Convertible bonds issued by the Company (Continued)

Tranche One CN II and Tranche Two CN II (Continued)

Between November 2006 and March 2007, the entire Tranche One CN II and Tranche Two CN II with an aggregate principal amount of HK\$60,000,000 were converted into ordinary shares of the Company at the conversion price of HK\$0.041 per share.

Convertible Bonds I

On 7 August 2007, the Company issued convertible bonds with an aggregate principal amount of HK\$250,000,000 (the “Convertible Bonds I”) to independent investors. The Convertible Bonds I bore interest at 2% per annum payable half yearly in arrears, with a maturity date of 6 August 2011. The Convertible Bonds I were, at the option of the holders, convertible into ordinary shares of the Company at an initial conversion price of HK\$0.25 per share (subject to adjustments) at any time between the date of issue and the maturity date. The Company had the option to redeem the Convertible Bonds I at any time between the date of issue and the maturity date at par or at the amount as equal to 105% of the principal amount of the Convertible Bonds I in cash within 14 days after receipt of conversion notice from the holders of the Convertible Bonds I.

On 8 August 2007 and 17 September 2007, the Convertible Bonds I with aggregate principal amounts of HK\$110,000,000 and HK\$60,000,000 respectively were converted into ordinary shares of the Company at the conversion price of HK\$0.041 per share. On 17 September 2007, the Convertible Bonds I with aggregate principal amount of HK\$80,000,000 were early redeemed by the Company at a consideration of HK\$84,000,000.

Convertible Bonds II

On 2 August 2007, the Company issued convertible bonds with an aggregate principal amount of HK\$500,000,000 (the “Convertible Bonds II”) to Town Health. The Convertible Bonds II bore interest at 2% per annum payable half yearly in arrears, with a maturity date of 1 August 2011. The Convertible Bonds II were, at the option of the holders, convertible into ordinary shares of the Company at an initial conversion price of HK\$0.25 per share (subject to adjustments) at any time between the date of issue and the maturity date. The Company had the option to redeem the Convertible Bonds II at any time between the date of issue and the maturity date at par or at the amount as equal to 105% of the principal amount of the Convertible Bonds II in cash within 14 days after receipt of conversion notice from the holders of the Convertible Bonds II.

Notes to the Financial Statements

For the year ended 31 March 2009

33. CONVERTIBLE BONDS *(Continued)*

Group and Company (Continued)

Convertible bonds issued by the Company (Continued)

Convertible Bonds II (Continued)

On 17 September 2007, the Convertible Bonds II with aggregate principal amount of HK\$200,000,000 were early redeemed by the Company at a consideration of HK\$210,000,000.

On 3 June 2008, the Convertible Bonds II with aggregate principal amount of HK\$80,000,000 were early redeemed by the Company at a consideration of HK\$84,000,000. On 29 September 2008, the Convertible Bonds II with aggregate principal amount of HK\$220,000,000 were early redeemed by the Company at a consideration of HK\$231,000,000.

The convertible bonds issued by the Company were split into liability, derivative (if any) and equity components upon initial recognition by recognizing the liability component and derivative component at their fair values and attributing to the equity component the residual amount. The liability component was subsequently carried at amortized cost while the derivative component was carried at fair value to be remeasured at each balance sheet date. The equity component was presented in equity heading "convertible bonds equity reserve". The effective interest rates of the liability component ranged from 8.04% to 9.24%.

Notes to the Financial Statements

For the year ended 31 March 2009

33. CONVERTIBLE BONDS (Continued)

Group and Company (Continued)

Convertible bonds issued by the Company (Continued)

The movements of the liability and derivative components of the convertible bonds during the year are as follows:

	Liability component HK\$'000	Derivative component HK\$'000	Total HK\$'000
At 1 April 2007	47,797	–	47,797
Issue of convertible bonds during the year	597,335	(136,617)	460,718
Conversion into ordinary shares	(152,080)	–	(152,080)
Early redemption by the Company	(224,534)	–	(224,534)
Interest charged during the year	18,998	–	18,998
Interest payable during the year	(5,313)	–	(5,313)
Changes in fair value through profit or loss	–	122,063	122,063
	<hr/>	<hr/>	<hr/>
At 31 March 2008	282,203	(14,554)	267,649
Early redemption by the Company	(289,445)	–	(289,445)
Interest charged during the year	9,931	–	9,931
Interest payable during the year	(2,689)	–	(2,689)
Changes in fair value through profit or loss	–	14,554	14,554
	<hr/>	<hr/>	<hr/>
At 31 March 2009	–	–	–

During the year ended 31 March 2009, all convertible bonds issued by the Company were early redeemed.

The fair value of the liability component of the convertible bonds at 31 March 2008 was approximately HK\$293,764,000.

Notes to the Financial Statements

For the year ended 31 March 2009

33. CONVERTIBLE BONDS *(Continued)*

Group

CHI CB

On 31 January 2008, Core Healthcare issued the CHI CB with an aggregate principal amount of HK\$150,000,000. The CHI CB carried interest at 1% per annum payable annually in arrears, with a maturity date of 30 January 2012. The CHI CB were, at the option of the holders, convertible into ordinary shares of Core Healthcare at a conversion price of HK\$0.019 per share (subject to adjustments) at any time between the date of issue and the maturity date. Core Healthcare classified the CHI CB as financial liabilities designated as at fair value through profit or loss upon initial recognition.

During the year ended 31 March 2009, as a result of a securities exchange offer launched by the Group for the shares of Core Healthcare which was completed on 9 September 2008, the Group acquired control over Core Healthcare. Accordingly, the financial information of Core Healthcare has been included in the consolidated financial information of the Group from the effective date of acquisition. Further details relating to the aforesaid acquisition are set out in Note 38.

At the date of acquisition of Core Healthcare by the Group, the outstanding CHI CB with an aggregate principal amount of HK\$150,000,000 were held as to HK\$10,000,000 by Spring Biotech Limited (a wholly-owned subsidiary of Town Health), as to HK\$10,000,000 by the Group and as to the remaining HK\$130,000,000 by the Group's jointly controlled entity. The CHI CB held by the Group were eliminated on consolidation of the assets and liabilities of Core Healthcare. On 30 March 2009, all outstanding CHI CB with an aggregate principal amount of HK\$150,000,000 were early redeemed by Core Healthcare at a redemption amount equal to 100% of the principal amount of the CHI CB.

Notes to the Financial Statements

For the year ended 31 March 2009

33. CONVERTIBLE BONDS (Continued)

Group (Continued)

CHI CB (Continued)

The movements in the fair values of the CHI CB during the period from 9 September 2008 (being the date of acquisition of Core Healthcare by the Group) to 31 March 2009 are as follows:

	HK\$'000
Acquisition of Core Healthcare	423,672
Eliminated on consolidation	(28,222)
Changes in fair value through profit or loss	(253,828)
Early redemption by Core Healthcare	<u>(141,622)</u>
At 31 March 2009	<u><u>–</u></u>

The fair value of the CHI CB at the date of acquisition of Core Healthcare by the Group was based on a valuation performed by an independent firm of professional valuers.

Notes to the Financial Statements

For the year ended 31 March 2009

34. SHARE CAPITAL

Authorized:	Number of shares	Total value
Ordinary shares of HK\$0.01 each		HK\$'000
At 1 April 2007, 31 March 2008 and 31 March 2009	<u>30,000,000,000</u>	<u>300,000</u>
Issued and fully paid:	Number of shares	Total value
Ordinary shares of HK\$0.01 each		HK\$'000
At 1 April 2007	2,629,771,468	26,298
Issue of shares upon conversion of convertible bonds (Notes (a), (b) and (c))	1,167,804,878	11,678
Issue of shares by way of placements (Notes (d) and (e))	780,000,000	7,800
Repurchase of shares (Note (f))	<u>(17,960,000)</u>	<u>(180)</u>
At 31 March 2008	4,559,616,346	45,596
Issue of shares upon exercise of share options (Notes (g) and (h))	1,745,000,000	17,450
Issue of shares under a securities exchange offer (Note (i))	8,482,507,980	84,825
Issue of shares by way of placements (Notes (j))	2,600,000,000	26,000
Repurchase of shares (Note (k))	<u>(430,000,000)</u>	<u>(4,300)</u>
At 31 March 2009	<u>16,957,124,326</u>	<u>169,571</u>

Notes to the Financial Statements

For the year ended 31 March 2009

34. SHARE CAPITAL (Continued)

Notes:

The movements of the ordinary share capital for the year ended 31 March 2008 were as follows:

- (a) On 9 July 2007, convertible bonds with aggregate principal amount of HK\$20,000,000 were converted into ordinary shares of HK\$0.01 each in the capital of the Company at the conversion price of HK\$0.041 per share.
- (b) On 8 August 2007, convertible bonds with aggregate principal amount of HK\$110,000,000 were converted into ordinary shares of HK\$0.01 each in the capital of the Company at the conversion price of HK\$0.25 per share.
- (c) On 17 September 2007, convertible bonds with aggregate principal amount of HK\$60,000,000 were converted into ordinary shares of HK\$0.01 each in the capital of the Company at the conversion price of HK\$0.25 per share.
- (d) On 27 April 2007, the Company placed, through the placing agent, 220,000,000 ordinary shares of HK\$0.01 each in the capital of the Company to independent investors at a price of HK\$0.19 per share.
- (e) On 25 June 2007, the Company placed, through the placing agent, 560,000,000 ordinary shares of HK\$0.01 each in the capital of the Company to independent investors at a price of HK\$0.19 per share.
- (f) During the year ended 31 March 2008, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares of HK\$0.01 each	Price per share		Aggregate consideration paid (HK\$'000)
		Highest price paid (HK\$)	Lowest price paid (HK\$)	
August 2007	4,440,000	0.305	0.305	1,354
October 2007	6,500,000	0.193	0.188	1,234
November 2007	2,000,000	0.204	0.204	408
January 2008	5,020,000	0.138	0.130	683
	<u>17,960,000</u>			<u>3,679</u>

The above shares were cancelled upon repurchase.

Notes to the Financial Statements

For the year ended 31 March 2009

34. SHARE CAPITAL (Continued)

Notes: (Continued)

The movements of the ordinary share capital for the year ended 31 March 2009 were as follows:

- (g) In April and May 2008, 440,000,000 share options were exercised, resulting in the issue of 440,000,000 ordinary shares of HK\$0.01 each in the capital of the Company at the exercise price of HK\$0.115 per share.
- (h) In January 2009, 1,305,000,000 share options were exercised, resulting in the issue of 1,305,000,000 ordinary shares of HK\$0.01 each in the capital of the Company at the exercise price of HK\$0.013 per share.
- (i) On 9 September 2008, the Company issued 8,482,507,980 ordinary shares of HK\$0.01 each in the capital of the Company at the closing market price of HK\$0.051 per share under a securities exchange offer launched by the Group for the shares of Core Healthcare.
- (j) On 12 December 2008, the Company placed, through the placing agent, 2,600,000,000 ordinary shares of HK\$0.01 each in the capital of the Company to independent investors at a price of HK\$0.011 per share.
- (k) During the year ended 31 March 2009, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares of HK\$0.01 each	Price per share		Aggregate consideration paid (HK\$'000)
		Highest price paid (HK\$)	Lowest price paid (HK\$)	
September 2008	110,000,000	0.053	0.045	5,590
October 2008	320,000,000	0.039	0.024	9,730
	<u>430,000,000</u>			<u>15,320</u>

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

Notes to the Financial Statements

For the year ended 31 March 2009

35. SHARE OPTION SCHEME

Share option scheme of the Company

The Company's share option scheme (the "HKHC Share Option Scheme") was adopted pursuant to an ordinary resolution passed by the Company's shareholders at the special general meeting of the Company held on 17 November 2003.

The maximum number of shares which may be issued upon exercise of all outstanding options granted under the HKHC Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares in issue from time to time. No options may be granted under the HKHC Share Option Scheme or any other share option schemes of the Company if this will result in this limit being exceeded.

The total number of shares which may be issued upon exercise of all options to be granted under the HKHC Share Option Scheme and any other share option schemes of the Company must not exceed 10% of the total number of shares in issue on 17 November 2003 unless the Company seeks the approval of the shareholders in general meeting for refreshing the 10% limit under the HKHC Share Option Scheme provided that options lapsed in accordance with the terms of the HKHC Share Option Scheme or any other share option schemes of the Company will not be counted for the purpose of calculating the 10% limit.

The HKHC Share Option Scheme will remain in force for a period of 10 years commencing from 17 November 2003. Options complying the provisions of the Listing Rules which are granted during the duration of the HKHC Share Option Scheme and remain unexercised immediately prior to the end of the 10 year period shall continue to be exercisable in accordance with their terms of grant within the option period for which such options are granted, notwithstanding the expiry of the HKHC Share Option Scheme.

The subscription price for shares under the HKHC Share Option Scheme shall be a price determined by the board of directors of the Company (the "HKHC Board"), but shall not be lower than the highest of (i) the closing price of shares as stated in the daily quotation sheet of the Stock Exchange on the date on which the HKHC Board approves the making of the offer for the grant of options (the "Date of Grant"), which must be a trading day; (ii) the average closing price of shares as stated in the daily quotations sheets of the Stock Exchange for the five trading days immediately preceding the Date of Grant; and (iii) the nominal value of a share.

Notes to the Financial Statements

For the year ended 31 March 2009

35. SHARE OPTION SCHEME (Continued)

Share option scheme of the Company (Continued)

The following table discloses the details of the Company's share options held by employees and consultants of the Company and the movements in such holdings:

Grant date	Exercise price HK\$	Number of share options					
		Outstanding at 1 April 2007	Issued during the year ended 31 March 2008	Outstanding at 31 March 2008	Issued during the year ended 31 March 2009	Exercised during the year ended 31 March 2009	Outstanding at 31 March 2009
Employees and consultants							
9 October 2007	0.198	-	284,900,000	284,900,000	-	-	284,900,000
18 April 2008	0.115	-	-	-	455,000,000	(440,000,000)	15,000,000
5 January 2009	0.013	-	-	-	1,305,000,000	(1,305,000,000)	-
Total		-	284,900,000	284,900,000	1,760,000,000	(1,745,000,000)	299,900,000

The 1,745,000,000 share options exercised during the year ended 31 March 2009 resulted in the issue of 1,745,000,000 ordinary shares of the Company and new share capital of HK\$17,450,000 and share premium of approximately HK\$64,649,000. The related weighted average share price at the time of exercise was HK\$0.04 per share.

At 31 March 2009, the Company had 299,900,000 (2008: 284,900,000) share options outstanding for the share options granted under the HKHC Share Option Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 299,900,000 (2008: 284,900,000) additional shares of HK\$0.01 each in the capital of the Company and additional share capital of HK\$2,999,000 (2008: HK\$2,849,000) and share premium of HK\$55,136,200 (2008: HK\$53,561,200).

Notes to the Financial Statements

For the year ended 31 March 2009

35. SHARE OPTION SCHEME *(Continued)*

Share option scheme of Core Healthcare

A share option scheme was adopted by Core Healthcare on 20 April 2004 (the “CHI Share Option Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of operations of Core Healthcare and its subsidiaries (the “CHI Group”).

The board of directors of Core Healthcare (the “CHI Board”) may, at its discretion, invite any employees, directors, advisors, consultants, licensors, distributors, suppliers, agents, customers, joint venture partners, strategic partners and services providers of and/or to any member of the CHI Group whom the CHI Board considers in its sole discretion, to have contributed to the CHI Group from time to time (together, the “Participants”) to take up options to subscribe for shares of Core Healthcare.

Options granted should be accepted within 14 days from the date of grant. Upon acceptance of the options, the eligible person shall pay HK\$1 to Core Healthcare by way of consideration for the grant. The options may be exercised in accordance with the terms of the CHI Share Option Scheme at any time during the option period after the options have been granted by the CHI Board. An option period is a period to be determined by the CHI Board in its absolute discretion and notified by the CHI Board to each eligible person as being the period during which any options may be exercised, such period to expire not later than 10 years after the date of grant of the options.

The subscription price will be determined by the CHI Board at its absolute discretion and shall be no less than the highest of: (a) the closing price of the shares of Core Healthcare as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant which must be a business day; and (b) the average closing price of the shares of Core Healthcare as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (c) the nominal value of a share of Core Healthcare.

The total number of shares which may be issued upon exercise of all outstanding options granted or to be granted under the CHI Share Option Scheme is 10% of the issued share capital of Core Healthcare as at the listing date of Core Healthcare on GEM (the “CHI Scheme Mandate Limit”). Core Healthcare may renew the CHI Scheme Mandate Limit at any time subject to prior approval by the shareholders of Core Healthcare.

Notes to the Financial Statements

For the year ended 31 March 2009

35. SHARE OPTION SCHEME *(Continued)*

Share option scheme of Core Healthcare (Continued)

No Participants shall be granted an option which, if exercised in full, would result in such Participants becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued under all the options previously granted to him or her which have been exercised, and, issuable under all the outstanding options previously granted to him or her which are for the time being subsisting and unexercised, would exceed 1% of the total number of shares in issue in any 12-month period up to the date of grant of the options.

Share options granted to a director, chief executive or substantial shareholder of Core Healthcare, or to any of their associates, are subject to approval in advance by the independent non-executive directors of Core Healthcare. In addition, any share options granted to a substantial shareholder or an independent non-executive director of Core Healthcare, or to any of their associates, in excess of 0.1% of the shares of Core Healthcare in issue at any time or with an aggregate value (based on the price of Core Healthcare's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting of Core Healthcare.

Unless early terminated in accordance with the terms therein, the CHI Share Option Scheme will remain valid and effective for a period of 10 years commencing on 18 June 2004.

Share options do not confer rights on the holder to dividends or to vote at the shareholders' meeting of Core Healthcare.

There were no outstanding share options granted under the CHI Share Option Scheme during the period from 9 September 2008 (being the date of acquisition of Core Healthcare by the Group) to 31 March 2009.

Notes to the Financial Statements

For the year ended 31 March 2009

36. SHARE-BASED PAYMENTS

Agent Option

On 16 January 2007, Hong Kong Health Check and Medical Diagnostic Centre Limited, a wholly-owned subsidiary of the Company, entered into a service agreement (the "Service Agreement") with China Health Care Travel Service Limited (the "Agent"), pursuant to which the Agent was appointed for the promotion of, and referral of customers for the health check business of the Group. In return, the Agent was entitled to an administration fee based on the turnover derived by the Group from the Agent's referred customers. As part of the incentive for the Agent to render the services contemplated under the Service Agreement and for a nominal consideration of HK\$1.00, the Company granted the Agent an option (the "Agent Option") to subscribe for 40,000,000 shares of HK\$0.01 each in the capital of the Company at an exercise price of HK\$0.13 per share (subject to adjustments), which was exercisable at any time during the period of one year commencing from the date of issue of the certificate of the Agent Option. The grant of the Agent Option was conditional upon the fulfillment of certain conditions within two years from the date of the Service Agreement, including, inter alia, the accumulated turnover derived by the Group from the referred customers for the two years from the date of the Service Agreement reaching HK\$15,000,000 or above.

The total fair value of the Agent Option was determined by the directors to be approximately HK\$862,000 with reference to a valuation performed by an independent firm of professional valuers using the Black-Scholes option pricing model. The inputs to the model included grant date share price of HK\$0.11, exercise price of HK\$0.13 per share, expected volatility of 39.61%, expected option life of 2 years, no expected dividend and estimated risk-free interest rate of 3.71%. The expected volatility was determined by using the historical volatility of the Company's share price over the previous one year.

For the year ended 31 March 2009, the Group recognized equity-settled share-based payment expense of approximately HK\$341,000 (2008: HK\$431,000) in respect of the Agent Option.

Share Options

Details of the HKHC Share Option Scheme and the CHI Share Option Scheme are disclosed in Note 35.

The total fair value of the share options granted under the HKHC Share Option Scheme on 9 October 2007 was determined by the directors to be approximately HK\$10,769,000 with reference to a valuation performed by an independent firm of professional valuers using a binomial model. The inputs into the model included grant date share price of HK\$0.19, exercise price of HK\$0.198 per share, expected volatilities of 66.75%, expected option life of 10 years, no expected dividend and estimated risk-free interest rate of 4.283%.

Notes to the Financial Statements

For the year ended 31 March 2009

36. SHARE-BASED PAYMENTS *(Continued)*

Share Options (Continued)

The fair value of 455,000,000 share options granted under the HKHC Share Option Scheme on 18 April 2008 was determined by the directors to be approximately HK\$12,331,000 with reference to a valuation performed by an independent firm of professional valuers using a binomial model. The inputs into the model included grant date share price of HK\$0.115, exercise price of HK\$0.115 per share, expected volatility of 134.58%, expected option life of 10 years, no expected dividend and estimated risk-free interest rate of 2.626%.

The fair value of 1,305,000,000 share options granted under the HKHC Share Option Scheme on 5 January 2009 was determined by the directors to be approximately HK\$2,610,000 with reference to a valuation performed by an independent firm of professional valuers using a binomial model. The inputs into the model included grant date share price of HK\$0.013, exercise price of HK\$0.013 per share, expected volatility of 86.89%, expected option life of 1 year, no expected dividend and estimated risk-free interest rate of 0.37%.

The expected volatilities of the share prices were estimated by the best available average annualized standard deviations of the continuously compounded rates of return on the Company's share prices since the date of business transformation of the Group.

For the year ended 31 March 2009, the Group recognized equity-settled share-based payment expense of approximately HK\$ 14,941,000 (2008: HK\$10,769,000) in respect of the HKHC Share Option Scheme.

Share options granted to the Chinese University under the Right of First Refusal Agreement

Under an agreement entered into between the Chinese University and Core Healthcare on 8 August 2002 relating to the grant of a right of first refusal to Core Healthcare by the Chinese University in respect of certain technology and inventions, as amended and supplemented by agreements dated 31 October 2003 and 16 April 2004 (the "Right of First Refusal Agreement"), Core Healthcare will be offered a right of first refusal for the grant by the Chinese University of a royalty-bearing exclusive license to use and commercially develop certain technologies and inventions and other noninvasive diagnostic technologies for detecting cancer and foetal diseases developed by Professor Lo Yuk Ming, Dennis in the future.

Notes to the Financial Statements

For the year ended 31 March 2009

36. SHARE-BASED PAYMENTS (Continued)

Share options granted to the Chinese University under the Right of First Refusal Agreement (Continued)

In return, Core Healthcare agreed to grant to the Chinese University or such person as the Chinese University may direct (including trustees of any funds) options to subscribe for shares of Core Healthcare or to pay cash up to a maximum amount of HK\$4,600,000 over the period of the term of such agreement of four years commencing from 18 June 2004. Such grant of options will be granted to the Chinese University at intervals of twelve months. Such options are not intended to be granted under the CHI Share Option Scheme.

The following table discloses the details of the share options granted by Core Healthcare to the Chinese University under the Right of First Refusal Agreement and the movements in such holdings between 9 September 2008 (being the date of acquisition of Core Healthcare by the Group) and 31 March 2009:

Grant date	Exercisable period	Number of share options				
		Exercise price HK\$	Outstanding at 9 September 2008	Issued during the period	Exercised during the period	Outstanding at 31 March 2009
27 June 2008	27 December 2008 to 26 June 2013	0.1220	<u>10,655,738</u>	<u>–</u>	<u>–</u>	<u>10,655,738</u>

Notes to the Financial Statements

For the year ended 31 March 2009

37. RESERVES

Company

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000 (Note)	Convertible bonds equity reserve HK\$'000	Share-based payments reserve HK\$'000	Accumulated losses HK\$'000	Total reserves HK\$'000
At 1 April 2007	58,452	861	29,390	16,062	90	(60,094)	44,761
Recognition of equity-settled share-based payments	–	–	–	–	11,200	–	11,200
Recognition of equity component of convertible bonds	–	–	–	289,282	–	–	289,282
Deferred tax	–	–	–	(10,894)	–	–	(10,894)
Early redemption of convertible bonds	–	–	–	(108,027)	–	39,648	(68,379)
Issue of new shares by way of placements	140,400	–	–	–	–	–	140,400
Transaction costs attributable to issue of new shares	(10,587)	–	–	–	–	–	(10,587)
Repurchase of shares	(3,499)	–	–	–	–	–	(3,499)
Issue of shares upon conversion of convertible bonds	211,086	–	–	(70,684)	–	–	140,402
Loss for the year and total recognized expense for the year	–	–	–	–	–	(176,614)	(176,614)
At 31 March 2008	<u>395,852</u>	<u>861</u>	<u>29,390</u>	<u>115,739</u>	<u>11,290</u>	<u>(197,060)</u>	<u>356,072</u>

Notes to the Financial Statements

For the year ended 31 March 2009

37. RESERVES (Continued) Company (Continued)

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000 (Note)	Convertible bonds equity reserve HK\$'000	Share-based payments reserve HK\$'000	Accumulated losses HK\$'000	Total reserves HK\$'000
At 1 April 2008	395,852	861	29,390	115,739	11,290	(197,060)	356,072
Recognition of equity-settled share-based payments	-	-	-	-	15,282	-	15,282
Issue of shares upon exercise of share options	64,649	-	-	-	(14,534)	-	50,115
Early redemption of convertible bonds	-	-	-	(126,633)	-	835	(125,798)
Deferred tax	-	-	-	10,894	-	-	10,894
Issue of new shares by way of placements	2,600	-	-	-	-	-	2,600
Issue of new shares under a securities exchange offer	347,783	-	-	-	-	-	347,783
Transaction costs attributable to issue of new shares	(8,793)	-	-	-	-	-	(8,793)
Repurchase of shares	(11,020)	-	-	-	-	-	(11,020)
Loss for the year and total recognized expense for the year	-	-	-	-	-	(464,882)	(464,882)
At 31 March 2009	791,071	861	29,390	-	12,038	(661,107)	172,253

Note: The contributed surplus represents reserves arising from (i) the difference between the then consolidated shareholders' funds of the subsidiaries at the date on which they were acquired by the Company and the nominal amount of the Company's shares issued for the acquisition at the time of the corporate reorganization prior to the listing of the Company's shares on the Stock Exchange in 1993; and (ii) the Company's capital reorganization exercises in prior years. Under the Companies Act 1981 of Bermuda, the contributed surplus of the Company is distributable to shareholders under certain circumstances.

Notes to the Financial Statements

For the year ended 31 March 2009

38. ACQUISITION OF SUBSIDIARIES

For the year ended 31 March 2009

(a) *Acquisition of Core Healthcare Investment Holdings Limited*

During the year ended 31 March 2009, the Group launched a securities exchange offer for the shares of Core Healthcare. The transaction involved the issue by the Company of 8,482,507,980 ordinary shares of HK\$0.01 each in the capital of the Company at the closing market price of HK\$0.051 per share in exchange for 5,937,755,591 issued ordinary shares of Core Healthcare, immediately followed by the placing down of 1,500,000,000 ordinary shares of Core Healthcare at a price of HK\$0.113 per share to independent investors for gross proceeds of approximately HK\$169,500,000. The net gain arising from the acquisition and placing down of the same parcel of 1,500,000,000 ordinary shares of Core Healthcare was accounted for as gain on fair value changes on held-for-trading investments in the consolidated income statement of the Group for the year ended 31 March 2009. Upon completion of the transaction, the Group has effectively acquired 4,437,755,591 issued ordinary shares of Core Healthcare, representing 60.12% of the issued share capital of Core Healthcare.

Notes to the Financial Statements

For the year ended 31 March 2009

38. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 31 March 2009 (Continued)

(a) Acquisition of Core Healthcare Investment Holdings Limited (Continued)

The net liabilities assumed in the transaction and the goodwill arising were as follows:

	Acquirees' carrying amount before combination and fair value
	HK\$'000
Net liabilities assumed:	
Property, plant and equipment	2,361
Inventories	49
Trade receivables	546
Other receivables	23,211
Held-for-trading investments	13,309
Bank balances and cash	181,694
Trade payables	(152)
Other payables	(1,283)
Tax liabilities	(1,541)
Convertible bonds classified as financial liabilities designated as at fair value through profit or loss	<u>(423,672)</u>
	(205,478)
Goodwill (Note 20)	<u>528,800</u>
Consideration satisfied by the issue of 6,339,650,840 ordinary shares of HK\$0.01 each in the capital of the Company at the closing market price of HK\$0.051 per share on 9 September 2008	<u><u>323,322</u></u>
Net cash inflow arising on acquisition:	
Bank balances and cash acquired	<u><u>181,694</u></u>

Notes to the Financial Statements

For the year ended 31 March 2009

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

For the year ended 31 March 2009 (Continued)

(a) *Acquisition of Core Healthcare Investment Holdings Limited (Continued)*

Core Healthcare contributed a profit of approximately HK\$264,539,000 to the Group's loss for the period between the date of acquisition and 31 March 2009.

If the acquisition had been completed on 1 April 2008, total Group's revenue for the year ended 31 March 2009 would have been approximately HK\$107,511,000, and loss for the year ended 31 March 2009 would have been approximately HK\$902,204,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue 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.

(b) *Acquisition of Hong Kong Health Management Limited*

On 13 October 2008, the Group acquired the entire issued share capital of Hong Kong Health Management Limited at a cash consideration of approximately HK\$675,000.

Notes to the Financial Statements

For the year ended 31 March 2009

38. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 31 March 2009 (Continued)

(b) Acquisition of Hong Kong Health Management Limited (Continued)

The net assets assumed in the transaction and the goodwill arising were as follows:

	Acquirees' carrying amount before combination and fair value
	HK\$'000
Net assets assumed:	
Property, plant and equipment	123
Other receivables	497
Bank balances and cash	150
Trade payables	(55)
Other payables	(91)
	<hr/>
	624
Goodwill (Note 20)	51
	<hr/>
Total consideration satisfied by cash	<u>675</u>
Net cash outflow arising on acquisition:	
Cash consideration paid	(675)
Bank balances and cash acquired	150
	<hr/>
	<u>(525)</u>

Hong Kong Health Management Limited contributed approximately HK\$1,207,000 to the Group's loss for the period between the date of acquisition and 31 March 2009.

If the acquisition had been completed on 1 April 2008, total Group's revenue for the year ended 31 March 2009 would have been approximately HK\$106,554,000, and loss for the year ended 31 March 2009 would have been approximately HK\$614,491,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue 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.

Notes to the Financial Statements

For the year ended 31 March 2009

38. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 31 March 2009 (Continued)

(c) *Acquisition of China Natural Pharmaceutical Holdings Company Limited*

On 10 February 2009, the Group acquired the entire issued share capital of China Natural Pharmaceutical Holdings Company Limited at a cash consideration of approximately HK\$3,000,000.

The net assets/liabilities assumed in the transaction and the goodwill arising were as follows:

	Acquirees' carrying amount before combination and fair value HK\$'000
Net assets/liabilities assumed	–
Goodwill (Note 20)	3,000
	<hr/>
Total consideration satisfied by cash	3,000
	<hr/>
Net cash outflow arising on acquisition:	
Cash consideration paid	(3,000)
Bank balances and cash acquired	–
	<hr/>
	<u>(3,000)</u>

China Natural Pharmaceutical Holdings Company Limited contributed approximately HK\$8,000 to the Group's loss for the period between the date of acquisition and 31 March 2009.

If the acquisition had been completed on 1 April 2008, total Group's revenue for the year ended 31 March 2009 would have been approximately HK\$106,538,000, and loss for the year ended 31 March 2009 would have been approximately HK\$614,457,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue 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.

Notes to the Financial Statements

For the year ended 31 March 2009

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

For the year ended 31 March 2009 (Continued)

(d) *Acquisition of remaining equity interests in International Health Decoding Group Limited*

International Health Decoding Group Limited was a 81.96% owned subsidiary of the Group at 31 March 2008. On 4 July 2008, the Group further acquired the remaining 18.04% equity interests from minority shareholders at a cash consideration of HK\$365,000. Immediately after the acquisition, International Health Decoding Group Limited became a wholly-owned subsidiary of the Group. As the consideration paid for the acquisition was equal to 18.04% of the net assets of International Health Decoding Group Limited, there were no goodwill and profit or loss arising from the acquisition.

For the year ended 31 March 2008

(e) *Acquisition of remaining equity interests in Town Health Medical Technology (China) Company Limited*

Pursuant to a sale and purchase agreement dated 2 April 2007 (the "SP Agreement") entered into between the Company and Dr. Choi Chee Ming GBS, JP ("Dr. Choi"), the Group conditionally agreed to acquire from Dr. Choi the remaining 30% equity interest in Town Health Medical Technology (China) Company Limited at a cash consideration of HK\$9,000,000. Town Health Medical Technology (China) Company Limited was a 70% owned subsidiary of the Group at 31 March 2007. The aforesaid acquisition was completed on 31 May 2007 on which Town Health Medical Technology (China) Company Limited became a wholly-owned subsidiary of the Group. As Town Health Medical Technology (China) Company Limited had not commenced business from its date of incorporation to the date of acquisition, and the consideration paid for the acquisition was equal to 30% of the net assets of Town Health Medical Technology (China) Company Limited, there were no goodwill and profit or loss arising from the acquisition.

Notes to the Financial Statements

For the year ended 31 March 2009

39. DISPOSAL OF SUBSIDIARIES

On 24 September 2007, the Group disposed of its entire equity interests in Rollstone Limited and its wholly owned subsidiary, 上海凱祥服飾有限公司, at a cash consideration of HK\$1. The consolidated net liabilities of Rollstone Limited at the date of disposal were as follows:

	HK\$'000
Net liabilities disposed of:	
Trade and other receivables	390
Bank balances and cash	87
Trade and other payables	(3,353)
Bank and other borrowings	<u>(36,143)</u>
	(39,019)
Release of translation reserve	1,769
Gain on disposal of subsidiaries	<u>37,250</u>
Cash consideration	<u><u>–</u></u>
Net cash outflow arising on disposal:	
Cash consideration	–
Bank balances and cash disposed of	<u>(87)</u>
	<u><u>(87)</u></u>

40. MAJOR NON-CASH TRANSACTION

During the year ended 31 March 2008, the Group's jointly controlled entity transferred to the Group the CHI CB with a principal amount of HK\$10,000,000 at a consideration of approximately HK\$41,419,000, as partial settlement of the amount due from the jointly controlled entity to the Group.

Notes to the Financial Statements

For the year ended 31 March 2009

41. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum leases payments under non-cancelable operating leases in respect of rented premises which fall due as follows:

	2009 HK\$'000	2008 HK\$'000
Within one year	17,667	17,100
In the second to fifth years inclusive	6,266	12,860
	<u>23,933</u>	<u>29,960</u>

Operating lease payments represent rentals payable by the Group for certain of its health check centers and office premises. Leases are negotiated and rentals are fixed for terms ranging from 1 to 5 years.

The Company had no significant operating lease commitments at the balance sheet date.

42. CAPITAL COMMITMENTS

	2009 HK\$'000	2008 HK\$'000
Capital expenditure contracted for but not provided for in the financial statements in respect of acquisition of property, plant and equipment	<u>-</u>	<u>386</u>

At 31 March 2009, the Group was committed to contribute an amount of approximately HK\$19,800,000 pursuant to the cooperation agreement dated 12 July 2007 entered into between the Group and 中國中醫藥科技開發交流中心 (transliterated as National Centre of Traditional Chinese Medicine) for the joint development of health check and medical diagnostic centers in the PRC.

Notes to the Financial Statements

For the year ended 31 March 2009

42. CAPITAL COMMITMENTS *(Continued)*

Pursuant to a management agreement dated 20 February 2008 (the “Management Agreement”) entered into among Guangdong Town Health (a wholly-owned subsidiary of the Company), 中山大學附屬第六醫院(中山大學附屬胃腸肛門醫院) (transliterated as The Sixth Affiliated (Gastrointestinal) Hospital, Sun Yat-sen University) and 廣州中山醫博濟醫院管理有限公司 (transliterated as Guangzhou Zhongshanyi Boji Hospital Management Co. Ltd.) (“Boji”), the parties to the Management Agreement agreed that (i) 中山醫康健醫療中心 (transliterated as Zhongshanyi Town Health Medical Centre) (“Zhongshanyi TH Health Check Centre”) would be established in Tianhe District, Guangzhou City, the PRC by The 6th Affiliated Hospital and would be principally engaged in health check, medical diagnostic and medical laboratory services; and (ii) Guangdong Town Health with primary role and Boji with secondary role were respectively appointed by The 6th Affiliated Hospital to operate and manage the Zhongshanyi TH Health Check Centre exclusively for 20 years from the date of the Management Agreement. Pursuant to the Management Agreement, Guangdong Town Health would inject RMB50 million to the Zhongshanyi TH Health Check Centre by way of injecting medical equipment, other facilities or assets, or by way of providing necessary working capital for operation and management of the Zhongshanyi TH Health Check Centre. The medical equipment, other facilities or assets injected by Guangdong Town Health would still be beneficially owned by Guangdong Town Health. The Group had made a capital contribution of RMB15 million to the registered capital of Guangdong Town Health up to 31 March 2009 (2008: RMB15 million), and had a capital commitment of RMB35 million at 31 March 2009 (2008: RMB35 million).

At the balance sheet date, the Company had no significant capital commitments.

43. PLEDGE OF ASSETS

At 31 March 2009, certain property, plant and equipment of the Group with carrying value of approximately HK\$41,613,000 (2008: HK\$47,293,000) and bank deposits of HK\$10,000,000 (2008: HK\$12,000,000) were pledged to secure general bank facilities granted to the Group.

44. CORPORATE GUARANTEES

Corporate guarantees provided by the Company in respect of banking facilities of subsidiaries

Company	
2009	2008
HK\$'000	HK\$'000
40,000	40,000

Notes to the Financial Statements

For the year ended 31 March 2009

44. CORPORATE GUARANTEES *(Continued)*

At 31 March 2009, the amount of such facilities utilized by the subsidiaries and covered by the Company's guarantees amounted to approximately HK\$10,000,000 (2008: HK\$10,000,000). In the opinion of the directors of the Company, no material liabilities would arise from the above corporate guarantees which arose in the ordinary course of business and the fair values of the corporate guarantees granted by the Company were immaterial.

45. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund 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 trustees. The Group contributes 5% of relevant payroll costs to the scheme subject to a maximum of HK\$1,000 per month, which contribution is matched by employees.

During the year ended 31 March 2009, the total amount contributed by the Group to the scheme and charged to the consolidated income statement amounted to approximately HK\$1,435,000 (2008: HK\$1,269,000). At 31 March 2009, there were no forfeited contributions available for the Group to offset contributions payable in future years (2008: Nil).

46. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these consolidated financial statements, the Group entered into the following significant related party transactions during the year:

	2009	2008
	HK\$'000	HK\$'000
Laboratory fee received from Town Health	233	844
Service fees paid to Town Health <i>(Note (i))</i>	3,414	6,623
Rentals paid to Majestic Centre Limited for leasing of properties <i>(Note (ii))</i>	—	2,124

Notes to the Financial Statements

For the year ended 31 March 2009

46. RELATED PARTY TRANSACTIONS *(Continued)*

Notes:

- (i) The service fees paid to Town Health for provision of consultation and management services were based on a service agreement dated 7 August 2006 entered into between the Company and Town Health.
- (ii) The rentals (inclusive of rates, government rent, air-conditioning charges and building management fee) paid to Majestic Centre Limited were based on the tenancy agreements entered into between the Group (as tenant) and Majestic Centre Limited (as landlord) for leasing of properties situated in Hong Kong. A director of the Company, namely, Miss Choi Ka Yee, Crystal (“Miss Choi”) and her associates (as defined under the Listing Rules) were interested in 50% of the shareholdings of Majestic Centre Limited. In July 2007, Miss Choi and her associates completed the disposal of their 50% interests in Majestic Centre Limited and the transaction was no longer regarded as a continuing connected transaction.

The directors of the Company consider that they are the only key management personnel of the Group and details of their compensation are set out in Note 15.

47. POST BALANCE SHEET EVENTS

(a) *Reduction of the Group’s equity interests in Core Healthcare*

Subsequent to the balance sheet date, the Group entered into a number of transactions between April and June 2009 which resulted in a reduction of the Group’s equity interests in Core Healthcare from approximately 60.12% at 31 March 2009 to approximately 36.36% at 4 June 2009. Accordingly, Core Healthcare ceased to be a subsidiary of the Group and has become an associate of the Group as of the date of approval of these financial statements.

(b) *Capital reorganization*

On 3 March 2009, the Company proposed to put forward for approval by the shareholders of the Company a capital reorganization (the “Capital Reorganization”) which involved the following:

- (i) consolidation (the “Share Consolidation”) of every 50 existing ordinary shares of HK\$0.01 each in the capital of the Company into 1 consolidated share of HK\$0.50 each (the “Consolidated Share”);
- (ii) reduction of the issued share capital of the Company through a cancellation of the paid-up capital of the Company to the extent of HK\$0.49 on each of the issued Consolidated Shares such that the nominal value of each issued Consolidated Share would be reduced from HK\$0.50 to HK\$0.01;

Notes to the Financial Statements

For the year ended 31 March 2009

47. POST BALANCE SHEET EVENTS (Continued)

(b) Capital reorganization (Continued)

- (iii) cancellation of the entire amount standing to the credit of the share premium account of the Company;
- (iv) the credit arising in the books of the Company from (a) the reduction of the paid-up capital as aforesaid and (b) the cancellation of the share premium account of the Company would be credited to the contributed surplus account of the Company, and an amount equivalent to the amount of the accumulated losses standing to the credit of the contributed surplus account would be applied towards the elimination of such accumulated losses; and
- (v) sub-division of each of the authorized but unissued Consolidated Shares of HK\$0.50 each into 50 adjusted shares of HK\$0.01 each.

Subsequent to the balance sheet date, the special resolution approving the Capital Reorganization was duly passed by the shareholders of the Company at a special general meeting held on 3 April 2009 and the Capital Reorganization became effective on 6 April 2009.

(c) Disposal of a subsidiary - Fair Jade Group Limited (“Fair Jade”)

Subsequent to the balance sheet date, in June 2009, the Group disposed of its entire equity interests in, and its shareholder’s loan to, Fair Jade (a wholly owned subsidiary of the Company) to Town Health (BVI) Limited (a wholly owned subsidiary of Town Health) for an aggregate consideration of HK\$26,368,000. Fair Jade held 20% equity interests in Profit Sources Limited which was formed for the acquisition and management of a property situated in Hong Kong.

(d) Acquisition of additional 49.66 % equity interests in Group Benefit

As explained in Note 23, the Group’s investment in approximately 48.87% equity interests in Group Benefit was accounted for as available-for-sale investment at 31 March 2009. Subsequent to the balance sheet date, in June 2009, the Group completed the acquisition of additional 49.66% equity interests in Group Benefit at a cash consideration of HK\$29,425,000 (subject to adjustment), as a result of which Group Benefit became a 98.53% owned subsidiary of the Group. At the date of approval of these financial statements, the management of the Group was still in the midst of determining the financial effect of the aforesaid acquisition.

(e) Change of financial year-end date

Subsequent to the balance sheet date, the Company announced that the financial year-end date of the Company has been changed from 31 March to 31 December. Accordingly, the coming financial year-end date of the Company will be 31 December 2009.

Five-year Financial Summary

RESULTS

	Year ended 31 March				
	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000
Revenue	<u>106,538</u>	<u>70,132</u>	<u>15,813</u>	<u>1,450</u>	<u>4,150</u>
Profit/(Loss) before tax	(616,660)	41,556	(44,211)	(45,346)	(28,759)
Income tax expense	<u>2,220</u>	<u>494</u>	<u>(8,967)</u>	<u>–</u>	<u>(10)</u>
Profit/(Loss) for the year	<u>(614,440)</u>	<u>42,050</u>	<u>(53,178)</u>	<u>(45,346)</u>	<u>(28,769)</u>
Attributable to:					
Equity holders of the Company	(637,879)	43,077	(52,818)	(45,346)	(28,769)
Minority interests	<u>23,439</u>	<u>(1,027)</u>	<u>(360)</u>	<u>–</u>	<u>–</u>
	<u>(614,440)</u>	<u>42,050</u>	<u>(53,178)</u>	<u>(45,346)</u>	<u>(28,769)</u>